

# Report

Report to:	<b>Risk and Audit Scrutiny Committee</b>
Date of Meeting:	<b>15 September 2021</b>
Report by:	<b>Executive Director (Finance and Corporate Resources)</b>

Subject:	<b>Financial Management Code</b>
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## 1. Purpose of Report

1.1. The purpose of the report is to:-

- ♦ provide Members with an introduction to the Financial Management (FM) Code and an update on the Council's self-assessment exercise

## 2. Recommendation(s)

2.1. The Committee is asked to approve the following recommendation(s):-

- (1) that the requirements of the FM Code, detailed in section 4, be noted; and
- (2) that the Council's position in relation to the shadow year self-assessment, detailed at section 5.4, be noted.

## 3. Background

- 3.1. The Chartered Institute of Finance and Public Accountancy (CIPFA) has introduced a Financial Management Code (the FM Code). The FM Code provides "guidance for good and sustainable financial management in local authorities. By complying with the principles and standards within the code, authorities will be able to demonstrate their financial sustainability". A key goal of the FM Code is to improve the financial resilience of organisations by embedding enhanced standards of financial management.
- 3.2. 2020/2021 is the shadow year of implementing the FM Code and CIPFA suggests that by 31 March 2021, local authorities should be able to demonstrate that they are working towards full implementation. The first full year of compliance with the FM Code will, therefore, be 2021/2022.
- 3.3. To meet the requirements of the shadow year, and to inform the 2020/2021 Annual Governance Statement, a review of the FM Code was undertaken along with consideration of the Council's position in relation to the FM Code. This review helps evidence our efforts in ensuring financial sustainability. This report will provide a summary of the principles of the FM Code (section 4) and the Council's position at the end of the shadow year (section 5).

#### **4. The FM Code – a Principle-based approach**

4.1. The underlying principles that inform the FM Code have been developed in consultation with senior practitioners from local authorities and associated stakeholders. The principles have been designed to focus on an approach that will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable. The principles of the FM Code are detailed below:-

- ◆ 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.

#### **5. Self-Assessment**

- 5.1. Appendix 1 looks at the principles inherent in the FM Code (from section 4) and the Council's position in relation to each of these.
- 5.2. It is split into 7 sections with Sections 1 and 2 covering important contextual factors which need to be addressed if sound financial management is to be possible. The remaining Sections 3 to 7 address the requirements of the financial management cycle noting that the development of a high-quality long-term financial strategy will not itself promote financial sustainability. To make well informed decisions all elements of the cycle need to be fit for purpose.
- 5.3. Appendix 1 details the Council's position against each of the principles, providing evidence of adherence wherever possible.
- 5.4. **Conclusion:** Appendix 1 details the Council's response to the FM Code. The self-assessment identifies that of the 17 criteria, the Council has fully embedded 14 as part of its normal business by the end of the shadow implementation year (2020/2021). This highlights that the council already has a strong approach to financial management and financial resilience including demonstrating value for money, strong governance and controls and adherence to professional guidance, and our approach to financial management and reporting (including budget setting and medium to long term planning).

5.5. The FM Code notes that where there are outstanding matters or areas for improvement, these should be noted as actions. For those 3 criteria that are not fully embedded, actions have been noted in Appendix 1 which will allow us to further embed and develop our existing financial management controls and measures to provide continued comfort on financial resilience. These actions will be complete by end March 2022, to ensure full compliance at the end of the first full year of implementation.

5.6. There are clear links between the FM Code and the Council's Governance Framework, particularly with its focus on achieving sustainable outcomes. For this reason, the Annual Governance Statement for 2020/2021 (presented to this Committee in June 2021) includes the overall conclusion of the organisation's compliance with the principles of the FM Code.

## **6. Employee Implications**

6.1. None.

## **7. Finance Implications**

7.1. None.

## **8. Climate Change, Sustainability and Environmental Implications**

8.1. There are no implications for climate change, sustainability or the environment in terms of the information contained in this report.

## **9. Other Implications**

9.1. There is a risk that if the FM Code is not implemented, then the financial integrity of the organisation is called into question. This is mitigated by the completion of the self-assessment, the action plan and the involvement of the Council's leadership group.

## **10. Equality Impact Assessment and Consultation Arrangements**

10.1. This report does not introduce a new policy, function or strategy, or recommend a change to an existing policy, function or strategy and, therefore, no impact assessment is required.

10.2. There is also no requirement to undertake any consultation in terms of the information contained in this report.

**Paul Manning**

**Executive Director (Finance and Corporate Resources)**

10 June 2021

## **Link(s) to Council Values/Ambitions/Objectives**

◆ Accountable, Effective, Efficient and Transparent

## **Previous References**

◆ None

## **List of Background Papers**

♦ None

## **Contact for Further Information**

If you would like to inspect the background papers or want further information, please contact:

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## FM Code - Checklist

Principle	Council Position
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**Section 1: The responsibilities of the chief finance officer and leadership team**

A The leadership team is able to demonstrate that the services provided by the authority provide value for money.

Audit Scotland's Best Value Audit assessment of South Lanarkshire Council (2018) is that it 'demonstrates strong leadership, has a good approach to the way it manages its finances and has delivered improvements to many services. Now the Council needs to ensure that service redesign is driven by engagement with local communities.

The review also noted that the Council continues to demonstrate all of these elements and is making significant progress in fulfilling its duty of Best Value and improving outcomes for its communities.

Ongoing reviews of services ensures that we continue to provide best value by streamlining tasks including through introducing technological solutions.

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

The authority complies with the Chartered Institute of Public Finance and Accountancy Statement on the Role of the Chief Financial Officer (CFO).

