

DATA LABEL: PUBLIC



COUNCIL EXECUTIVE

CIPFA FINANCIAL MANAGEMENT CODE

REPORT BY HEAD OF FINANCE AND PROPERTY SERVICES

A. PURPOSE OF REPORT

To provide Council Executive with a summary of the Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management Code (FM Code), and to outline proposed officer responses which demonstrate compliance with the financial management standards set out in the code, as well as a suggested action plan to ensure full compliance with the code by 2021/22.

B. RECOMMENDATION

It is recommended that Council Executive:

1. Notes the CIPFA Financial Management Code;
2. Agrees that the council will comply with the code by financial year 2021/22;
3. Notes the financial management standards and key messages included in the code;
4. Notes the officer responses to demonstrate how existing processes in the council meet the standards of the code;
5. Approves the action plan to ensure full compliance with the code by 2021/22.

C. SUMMARY OF IMPLICATIONS

I Council Values	Being honest, open and accountable, making the best use of resources, working in partnership.
II Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)	The council has a statutory duty to ensure good governance and adhere to standards of good financial management to demonstrate financial sustainability. Section 12 of the Local Government in Scotland Act 2003 states that the council must observe proper accounting practices that are signed-off by auditors. The practices to be observed are: a) those which the local authority is required to observe by virtue of any enactment b) those which have been specified in guidance issued for the purposes of this section and that section by the Scottish Ministers c) those which, whether by reference to any generally recognised, published code or otherwise, are regarded as proper accounting practices to be observed in the preparation and publication of accounts of local authorities
III Implications for Scheme of Delegations to Officers	The Scheme of Delegation will be updated to include responsibility for ensuring compliance with the code. The Financial Regulations will also be reviewed and updated to ensure compliance with the code.

IV	Impact on performance and performance Indicators	The recommendations within this report will help the council to consider how sound overall financial management is maintained within the context of a constrained financial outlook for local government.
V	Relevance to Single Outcome Agreement	The CIPFA Financial Management code is intended to assist councils in ensuring good financial management and governance is undertaken to make certain that local service provision is sustainable and to achieve local single outcome agreements.
VI	Resources - (Financial, Staffing and Property)	Scottish Government grant funding is not sufficient to meet the increasing costs and demand for services.
VII	Consideration at PDSP	This report was presented to the Partnership and Resources Policy Development and Scrutiny Panel on 4 December 2020, and furthermore to the Governance and Risk and Audit Committees on 25 January 2021. There were no comments on the report at these meetings.
VIII	Other consultations	Governance Manager.

D. TERMS OF REPORT

D.1 Introduction

The CIPFA Financial Management Code is designed to support good practice in financial management and assist in demonstrating the local authority's financial sustainability. Compliance with the FM Code is the collective responsibility of elected members, the chief finance officer (CFO) and the leadership team. In West Lothian, the CFO and Section 95 Officer is the Head of Finance and Property Services. The leadership team at officer level is the Corporate Management Team. There is also a leadership role for council committees.

The FM Code builds on established CIPFA Prudential and Treasury Management Codes and is based on a series of principles supported by specific standards which are considered necessary to:

- Financially manage short, medium and long-term finances
- Manage financial resilience to meet unforeseen service demands
- Manage un-forecast shocks in financial arrangements and circumstances

The FM Code should not be considered in isolation and accompanying tools and standards should form part of the evidence to demonstrate sound decision making and financial governance.

Guidance notes were published in May 2020 to assist authorities in their efforts to comply with the FM Code, by providing suggestions and ideas as to how the code can be implemented in practice and how to demonstrate that compliance has been achieved. The guidance notes are not intended to be prescriptive, but authorities are encouraged to use the notes in a way that best reflects their structure, type, function and size.

The council has a statutory duty to meet the requirements set out in Section 12 of Local Government in Scotland Act 2003, whereby the council must comply with proper accounting practices that are confirmed by the external auditors to have been observed and complied with. The CIPFA FM Code would be regarded as a published code with regard to proper accounting practices and, as such, compliance with the code should be demonstrated.

D.2 The CIPFA Statement of Principles of Good Financial Management

The FM Code is a principles-based approach and does not prescribe financial management processes that should be adopted. The code requires that local authorities demonstrate how their processes comply with the principles of good financial management. Good financial management should be proportionate to the risks faced by the local authority's financial sustainability given the pressures of reducing financial resources and rising demands for services.

The principles of good financial management have been developed to focus on an approach which will assist in determining whether, in applying the standards of financial management, a local authority is financially sustainable. The principles are as follows:

- Organisational Leadership – demonstrating clear strategic direction based on a vision where financial management is embedded into organisational culture.
- Accountability – medium term financial planning that drives the annual budget process and is supported by effective risk management, quality supporting data and whole life costs.
- Transparency – financial management is undertaken with transparency, using consistent, meaningful and understandable data, reported frequently with evidence of officer action and elected member decision making.
- Standards – adherence to professional standards is promoted by the leadership team and is evidenced.
- Assurance – sources of assurance are recognised as an effective tool for financial management, including political scrutiny and the results of internal and external audit and inspection.
- Sustainability – long term sustainability of services is at the centre of all financial management processes and is evidenced by prudent use of public resources.

D.3 The Application and Structure of the FM Code

It is CIPFA's intention that the FM Code will have the same scope as the CIPFA Prudential Code for Capital Finance in Local Authorities (2017), promoting the financial sustainability of the local authority capital expenditure and associated borrowing. Although the FM Code does not have legislative backing, it applies to all local authorities, which in Scotland are defined in legislation in the Local Government in Scotland Act 2003 and to larger bodies such as integration joint boards.

In addition to the alignment with the CIPFA Prudential Code, the FM Code also has links to the CIPFA Treasury Management in the Public Sector Code of Practice (2017) and the annual Code of Practice on Local Authority Accounting. The FM Code is also supported by the statutory requirement for local authorities to have sound financial management. CIPFA is working towards providing statutory backing to the FM Code and does not see where the absence of statutory backing would provide reason for non-compliance with the FM Code.

CIPFA considers that compliance with the FM Code will help local authorities to demonstrate that they are meeting legislative requirements as well as professional codes of practice and guidance.

D.3.1 FM Code Application Date

Local authorities are required to apply the requirements of the FM Code with effect from 1 April 2020. CIPFA considered the ambition of the code in line with the resource challenges facing local authorities and advised that the implementation date of April 2020 would enable authorities to have a shadow year to work towards full implementation, with 2021/22 being the first full year of compliance for the code.

D.3.2 The Structure of the FM Code

To allow local authorities to test their adherence with the principles of financial management the FM Code translates the principles into financial management standards, with the standards having different practical applications.

The CIPFA financial management standards are presented and explained in seven sections of the FM Code. Sections 1 and 2 address important contextual factors, for example responsibilities of the CFO and leadership team and the authority's governance and financial management style. Sections 3 to 7 address the requirements of the financial management cycle:

- The need for a long-term approach to evaluate financial sustainability
- Development of a high-quality long-term financial strategy
- Stakeholder engagement and business cases
- Performance monitoring arrangements
- How high-quality financial reporting supports the financial management cycle

The financial management standards are to be guided by proportionality and it is the intention that local authorities demonstrate a rigorous approach to the assessment and mitigation of risk with financial management expertise being deployed effectively.

D.4 The CIPFA Financial Management Standards

The FM Code seeks to promote good financial management of standard local authority activities, as well as promoting good financial management of exceptional or unfamiliar activities, recognising that getting the routine business right is crucial for good financial management.

D.4.1 Section 1 – The Responsibilities of the Chief Finance Officer and Leadership Team

Financial Management Standard A – The leadership team is able to demonstrate that the services provided by the authority provide value for money

It is for the leadership team to ensure that the local authority's governance arrangements and financial management style promotes financial sustainability. An important element of collective decision-making is to understand risks and the statutory responsibilities.