Some key points to note: the CFO is a key member of the Council's Leadership Team and takes the lead on the Council's financial strategy. The CFO is actively involved in all substantive decision making that has a financial consequence. The CFO is professionally qualified, suitably experienced, and leads a fit-for-purpose Finance Team. The CFO leads on Risk Management and the Governance Statement for the Council.

**Section 2: Governance and financial management style**

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

Each year, the Council prepares an Annual Governance Statement (AGS). The AGS is based on a self-assessment exercise in compliance with a Local Code of Corporate Governance, and which culminates in a position statement Leader of the Council and the Chief Executive. The AGS focuses on the priorities of economy, efficiency and effectiveness and is to ensure that the

Council has proper arrangements in place for discharging its activities, and where appropriate, the management of risk.

The Corporate Management Team and the Risk and Audit Scrutiny Committee (RASC) receive regular management reports from Internal Audit. These include updates on governance and internal control as appropriate. The Chief Auditor's Year End report provides a summary of the audits that have taken place during the year, as well as their opinion on assurance. The Corporate Management Team and the RASC approve these reports.

All reports to Members and the Corporate Management Team include sections on financial impact, employee impact and sustainability as standard, evidencing their acknowledgement of their governance responsibilities.

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

The Council applies this Code with the output culminating in the Annual Governance Statement (AGS) at the end of each financial year. The AGS is presented to the CMT and Committee for approval, before being included in the Annual Report and Accounts (see response to criteria C for further details).

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

4-weekly reports on the Council's in-year financial position, including a full year projection for the current year (and beyond where appropriate) are provided to the Executive Committee.

This has been particularly important during the year of the pandemic and allows management decisions to be taken in the context of financial sustainability.

In addition, Resource Committees see their own Resource position in detail every 8 weeks, and the Financial Resources Scrutiny Forum see a greater level of detail every 4 weeks to allow analysis and challenge.

### **Section 3: Long to medium-term financial management**

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

There are many ways that financial resilience is evidenced in the Council. This includes preparing medium and long term strategies for both revenue and capital plan.

The Council also prepares a newly agreed set of Key Performance Indicators agreed by the Directors of Finance, which are designed to highlight financial sustainability. To supplement our approach, we will look at the benefits of the CIPFA financial resilience toolkit (which provides English authorities with a toolkit and benchmarks on financial resilience)

**ACTION: Review the financial resilience toolkit to supplement the Council's assessment of financial resilience .**

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

The Council prepared a Medium-Term Financial Strategy in 2018 with each relevant year updated annually as required. This included high-level financial scenarios.

In June 2020, Members were presented with the output from the Loans Fund Review and its impact on this Medium-Term Financial Strategy, providing a way to minimise the impact of savings over the next 5 years.

This presentation of the savings requirement across the coming years has been re-presented to Members on at least two occasions since and will continue to feature in any budget paperwork moving forward. This ensures that Members fully understand the financial position in the coming years.

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

The Council complies with the Prudential Code and provides Members with regular Committee reports giving an update on the Prudential Indicators – including at budget setting and at financial year-end.

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

Members approved the Council's medium-term strategy stretching to 2026/2027. The coming financial year is refreshed in advance of the budget being set, and the impact on any future years is also addressed at that point.

#### **Section 4: The annual budget**

J The authority complies with its statutory

The Council sets its budget by 11 March.

obligations in respect of the budget setting process.

Recognising the integral part that Council Tax plays in budget setting process, this is a joint budget and Council Tax setting report.

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.

The budget report explains each of the budget assumptions in detail and includes any risk areas identified by the Council's Chief Finance Officer (Executive Director of Finance and Corporate Resources).

Budget reports include the medium-term financial strategy which clearly details the strategy for the use of reserves and how this allows us to manage the savings required across years.

A statement re adequacy of reserves was included in the 2022/2023 budget strategy paper (June 2021).

## Section 5: Stakeholder engagement and business plans

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 undertakes a budget consultation exercise each year to seek views on the proposed savings. For 2020/2021, this was expanded to also seek views on the budget strategy itself which covers a medium and longer term outlook. The consultees include the public as well as partner organisations of the council including health, the police and the third sector.

**ACTION: As part of the annual budget consultation, we will look to embed the 2020/2021 approach going forwards.**

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

The Council has a guide on Options Appraisal which is made available to all Resources through the Council's intranet. This helps support decision making across the council. It concentrates on large scale capital investment projects, however, can be adapted for use in other decision-making situations.

**ACTION: we will continue to embed options appraisal across the Council.**

## Section 6: Monitoring financial performance

N The leadership team takes action using reports enabling it to identify and correct

All reports to the Council's Committees and the CMT include a financial implications

emerging risks to its budget strategy and financial sustainability.

section as well as a risk and sustainability section.

These highlight the financial consequences of the proposals contained in the reports and ensure that this is taken into account when making decisions.

The Financial Resources Scrutiny Forum see a low level of detail every 4 weeks. This allows analysis and challenge of the revenue monitoring position across Resources and of the various capital programmes, with a view to identifying any areas of financial and operational risk.

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

The Council balance sheet is reported as part of the Council's accounts, The data within the balance sheet and our analysis of this, including assets, debt, debtors and creditors and working capital, all contribute towards ensuring that we are managing any risks to the Council financial position.

## **Section 7: 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.

The chief finance officer understands and complies with his personal and statutory duty to ensure the Accounts comply with all relevant guidance, and he signs the Annual Accounts on that basis.

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

The final outturn reports to the Executive Committee and the Corporate Management Team provide the reader with detailed information on the outturn and the variance to the probable outturn position provided earlier in the financial year. This presentation allows the Council's leadership to make strategic financial decisions based on proposals by the chief finance officer, and in line with the Council's Financial Strategy.