As well as the Corporate Management Team, leadership also includes elected members, portfolio holders with delegated powers and other key committees.

The local authority has statutory responsibility for maintaining a system of internal control including the management of risk, effective internal audit, preparing annual accounts, as well as the CFO providing timely, relevant and reliable financial advice.

It is recognised that governance and management arrangements across the various bodies to which the FM code applies, may vary, but the responsibilities of the leadership team to achieve value for money from the authority's resources will not.

Consideration of the key elements of value for money; economy, efficiency, effectiveness and equity should be an integral feature in decisions taken by the leadership team in the delivery of services and allocation of resources. The guidance notes stress the importance of striking a balance between all four elements.

The guidance notes look at how authorities can promote value for money, through strong governance, robust management of finance and risks, the review of service delivery arrangements, monitoring of service performance and ensuring that services are accessible to all who can benefit from them. Consideration should also be given to how the authority can demonstrate that its services including those delivered by outsourcing or other methods, represent value for money, through internal oversight and scrutiny, external assessment of performance and proactive communication with stakeholders.

Financial Management Standard B – The authority complies with the CIPFA Statement on the Role of the Chief Financial Officer (CFO) in Local Government

The requirements of legislation and professional standards should be fulfilled by the CFO in the performance of their duties. The five principles that define the core activities and behaviours of local authority CFOs and the organisational arrangements needed to support them are:

- The CFO is a key member of the leadership team
- The CFO must be actively involved in and influence all material business decisions to ensure immediate and longer-term implications, opportunities and risks are fully considered and align with the authority's overall financial strategy
- The CFO must lead the promotion and delivery of good financial management
- The CFO must lead and direct a fit for purpose finance function
- The CFO must be professionally qualified and suitably experienced

D.4.2 Section 2 – Governance and Financial Management Style

Financial Management Standard C – The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control

Proper governance and financial management arrangements are in place, including a scheme of delegation ensuring that frontline responsibility for internal and financial control starts with those who have management roles. Those responsible for the delivery of services are also held responsible for the financial management and associated expenditure and income.

The head of paid service (namely the Chief Executive) is responsible for suitable recruitment and organisation of local authority staff. The monitoring officer has the specific duty to ensure the council, its officers and elected members maintain the highest standards of conduct. Good governance is evidenced by actions and behaviours as well as formal documentation and processes. A successful leadership team has a culture of constructive challenge built on rigorous examination of goals, underlying assumptions and implementation plans.

The code has emphasised the importance of the 'Nolan principles' for the leadership teams of local authorities for demonstrating responsibility for governance and internal control. To demonstrate this, consideration should be given to the effectiveness of arrangements in place including:

- Establishing a clear framework for governance and internal control across the authority, including for those entities with which the authority works in partnership
- Establishing clear arrangements for assurance, internal audit and accountability
- Adoption of high standards of governance and internal control in its own activities
- Creating, maintaining and nurturing a culture in which governance and internal control are embedded into the way in which the authority works.

Financial Management Standard D – The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework 2016

The council should encourage sustainable delivery and improved accountability by establishing a benchmark for good governance. The CIPFA/SOLACE Delivering Good Governance in Local Government: Framework supports the development and maintenance of codes of governance and accountability for appropriate conduct of business.

An assessment should be undertaken of the governance structures of authorities against the principles contained in the framework by:

- Reviewing existing governance arrangements
- Developing and maintaining an up-to-date local code of governance, including arrangements for ensuring the ongoing effectiveness of this local code

- Reporting publicly on an annual basis its compliance with the authority's local code of governance and how the authority has monitored the effectiveness of its governance arrangements, together with future plans for improvement.

Reporting on compliance, effectiveness and improvement can be usually be undertaken within the authority's annual governance statements, which must be published alongside financial statements.

Financial Management Standard E – The financial management style of the authority supports financial sustainability

CIPFA believes that the strength of financial management within an organisation can be assessed by a hierarchy of three financial management styles:

- Delivering accountability (economy)
- Supporting performance (efficiency)
- Enabling transformation (effectiveness)

The CIPFA Financial Management Model uses these styles to describe the different standards of financial management in local authorities. They represent a hierarchy in which enabling transformation is only achieved by a financial management style that supports performance and in turn, delivers accountability. When these foundations are established, authorities need to move up through the hierarchy of financial management styles in response to increasing risk.

Organisations should have an effective framework of financial accountability that is clearly understood and applied throughout, from the political leaders, elected members, officers and service managers.

Finance teams and the organisations they support should be actively committed to continuous improvement focused on efficient and effective delivery and organisational performance. They should have input into strategic and operational plans incorporating proactive risk management, clear strategic directions and focus-based outcomes.

Managers should possess sufficient financial literacy to deliver services cost-effectively and to be held accountable for doing so. Individuals with governance and financial management responsibilities have suitable delegated powers and appropriate skills and training to fulfil these responsibilities.

Authorities are free to determine their own financial style and how this style supports the achievement of financial sustainability. CIPFA suggests that a "peer review" is the best method of assessing an authority's financial management style, but this is not a mandatory requirement for compliance with the FM code.

D.4.3 Section 3 – Medium to Long-term Financial Management

CIPFA does not believe that the time horizon of local authority financial planning is determined by the time horizon of government grant settlements and, that to be able to demonstrate financial sustainability, a longer-term perspective is essential. The greater the uncertainty over central government policy then the greater the need to demonstrate long-term financial resilience given the risks attached to core funding.

It is the responsibility of the leadership of the authority, including elected members, senior management and the chief finance officer to have a long-term view acknowledging financial pressures. Authorities with a high level of capital investment and associated external borrowing should adopt a corresponding long-term approach.

Financial Management Standard F – The authority has carried out a credible and transparent financial resilience assessment

Authorities must critically evaluate their financial resilience. Existing strategies may be financially sustainable, but they must still have been tested and demonstrated in a financial resilience assessment. The authority must test the sensitivity of its financial sustainability with plausible scenarios and key drivers for costs, service demands and resources. Requiring analysis of future demand and consideration of alternative options for matching demand to resources, focussing on key longer-term revenues and expenses and addressing key risks to which the authority will be exposed.

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

The authority will need to demonstrate a robust understanding of the risks to its financial sustainability and how the risks identified have informed a strategic plan and long-term strategy. There needs to be an over-arching strategic vision of how it intends to deliver outputs and outcomes, which should include a statement setting out both the vision and the underlying strategy.

Local authorities should utilise techniques such as scenario planning to understand the impact of the strategic, operational and financial challenges on its financial sustainability. Prospects for long-term financial sustainability, associated risks and the impact of these on short and medium-term decision making should be reported to the leadership team.

CIPFA is not prescriptive about the time period of the long-term financial strategy. However, CIPFA would promote ambition and the need for a financial strategy that matches the requirement for a strategic approach to service planning. The underlying key cost drivers, especially those linked to the age profile of a community can be foreseen in broad terms for at least a decade or more ahead.

Financial Management Standard H – The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities

One of the requirements of the Prudential Code is a capital strategy, which is seen as a fundamental component of good financial management. Better management of assets and liabilities to support service delivery and capital strategy.

Authorities should set prudential indicators in line with the Prudential Code and should have suitable mechanisms in place for monitoring performance against those indicators.

Financial Management Standard I – The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans

CIPFA does not anticipate that a long-term financial strategy would provide sufficient details to shape the annual budget setting process. Therefore, local authorities will need to translate their long-term financial strategies into a medium-term financial plan (MTFP) that is consistent with and integrated into relevant service plans and its capital strategy. The plan should be prepared on the basis of a robust assessment of relevant drivers of costs and demand and tested for resilience against realistic potential variations of those costs and demand drivers.

Performance against the MTFP will enable success and/or failures to be considered in the annual budget setting process. CIPFA states that a symptom of financial stress is the emergence of unanticipated overspends in recent years from the MTFP. The MTFP needs to be rolled forward annually to ensure that it reflects the latest detailed information, and by undertaking this approach to medium-term financial planning the annual budget is aligned to longer-term goals.

Authorities should have a suitable asset management plan in place that seeks to ensure that its property, plant and equipment including infrastructure assets contribute effectively to the delivery of services and to the achievement of the authority's strategic aims.

D.4.4 Section 4 - The Annual Budget

Financial Management Standard J – The authority complies with its statutory obligations in respect of the budget setting process

The annual budget report is a key document for the authority and the preparation process needs to be undertaken with detailed consideration at a time when the need to make difficult decisions may threaten its integrity. Authorities need to be aware of the statutory obligations in respect of the budget-setting process and require to have set a balanced budget for the current year. Local authorities are directed to have regard to the level of reserves with considering their budget requirements and are recognised as an intrinsic part of financial planning and budget setting.

Financial Management Standard 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

This report should accurately identify and consider the most significant estimates used to prepare the budget, the potential for these estimates being incorrect and the subsequent impact should this be the case.

CIPFA highlights that a well-managed authority, with a prudent approach to budgeting, should be able to operate with a level of general reserves appropriate to the risks to which it is exposed to ensure financial sustainability for the foreseeable future.

The budget report should set out the level of reserves, whether they are sufficient to ensure ongoing financial sustainability and actions required to address any shortfalls.

D.4.5 Section 5 – Stakeholder Engagement and Business Cases

CIPFA set out the role of the leadership team in reviewing priorities to enable resources to be redirected from areas of lesser priority. How services are delivered should be challenged with decisions made with a clear understanding of the statutory requirements and wider legal implications of any decisions.

Financial Management Standard 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 FM Code sets out that stakeholder consultation helps to encourage community involvement in the design of services and their ongoing delivery, especially when an authority adopts an enabling approach to service delivery with active involvement of the third sector and could be beneficial in facilitating future service expenditure reductions.

Authorities should seek to engage with key stakeholders in the development process of the long-term financial strategy, medium-term financial plan and annual budget, determine how effective this engagement has been and identify actions that could be taken to improve stakeholder engagement.

Financial Management Standard M – The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions

Financial sustainability is dependent upon difficult and often complex decisions being made. The authority's decisions must be informed by clear business cases based on appropriate option appraisal techniques. The chief finance officer is responsible for ensuring that all material decisions are supported by an appropriate option appraisal.

Authorities should have a documented option appraisal methodology that is consistent with the guidance set out in IFAC/PAIB publication Project and Investment Appraisal for Sustainable Value Creation: Principles in Project and Investment Appraisal, and should offer guidance to officers as to when an option appraisal should be undertaken. The approach should include appropriate

techniques for the qualitative and quantitative assessment of options, and suitable mechanisms to address risk and uncertainty. Results of option appraisals should be reported in a clear, robust and informative way that gives clear recommendations and outlines risks associated with preferred options.

D.4.6 Section 6 – Monitoring Financial Performance

For an authority to be financially sustainable it must have timely information of its financial and operational performance. Early information about emerging risks to financial sustainability will allow the authority to make a carefully considered and effective response.

Financial Management Standard N – The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability

The FM Code notes the importance of translating policy decisions into actions to prevent unplanned overspends and/or preventing the non-delivery of savings. Non-financial performance measures, for example back-logs, can be used as another indication that resources do not match service user expectations. These trends should be used to inform the decisions taken on the medium-term and long-term financial planning.

The code also requires authorities to more closely monitor the material elements of the balance sheet as this can give an early indication of a departure from financial plans.

Local authorities should provide leadership teams with an appropriate suite of reports in a timely manner and suitable format to allow identification and corrective action to be taken to emerging risks to budget strategy and financial sustainability. These reports should cover both forward and backward-looking information in respect of financial and operational performance. Leadership teams should be happy with the quality of the reports received and confident that these can be used effectively.

Mechanisms should also be in place to report the performance of the authority's significant delivery partnerships, such as contract monitoring data.

Financial Management Standard O – The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability

Contingencies and commitments should be monitored to identify any items where balance sheet provision may have been realised. Key drivers of provisions should be monitored to identify whether an actual or constructive obligation has arisen.

Local authorities should identify the elements of the balance sheet most critical to financial sustainability. Suitable mechanisms should be in place to monitor risks associated with these critical areas and mitigating actions should be taken in response to the identification of risks. The monitoring of balance sheet risks should be integrated into the management accounts reporting process. Unplanned use of reserves should be reported to the leadership team in a timely manner.

D.4.7 Section 7 – External Financial Reporting

The statutory accounts provide a secure base for financial management and are an integral part of demonstrating how public money has been used. They support accountability and good financial management.

Financial Management Standard P – The chief finance officer has personal responsibility for ensuring that the statutory accounts produced by the local authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting

Financial statements provide the accountability link between planned performance, resources and outcomes, financial and others, which are achieved.

The CFO should be aware of their responsibilities in terms of the preparation of the annual financial statements and these responsibilities should be included in the CFO's role description, personal objectives and other relevant performance management mechanisms. Financial statements should be prepared on time and in accordance with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.

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

A monitoring process should explain how material variances from initial and revised budgets to the outturn report in the financial statements have arisen and been managed. The success of these arrangements will be demonstrated by the ability of the leadership team to make decisions from them.

The leadership team of the local authority should be provided with a suitable suite of reports on the financial outturn of the authority and any significant variations from budget. Reports should focus on information that is of interest and relevance to the leadership team and information should be effectively presented. Leadership teams should be able to base strategic financial decisions on these reports.

D.5 Implications for West Lothian Council

On 13 February 2018, Council agreed a long-term financial plan for five years and detailed revenue budgets for the three years 2018/19 to 2020/21. The financial plan was updated for the period 2019/20 to 2022/23 and agreed by Council on 19 February 2019, and updated again for the period 2020/21 to 2022/23 and agreed by Council on 28 February 2020. The 2019/20 annual audit reports from the council's external auditors recognise the council's good practice in future financial planning.

The council's approach is consistent with the recommendations of the Accounts Commission, Audit Scotland and the Chartered Institute of Public Finance and Accountancy (CIPFA) who emphasise the need for public bodies to focus on their medium to long term financial sustainability. They have advised that public bodies should develop strategies that are based on defined priorities, providing a clear road map for service delivery. Constrained financial resources are not a short-term problem therefore a strategic approach is essential to meet the medium to long term challenges arising from the fundamental structural changes to public sector funding.

The code sets out a range of statements which the council must comply with and Appendix 2 details the existing processes, procedures and documentation currently used which do comply. A number of action points, including reviewing the council's Financial Regulations and Scheme of Delegation, are proposed to ensure full compliance with the code by financial year 2021/22.

E. CONCLUSION

The CIPFA Financial Management Code has been introduced due to the exceptional financial circumstances faced by councils. The code sets out the standards of financial management and is intended to support good practice in financial management and assist in demonstrating the local authority's financial sustainability. Compliance with the FM Code is the collective responsibility of elected members, the chief finance officer (CFO) and the leadership team. The code is designed to be flexible to the nature, needs and circumstances of individual authorities. The guidance notes are not intended to be prescriptive and it is up to each authority to determine the extent to which it complies, which should be in a way that is appropriate and proportional for an authority of its size, responsibilities and circumstances.

A review of the existing processes and procedures has been undertaken to determine the current compliance with the standards set out in the code. Action points have been identified which will better meet the standards of the code by 2020/21 and will ensure the council is well placed to deliver agreed priorities and financial sustainability within constrained financial resources.

F. BACKGROUND REFERENCES

CIPFA Prudential Code for Capital Finance in Local Authorities (2017)

CIPFA Treasury Management in the Public Sector Code of Practice (2017)

The annual Code of Practice on Local Authority Accounting

CIPFA Statement on the Role of the Chief Financial Officer in Local Government CIPFA/SOLACE

Delivering Good Governance in Local Government: Framework

CIPFA Financial Management Code Guidance Notes (copy of guidance notes can be obtained from the Financial Management Unit)

Appendices/Attachments:

Appendix 1 – CIPFA Financial Management Code

Appendix 2 – Evidence of current compliance and suggested action plan

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9 February 2021

financial management code



CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed. As the world's only professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance.

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Executive summary

The tightening fiscal landscape has placed the finances of local authorities under intense pressure. Where finance in local government works well there is often a common understanding and ownership of issues supported by good financial management.

While organisations have done much to transform services, shape delivery and streamline costs, for these approaches to be successful it is crucial to have good financial management embedded as part of the organisation. Good financial management is an essential element of good governance and longer-term service planning, which are critical in ensuring that local service provision is sustainable.

The Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. For the first time the FM Code sets out the standards of financial management for local authorities.

Local government finance in the UK is governed by primary legislation, regulation and professional standards as supported by statutory provision. The general financial management of a local authority, however, has not until now been supported by a professional code. The FM Code has been introduced because the exceptional financial circumstances faced by local authorities have revealed concerns about fundamental weaknesses in financial management, particularly in relation to organisations that may be unable to maintain services in the future. There is much good practice across the sector, but the failures of a small number threatens stakeholders' confidence in local government as a whole. Most importantly, the financial failure of just one local authority is one too many because it brings with it a risk to the services on which local people rely.

This publication has several components. The first is an introduction explaining how the FM Code applies a principles-based approach and how it relates to other statutory and good practice guidance on the subject. This is a good starting point for those new to the FM Code.

This introduction is followed by the CIPFA Statement of Principles of Good Financial Management. These six principles have been developed by CIPFA in collaboration with senior leaders and practitioners who work within or have a stake in good local authority financial management. These principles are the benchmarks against which all financial management should be judged. CIPFA's view is that all financial management practices should comply with these principles.

To enable authorities to test their conformity with the CIPFA Statement of Principles of Good Financial Management, the FM Code translates these principles into financial management standards. These financial management standards will have different practical applications according to the different circumstances of each authority and their use should therefore reflect this. The principle of proportionality is embedded within this code and reflects a non-prescriptive approach.

The purpose of the FM Code itself is to establish the principles in a format that matches the financial management cycle and supports governance in local authorities. A series of financial management standards set out the professional standards needed if a local authority is to meet the minimal standards of financial management acceptable to meet fiduciary duties to taxpayers, customers and lenders. Since these are minimum standards, CIPFA's judgement is that compliance with them is obligatory if a local authority is to meet its statutory responsibility for sound financial administration. Beyond that, CIPFA members must comply with it as one of their professional obligations.

While the statutory local authority budget setting process continues to be on an annual basis, a longer-term perspective is essential if local authorities are to demonstrate their financial sustainability. Short-termism runs counter to both sound financial management and sound governance.

Reflecting on the importance of longer term financial planning, one of the objectives of the FM Code is to support organisations to demonstrate that they have the leadership, capacity and knowledge to be able to plan effectively. This must be balanced against retaining the integrity of the annual budget preparation process when the need to make difficult decisions may threaten its integrity.

CIPFA recognises that local authorities may need additional practical guidance on some aspects of the FM Code. Such 'hands on' guidance will be produced by CIPFA to meet practitioner demand.

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Introduction

The Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code therefore for the first time sets the standards of financial management for local authorities.

One of the strengths of UK local government is its diversity, with authorities having a different organisational culture – even those of the same size and type. It is this that allows a close relationship between local authorities and the communities that they serve. Its style of financial management should reflect, for example, its reliance on local tax income or scope to utilise additional grant or generate trading income. This code is therefore not prescriptive.

The FM Code is based on a series of principles supported by specific standards 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 unforeseen demands on services
- manage unexpected shocks in their financial circumstances.

The FM Code is consistent with other established CIPFA codes and statements in being based on principles rather than prescription. This code incorporates their existing requirements on local government so as to provide a comprehensive picture of financial management in the authority.

Each local authority (and those bodies designated to apply the FM Code) must demonstrate that the requirements of the code are being satisfied. Demonstrating this compliance with the FM Code is a collective responsibility of elected members, the chief finance officer (CFO) and their professional colleagues in the leadership team. It is for all the senior management team to work with elected members in ensuring compliance with the FM Code and so demonstrate the standard of financial management to be expected of a local authority. In doing this the statutory role of the section 151 officer will not just be recognised but also supported to achieve the combination of leadership roles essential for good financial management.

While CIPFA has provided leadership, the development of the FM Code reflects a recognition that self-regulation by the sector must be the preferred response to the financial management failures that have the potential to damage the reputation of the sector as a whole. The FM Code has sought therefore to rely on the local exercise of professional judgement backed by appropriate reporting. To ensure that self-regulation is successful, compliance with the FM Code cannot rest with the CFO acting alone.

Significantly, the FM Code builds on established CIPFA Prudential and Treasury Management Codes which require local authorities to demonstrate the long-term financial sustainability of their capital expenditure, associated borrowing and investments. The introduction of the Prudential Framework based on the CIPFA codes enabled local authorities to make their own capital finance decisions on matters that had hitherto been subject to central government

control. The FM Code should not be considered in isolation and accompanying tools, including the use of objective quantitative measures of financial resilience, should form part of the suite of evidence to demonstrate sound decision making.

The CIPFA Statement of Principles of Good Financial Management

The FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, this code requires that a local authority demonstrates 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. The FM Code identifies these risks to financial sustainability and introduces an overarching framework of assurance which builds on existing best practice but for the first time sets explicit standards of financial management. These are minimum standards, which for many in the sector are self-evident. Recent experience in some local authorities suggests, however, that they are by no means universally achieved.

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.

- 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 has been developed and tested in partnership with a range of different types of local authorities. However, given the diversity of UK local government, it is not possible (or desirable) for the FM Code to anticipate all eventualities. If any doubt arises as to whether

or how the FM Code should be applied, then reference should be made to these Principles of Good Financial Management to establish whether the proposed financial management practice is acceptable. A financial management practice that conflicts with one or more of these principles will not be acceptable if not explicitly ruled out by the financial management standards contained in the FM Code.

The applicability and structure of the Financial Management Code

CIPFA's intention is that the Financial Management Code (FM Code) will have the same scope as the *Prudential Code for Capital Finance in Local Authorities* (CIPFA, 2017), which promotes the financial sustainability of local authority capital expenditure and associated borrowing. So, although the FM Code does not have legislative backing, it applies to all local authorities, including police, fire, combined and other authorities, which:

- in England and Wales are defined in legislation for the purposes of Part 1 of the Local Government Act 2003
- in Scotland are defined in legislation for the purposes of Part 7 of the Local Government in Scotland Act 2003, or to the larger bodies (such as integration joint boards) to which Section 10 of this Act applies
- in Northern Ireland are defined in legislation for the purposes of Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

While the FM Code applies to all local authorities, it recognises that some have different structures and legislative frameworks. Where compliance with this code is not possible, adherence to the principles is still considered appropriate.

In addition to its alignment with the *Prudential Code for Capital Finance in Local Authorities* (CIPFA, 2017), the FM Code also has links to the *Treasury Management in the Public Sector Code of Practice and Cross Sectoral Guidance Note* (CIPFA, 2017) and the annual *Code of Practice on Local Authority Accounting in the United Kingdom*. In this way the FM Code supports authorities by re-iterating in one place the key elements of these statutory requirements.

Although it may be expressed differently across the different jurisdictions of the UK, the FM Code is also further supported by statutory requirement, or all local authorities to have sound financial management.

Section 151 of the Local Government Act 1972 requires that every local authority in England and Wales should "... make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs."

Section 95 of the Local Government (Scotland) Act 1973 substantially repeats these words for Scottish authorities.

In Northern Ireland, Section 54 of the Local Government Act (Northern Ireland) 1972 requires that "a council shall make safe and efficient arrangements for the receipt of money paid to it

and the issue of money payable by it and those arrangements shall be carried out under the supervision of such officer of the council as the council designates as its chief finance officer.”

CIPFA’s judgement is that compliance with the FM Code will assist local authorities to demonstrate that they are meeting these important legislative requirements.

In addition to the requirements of primary legislation and associated CIPFA Codes, an authority’s prudent and proper financial management is informed by a framework of professional codes of practice and guidance, including:

- the CIPFA *Statements of Professional Practice (SOPP) (including ethics)*
- the CIPFA *Statement of the Role of the Chief Financial Officer*
- the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government*
- the CIPFA *Statement on the Role of the Chief Finance Officer of the Police and Crime Commissioner and the Chief Finance Officer of the Chief Constable.*

CIPFA considers the application of the FM Code to be a professional responsibility of all its members, regardless of their role in the financial management process. More specifically, the FM Code clarifies CIPFA’s understanding of how CFOs should satisfy their statutory responsibility for good financial administration. The responsibilities of the CFO are both statutory and professional. Notwithstanding these specific expectations of CIPFA members, the primary purpose of the FM Code is to establish how the CFO – regardless of whether or not they are a CIPFA member – should demonstrate that they are meeting their statutory responsibility for sound financial administration.

The code has clear links to a number of value for money characteristics such as sound governance at a strategic, financial and operational level, sound management of resources and use of review and options appraisal. Where an overriding duty of value for money exists, this serves to give indirect statutory support to important elements of this code.

The manner in which compliance with the FM Code is demonstrated will be proportionate to the circumstances of each local authority. Importantly, however, contextualising the FM Code cannot be done according only to the size of the authority but also according to the complexity and risks in its financial arrangements and service delivery arrangements.

CIPFA considers application of the FM Code to be a collective responsibility of each authority’s organisational leadership team.

CIPFA believes that this FM Code merits the type of statutory backing given to some other CIPFA codes and furthermore there is support for this approach within local government and its stakeholders. Equally, however, CIPFA recognises that such backing demands enabling primary legislation that at present has not been identified. CIPFA will continue to work with the jurisdictions of the different parts of the UK to provide statutory backing to the FM Code. At present it is difficult to envisage circumstances in which the absence of statutory backing for the FM Code would provide a reason for non-compliance.

APPLICATION DATE

Local authorities are required to apply the requirements of the FM Code with effect from 1 April 2020. This means that the 2020/21 budget process provides an opportunity for assessment of elements of the FM Code before April 2020 and to provide a platform for good financial management to be demonstrable throughout 2020/21. Local authorities will need to ensure that their governance and financial management style are fit in advance for this purpose. CIPFA has also considered the ambition within this code, the timescale and of course the wider resource challenges facing local authorities. Consequently CIPFA considers that the implementation date of April 2020 should indicate the commencement of a shadow year and that by 31 March 2021, local authorities should be able to demonstrate that they are working towards full implementation of the code. The first full year of compliance with the FM Code will therefore be 2021/22. Earlier adoption is of course encouraged.

It is the duty of each local authority to adhere to the principles of financial management. 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. These financial management standards will have different practical applications according to the different circumstances of each authority.

The structure of the FM Code

The CIPFA financial management standards are presented and explained in Sections 1 to 7 of the FM Code.

Sections 1 and 2 address important contextual factors which need to be addressed in the first instance if sound financial management is to be possible. The first deals with the responsibilities of the CFO and leadership team, the second with the authority's governance and financial management style. From a professional perspective, these factors are the most challenging to codify as they largely concern 'soft skills' and behaviours. Nonetheless, it will be seen that even for these factors, there are recognised standards of best practice that authorities must adopt if their organisational culture is to be favourable for sound financial management. A 'tick box' compliance with these standards alone, however, will not be sufficient if they do not promote the behaviours necessary for good financial management.

The remaining Sections 3 to 7 address the requirements of the financial management cycle, with Section 3 stating the need for a long-term approach to the evaluation of financial sustainability. To make well informed decisions all these elements of the cycle need to be fit for purpose. The development of a high-quality long-term financial strategy will not itself promote financial sustainability if, for example, the authority's annual budget setting process (Section 4), stakeholder engagement and business cases (Section 5) and performance monitoring arrangements (Section 6) are inadequate. The cycle is completed by Section 7, which shows how high-quality financial reporting supports the financial management cycle by ensuring that it rests on sound financial information.

CIPFA's expectation is that authorities will have to comply with all the financial management standards if they are to demonstrate compliance with the FM Code. It is again most important that practitioners recognise that, while compliance with the CIPFA financial management standards is obligatory, the FM Code is not prescriptive about how this is achieved.

In the accompanying guidance notes CIPFA sets out practices that local authorities can adopt to ensure compliance with the FM Code. These practices are not prescribed by the FM Code, but rather offered as a starting point for local authorities needing to raise their approach to financial management to the minimum standard set out in the FM Code. CIPFA may issue support and clarify application of the FM Code. Authorities can develop their own good practice and are encouraged to do so.

As high-level statements, the overarching CIPFA financial management standards apply to the police service. CIPFA recognises, however, that this type of organisation has in some respects different practices from other local authorities. In addition, the creation of bespoke combined authorities means that some flexibility is required in the application of the FM Code for their circumstances. This may be achieved by applying some standards to each of the component bodies and others directly to the combined authority itself. In all cases, when an authority has unique governance arrangements the CIPFA Principles of Financial Management should be used to resolve any doubt about the application of articular financial management standards.

Financial management standards are to be guided by proportionality. It is appropriate for different financial management approaches to apply to high-value/high-risk items that alone may determine the financial sustainability of the organisation as distinct from low-value/low-risk items. In satisfying the demands of the financial management standards it may be appropriate to apply different standard practices according to the scale and risks of each category of income or expenditure. The intention is that authorities demonstrate a rigorous approach to the assessment and mitigation of risk so that financial management expertise is deployed effectively given the circumstances faced by the authority.

Nonetheless, in acknowledging the need for proportionality in applying some aspects of the FM Code, an authority still needs to recognise that when aggregated, a failure to manage individual low-value/low-risk items may still threaten financial sustainability. The FM Code seeks to promote the good financial management of the standard, typical or familiar local authority activities just as much as it promotes the good financial management of the unusual, exceptional and unfamiliar. Essentially, the FM Code recognises that getting the routine business right is crucial for good financial management.

The CIPFA financial management standards

Summary table of CIPFA financial management standards

FM standard reference	CIPFA financial management standards
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.
B	The authority complies with the CIPFA <i>Statement on the Role of the Chief Finance Officer in Local Government</i> .
Section 2: 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 <i>Delivering Good Governance in Local Government: Framework</i> (2016).
E	The financial management style of the authority supports financial sustainability.
Section 3: Long to medium-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 <i>Prudential Code for Capital Finance in Local Authorities</i> .
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.
Section 4: 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.
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.
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.
Section 6: Monitoring financial performance	
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.
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 <i>Code of Practice on Local Authority Accounting in the United Kingdom</i> .
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.

FINANCIAL MANAGEMENT CODE



SECTION 1

The responsibilities of the chief finance officer and leadership team

Local authorities in the UK use different democratic models. While the committee and the cabinet system are the most common there are also a number of direct elected mayors in England. Regardless of the model, responsibility for corporate financial sustainability rests with those responsible for making executive decisions with the support of their professional advisors. Elected members need to work effectively with officers and other stakeholders to make difficult decisions and to identify and deliver savings when required.

While the legislative context differs across the different jurisdictions of the UK, all local authorities must deliver value for money. This is an overarching requirement that informs the application of the other financial management standards in the FM Code.

Financial Management Standard A

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

The role of the leadership team

The delivery of value for money will ultimately be dependent on decisions made by elected members. It is for the leadership team to ensure that the authority's governance arrangements and style of financial management promote financial sustainability. It is the elected members who are held to account by local people when a local authority fails, but an important element of collective decision making is to understand the risks and appreciate the different statutory responsibilities of those involved. Good financial management is the responsibility of the whole leadership including the relevant elected members. It is the responsibility of the senior officers within the management team to enact this.

The FM Code follows the practice of the CIPFA *Statement of the Role of the Chief Financial Officer in Local Government* in referring to this collective group of elected member and officers with this collective financial responsibility as the leadership team. In local authorities, therefore, the concept of the 'leadership team' will include executive committees, elected mayors, portfolio holders with delegated powers and other key committees of the authority and senior officers.

In the police service this leadership is provided by police and crime commissioners and chief constables, which operate jointly according to the policing protocol, which requires the maintenance of an efficient force.

The role of the chief finance officer

The statutory of the role of the chief finance officer (CFO) is a distinctive feature of local government in the UK (except in Northern Ireland). This role cannot be performed in isolation and requires the support of the other members of the leadership team.

The leadership team must recognise that while statutory responsibility for the financial management of the authority rests with the CFO, the CFO is reliant on the actions of the leadership team, both collectively and individually as elected members and senior officers. A situation in which the CFO is forced to act in isolation is characteristic of authorities in which financial management has failed and financial sustainability is threatened.

Equally, the CFO must ensure that they fulfil their personal legal and professional responsibilities in the public interest and in recognition of the other statutory service responsibilities of the authority. In the leadership team the CFO must provide timely, relevant and reliable financial advice, in accordance with the law and professional standards.

It is important to appreciate that while the section 151 or similar legislative provisions require the authority to appoint a suitably qualified officer responsible for the proper administration of its affairs, responsibility for proper financial administration still rests ultimately with elected members. The local authority itself has a statutory responsibility for maintaining a system of internal control including the management of risk, an effective internal audit and preparing annual accounts.

CIPFA has issued its *Statement on the Role of the Chief Financial Officer in Local Government*. This statement sets out CIPFA's understanding of the role to support both the CFO and local authorities.

Financial Management Standard B

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

For the purposes of the FM Code, the CIPFA *Statement on the Role of the Chief Finance Officer of the Police and Crime Commissioner* and the *Chief Finance Officer of the Chief Constable* (2012) should be substituted for references to the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government*.

CIPFA's *Statement on the Role of the Chief Financial Officer in Local Government* describes the roles and responsibilities of the CFO. It sets out how the requirements of legislation and professional standards should be fulfilled by the CFO as they carry out their duties. The statement is designed to assist those carrying out the role to meet its specific responsibilities while at the same time reiterating CIPFA's *Statement of Professional Practice* with which all CIPFA members are required to comply. The statement also requires that if different organisational arrangements are adopted the reasons should be explained publicly in the authority's annual governance statement, together with how they deliver the same impact.

SECTION 2

Governance and financial management style

Without good governance a local authority cannot make the changes necessary for it to remain financially sustainable. As such, financial sustainability must be underpinned by the robust stewardship and accountability to be expected of public bodies. Good governance gains the trust of taxpayers and other funders by giving them confidence that money is being properly spent. Good governance ensures better informed and longer-term decision making and therefore is essential for good financial management.

Good governance

Responsibility for good governance also rests with the leadership team. The team must ensure that there are proper arrangements in place for governance and financial management, including a proper scheme of delegation that ensures that frontline responsibility for internal and financial control starts with those who have management roles. This delegation ensures that those responsible for the delivery of services are also explicitly held responsible for the financial management of the associated expenditure and income. Nonetheless, it is for the leadership team to demonstrate that the authority always meets exacting standards of probity, accountability and demonstrable efficiency in the use of public resources.

The CFO is not the only officer with specific statutory responsibilities for good governance. The head of paid service (in practice the chief executive) is responsible for the proper recruitment and organisation of a local authority's staff. The monitoring officer has the specific duty to ensure that the council, its officers and its elected members maintain the highest standards of conduct in all they do (the legal basis of the head of paid service's role is found in Section 4 of the Local Government and Housing Act 1989 and that of the monitoring officer in Section 5 of the same act).

All parts of the governance structure of an organisation play an important role, but the audit committee is a key component, providing independent assurance over governance, risk and internal control arrangements. It provides a focus on financial management, financial reporting, audit and assurance that supports the leadership team and those with governance responsibilities.

Good governance is evidenced by actions and behaviours as well as formal documentation and processes. The tone and action at the top are critical in this respect, and rest with the leadership team – both senior officers and elected members, as well as the CFO. A successful leadership team has a culture of constructive challenge that excludes an optimism bias in favour of a realism bias and is built on a rigorous examination of goals, underlying assumptions and implementation plans.

The Committee on Standards in Public Life has set out *Seven Principles of Public Life* which it believes should apply to all in the public services (often referred to as the Nolan Principles). The last of the Nolan Principles – that holders of public office should promote and support these principles by leadership and example – is especially relevant to the leadership team.

Financial Management Standard C

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

By international standards, local government in the UK is distinguished by high standards of governance. Citizens expect financial accountability, press and parliamentary scrutiny, integrity and the absence of corruption. These expectations are largely met, but local authorities should guard against complacency.

The CIPFA/IFAC *International Framework: Good Governance in the Public Sector* (Annex A to this FM Code) is intended to encourage sustainable service delivery and improved accountability by establishing a benchmark for aspects of good governance in the sector. The application of this international framework in the context of UK local government is reinforced by specific regulatory requirements and sector specific guidance. The CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016 edition) supports local authorities in developing and maintaining their own codes of governance and to discharge their accountability for the proper conduct of business.

Financial Management Standard D

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

This CIPFA/SOLACE framework recommends that the review of the effectiveness of the system of internal control that local authorities in England, Wales, Scotland and Northern Ireland are required to undertake by their respective accounts and audit regulations should be reported in an annual governance statement.

Financial management style

The financial management challenges faced by many local authorities are unprecedented in recent history and show no signs of easing. This is significant because it means that different styles of financial management are necessary. Financial sustainability will not be achieved by continuing with the behaviours of the past since these do not meet the demands of the present – or the future, which may be even more challenging. To remain financially sustainable authorities need to develop their financial management capabilities.

Financial Management Standard E

The financial management style of the authority supports financial sustainability.

CIPFA believes that the strength of financial management within an organisation can be assessed by a hierarchy of three ‘financial management (FM) styles’:

- delivering accountability
- supporting performance
- enabling transformation.

These different styles are used in the CIPFA Financial Management Model to describe the different standards of financial management which may be found in local authorities. They represent a hierarchy in which enabling transformation is only achieved by a financial management style that supports performance and which in turn delivers accountability. Once these basic foundations have been soundly established, authorities need to move up through a hierarchy of financial management styles in response to increasing risk. This is especially important as risks have increased for many local authorities; on the one hand reduced expenditure leaves less margin for error while on the other hand, in seeking to generate new income, local authorities take on unfamiliar risks.

This hierarchy of financial management styles loosely maps onto the now deeply embedded recognition of the necessity for economy, efficiency and effectiveness to achieve value for money. In delivering accountability the finance team ensures that their authorities spend less and so achieve economy. In supporting performance, the finance team works with the authority to spend well by maximising the output from goods or services and so achieves efficiency. Finally, in enabling transformation the finance team supports the effective use of public money.

CIPFA recognises that while the highest standards of financial management should be the expectation, in practice some local authorities are at different stages of development. In these circumstances, compliance with the FM Code may initially be achieved by credible proposals to raise financial standards beyond the basic delivery of accountability.

The first two sections of this code have addressed the pre-conditions that must be satisfied for sound financial management. The following sections turn to the practical operation of the successive stages of the financial management cycle.

SECTION 3

Medium to long-term financial management

While the statutory local authority budget setting process continues to be on an annual basis (see Section 4) a longer-term perspective is essential if local authorities are to demonstrate their financial sustainability. Short-termism runs counter to both sound financial management and sound governance.

CIPFA does not believe however that the time horizon of local authority financial planning is determined by the time horizon of the financial support from central government. The greater the uncertainty about future central government policy then the greater the need to demonstrate the long-term financial resilience of the authority given the risks attached to its core funding.

An authority must ensure that while the formal publication of the medium-term financial plan (MTFP) may only reflect government settlements, it is the responsibility of the leadership of the organisation, including elected members, senior management and the section 151, to have a long-term financial view acknowledging financial pressures.

Authorities with a high level of capital investment and associated external borrowing should adopt a correspondingly long-term approach. The Prudential Code requires that a local authority capital strategy sets out the long-term context in which capital expenditure and investment decisions are made. For example all authorities with PFI, service contracts and other similar contractual arrangements will need to demonstrate their ability to finance these arrangements over the whole period of the contracts. Housing Revenue Account (HRA) business plans in England and Wales are already based on a 30-year time horizon.

Financial resilience and long-term financial strategy

If an authority has not tested and demonstrated its long-term financial resilience then its financial sustainability remains an open question. Authorities must critically evaluate their financial resilience. It is possible that the existing strategy is financially sustainable, but this must still have been tested and demonstrated in a financial resilience assessment.

In this financial resilience assessment the authority must test the sensitivity of its financial sustainability given alternative plausible scenarios for the key drivers of costs, service demands and resources. It will require an analysis of future demand for key services and consideration of alternative options for matching demand to resources. Testing will focus on the key longer-term revenues and expenses and the key risks to which the authority will be exposed.

With an awareness that risks will vary, consideration should be given to tools such as the [Financial Resilience Index](#) that may help organisations identify these pressure points. Without such stress testing an authority cannot be regarded as financially sustainable and will be deemed to have failed that test.

Financial Management Standard F

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

Having carried out the finance resilience assessment, the authority will need to demonstrate how the risks identified have informed a long-term financial strategy. A local authority needs an over-arching strategic vision of how it intends to deliver outputs and achieve outcomes for which it is responsible. This should include a statement that sets out both the vision and the underlying strategy, together with the mix of interventions that the organisation will adopt in delivering services to achieve the intended outcomes. In many cases a basis for this will already exist in a corporate plan.

A key part of the strategy should be a visioning exercise to understand the potential shape of services in the future. It will need to be sufficiently comprehensive to offer a convincing demonstration that the authority has identified a way of achieving financial sustainability. At the same time it needs to provide a relatively fixed point of reference which is subject to periodic review and to revision and fundamental change only when it is no longer fit for purpose.

Financial Management Standard G

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

CIPFA is not at present being prescriptive about the time period of this long-term financial strategy. Different authorities will face different levels of political and financial stability which may have become embedded in different management cultures. However, CIPFA would promote ambition and stress the need for a financial strategy that matches the requirement for a strategic approach to service planning. The underlying key demand cost drivers, especially those linked to the age profile of the community, can be foreseen at least in broad terms for a decade and more ahead.

The Prudential Code for Capital Finance in Local Authorities

The statutory requirements of the Prudential Code underpins elements of the long and medium-term financial management considered in this section of the FM Code. While the minimum requirement is for three-year rolling capital and investment plans, *The Prudential Code for Capital Finance in Local Authorities* (2017 edition) stresses that a longer-term approach is necessary to ensure that capital strategy and asset management plans are sustainable.

Financial Management Standard H

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

One of the requirements of the Prudential Code is a capital strategy. This capital strategy is a fundamental component of good financial management. It should set out how the organisation is currently managing its assets and more importantly its future plans linked to available resources. Balance sheet management in local authorities is about the better management of assets and liabilities to support service delivery and capital strategy. A long-term vision is needed for the configuration of service delivery and investment properties because timely asset disposals and/or investments will be dependent on complex interdependencies.

A long-term vision should also be reflected in any commercial investment activity undertaken by the organisation. Guided by the Prudential Code and relevant guidance on borrowing for acquisitions of commercial properties, a local authority should not put public money and services at risk.

Practical medium-term financial planning

CIPFA does not anticipate that a long-term financial strategy would provide sufficient detail to shape the annual budget setting process. Local authorities will need to translate their long-term financial strategies into a medium-term financial plan (MTFP) for budget setting.

The MTFP is the mechanism or framework by which the annual budget process relates directly to the long-term strategy establishing the financial sustainability of the authority. While not prescriptive about time frame, the MTFP should support financially sustainable decision making.

Importantly, performance against the plan will enable recent success and/or failures in delivering financial objectives to be taken into account in the annual budget process. A symptom of financial stress is the emergence of unanticipated overspends in recent years from the MTFP. While the long-term strategy needs to be a stable point of reference, the MTFP needs to be rolled forward annually to ensure that it reflects the latest detailed information. By taking this approach to medium-term financial planning the annual budget is aligned to longer-term goals.

The MTFP should enable the leadership team to have confidence in its long-term strategy for its financial sustainability. Importantly, financial and operational plans must be demonstratively aligned to the strategy at all levels. Without clear service plans it is impossible to place the forecast within the context of currently agreed policies and their implications for future demand and resources.

Financial Management Standard I

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

SECTION 4

The annual budget

One of the objectives of this FM Code is to end the practice by which the annual budget process has often become the focal point if not the limit of local authority financial planning. However the annual budget preparation process needs to be protected at a time when the need to make difficult decisions may threaten its integrity.

Local authorities need to ensure that they are familiar with the legislative requirements of the budget setting process. In times of routine business compliance this is relatively straightforward, but in times of financial stress there may be pressures for delay or obfuscation in budget setting. These difficulties can be acute when council tax setting is reliant on decisions by independent precepting bodies. In these circumstances it is likely that the CFO will need to work closely with the chief executive, monitoring officer and the leadership team to ensure statutory processes and a timetable necessary to set a legal budget are understood. The monitoring officer is the custodian of the constitution, which acts as a safeguard to prevent councillors and officers from getting into legal difficulties in the exercise of their role and uphold and ensure fairness in decision making.

Financial Management Standard J

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

The annual report setting out the proposed budget for the coming year is a key document for the authority. It will also demonstrate compliance with CIPFA's Prudential Code (Financial Management Standard H). The best budget plans are those owned and articulated by the whole leadership team and senior managers, not simply the CFO.

Reserves are acknowledged in statute. Local authorities are directed to have regard to the level of reserves when considering their budget requirement. Consequently, reserves are a recognised and intrinsic part of financial planning and budget setting. The assessment of 'adequate' and 'necessary' levels of reserves is a matter for local authorities to determine. It is the responsibility (with statutory backing in England and Wales) of the CFO to advise the local authority on the appropriate level of reserves and the robustness of the estimates.

Financial Management Standard 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 should include details of the earmarked reserves held, and explain the purpose of each reserve, together with the estimated opening balances for the year, details of planned additions/withdrawals and the estimated closing balances.

A well-managed authority, with a prudent approach to budgeting, should be able to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed. Compliance with the FM Code will give important reassurance that the authority's financial management processes and procedures are able to manage those risks. These should be maintained at a level appropriate for the profile of the authority's cash flow and the prospect of having to meet unexpected events from within its own resources. Even where, as part of their wider role, auditors have to report on an authority's financial position, it is not their responsibility to prescribe the optimum or minimum level of reserves for individual authorities or authorities in general.

The successful execution of the annual budget will depend on both the good governance and internal controls already codified in Section 2 as well as financial monitoring addressed in Section 6.

SECTION 5

Stakeholder engagement and business cases

Financial sustainability requires citizens to understand that resources are not limitless and that decisions have to be made about both the relative priority of different services and the balance between service provision and taxation levels. The leadership team collectively has an important role in reviewing priorities to enable resources to be redirected from areas of lesser priority; it is not possible to rely principally on pro rata cuts to generate the savings necessary for financial sustainability in an era of austerity.

The leadership team needs to challenge not only how services are delivered, but also what is delivered. These decisions must be made with a clear understanding of the statutory requirements and of wider legal implications of any decisions.

Stakeholder engagement

Stakeholder consultation can help to set priorities and reduce the possibility of legal or political challenge late in the change process. Stakeholder consultation helps to encourage community involvement not just in the design of services but in their ongoing delivery. This is especially the case when a local authority adopts an enabling approach to public service delivery which, along with the active involvement of the third sector, may facilitate future reductions in service costs.

Financial Management Standard L

The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.

Business cases

Financial sustainability will be dependent upon difficult and often complex decisions being made. The authority's decisions must be informed by clear business cases based on the application of appropriation option appraisal techniques. Professional accountants can be expected to comply with the IFAC/PAIB Project and Investment Appraisal for Sustainable Value Creation reproduced in Annex B to this FM Code.

Financial Management Standard M

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

It is the responsibility of the CFO to ensure that all material decisions are supported by an option appraisal which in its rigour and sophistication is appropriate for the decision being made. It is likely that the authority's documented option appraisal methodology will include a relatively simplistic approach for decisions of low value and/or low risk.

SECTION 6

Performance monitoring

To remain financially sustainable an authority must have timely information on its financial and operational performance so that policy objectives are delivered within budget. Early information about emerging risks to its financial sustainability will allow it to make a carefully considered and therefore effective response.

Financial Management Standard N

The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.

Significant unplanned overspends and/or carrying forward undelivered savings into the following year might be a sign that an authority is not translating its policy decisions into actions. It also creates the conditions for further financial pressures and possible service reductions in subsequent years. However, the warning signs could also be in other non-financial performance measures, such as backlogs and other indications that current resources are not matching the expectations of service users. These trends should inform the decisions taken on the medium and long-term financial planning addressed by Section 3 of this code.

It is a requirement of this code that authorities should more closely monitor the material elements of their balance sheet that may give indications of a departure from financial plans. This is especially important for local authorities with significant commercial asset portfolios. Legislation requires local authorities to maintain adequate accounting records of their assets and liabilities. Regulations also require that the appropriate (chief finance) officer certifies or confirms that the statements of accounts provide a true and fair view of the financial position (ie the amounts in the balance sheet) of the authority at 31 March in the year of account.

Financial Management Standard O

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

Contingencies and commitments are monitored to identify any items where a balance sheet provision may have crystallised. Key drivers of provisions (eg asset decommissioning decisions, legal claims, reorganisation activities) should be monitored to identify whether an actual or constructive obligation has arisen. Finally, cash flow is managed through application of *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes* (CIPFA, 2017).

SECTION 7

External financial reporting

Taxpayers and citizens have a legitimate stake in understanding how public money has been used in providing the functions and services of the authority. The audited statements of account, which present the authority's financial position and financial performance, play an integral part in demonstrating this to them. The statutory accounts provide a secure base for financial management. They support accountability and thus good financial management by allowing the users of the financial statements and other stakeholders to do the following:

- Discover how much is spent in a year on services and whether this has increased or decreased from previous years.
- Consider the indebtedness of an organisation and how that might impact on future taxpayers.
- Recognise the value and therefore usefulness of the assets that the organisations hold.
- Assess what the future commitments and liabilities are, for example, for pensions or leases, and again how these are likely to impact on future generations and taxpayers.

CIPFA's *Statement on the Role of the Chief Finance Officer in Local Government* sets out the chief finance officer's statutory responsibilities for producing the accounts and maintaining the financial records for those accounts. The CIPFA Statement requires that the statements of account are published on a timely basis to communicate the authority's activities and achievements, its financial position and performance. It also requires certification of the accounts by the chief finance officer. The confirmation that the accounts present a 'true and fair' view is one of the fundamental roles of the statutory chief finance officer. Across the UK the *Code of Practice on Local Authority Accounting in the United Kingdom* produced by the CIPFA/LASAAC Local Authority Code Board establishes proper (accounting) practices under which that 'true and fair' view will need to be confirmed/certified.

Financial Management Standard 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 statutory and professional frameworks for the production and publication of the accounts underpin their importance and demonstrate that they have a key part to play in accountability to taxpayers and other stakeholders in showing how public money is used. Financial reporting therefore should not take place in a vacuum. The financial statements provide the accountability link between planned performance, resources used and the outcomes – financial and more – that are achieved. The authority, its management and the CFO both in its financial statements and the narrative reports that accompany them must

provide the user with the links between the consumption of resources and the value that has been created.

It is key to ensure that the authority and its leadership understand how effectively its resources have been utilised during the year, including a process which explains how material variances from initial and revised budgets to the outturn reported in the financial statements have arisen and been managed. The success of these arrangements will be demonstrated by the ability of the leadership team to make decisions from them. In some circumstances this will lead to a reappraisal of the achievability of the long-term financial strategy and the financial resilience of the authority (see Section 3).

Financial Management Standard Q

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

Annex A

IFAC/CIPFA GUIDANCE ON IMPLEMENTING THE PRINCIPLES FOR GOOD GOVERNANCE IN THE PUBLIC SECTOR (EXTRACT)

Principles for good governance in the public sector

Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

The fundamental function of good governance in the public sector is to ensure that entities achieve their intended outcomes while acting in the public interest at all times.

Acting in the public interest requires:

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- B. Ensuring openness and comprehensive stakeholder engagement.

In addition to the overarching requirements for acting in the public interest in principles A and B, achieving good governance in the public sector also requires effective arrangements for:

- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes.
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it.
- F. Managing risks and performance through robust internal control and strong public financial management.
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

Annex B

IFAC/PAIB PROJECT AND INVESTMENT APPRAISAL FOR SUSTAINABLE VALUE CREATION

Extract from [IFAC website](#).

Principles in project and investment appraisal

The key principles underlying widely accepted good practice are:

- A. When appraising multi-period investments, where expected benefits and costs and related cash inflows and outflows arise over time, the time value of money should be taken into account in the respective period.
- B. The time value of money should be represented by the opportunity cost of capital.
- C. The discount rate used to calculate the NPV [net present value] in a DCF [discounted cash flow] analysis, should properly reflect the systematic risk of cash flows attributable to the project being appraised, and not the systematic risk of the organisation undertaking the project.
- D. A good decision relies on an understanding of the business and should be considered and interpreted in relation to an organisation's strategy and its economic, social, environmental, and competitive position as well as market dynamics.
- E. Project cash flows should be estimated incrementally, so that a DCF analysis should only consider expected cash flows that could change if the proposed investment is implemented. The value of an investment depends on all the additional and relevant changes to potential cash inflows and outflows that follow from accepting an investment.
- F. All assumptions used in undertaking DCF analysis, and in evaluating proposed investment projects, should be supported by reasoned judgment, particularly where factors are difficult to predict and estimate. Using techniques such as sensitivity analysis to identify key variables and risks helps to reflect worst, most likely and best case scenarios, and therefore can support a reasoned judgment.
- G. A post-completion review or audit of an investment decision should include an assessment of the decision making process and the results, benefits, and outcomes of the decision.
- H. Capital and revenue reports need to be closely linked so there is an understanding of how each capital scheme is financed, and in particular which require revenue contributions.

Borrowing costs need to be spelt out. Low interest rates are not in themselves a compelling reason to borrow. Capital budgets should be clear about how individual schemes are financed and which ones add pressure to revenue.

Glossary

Accounting standards	Rules set by the International Accounting Standards Boards that set out how transactions are to be shown in an organisation's accounts.
Annual statement of accounts	The statement of accounts presents the authority's transactions on an annual basis as of 31 March of the relevant year of account. The complete set of financial statements in the annual accounts for local authorities comprises: ■ comprehensive income and expenditure statement for the period ■ movement in reserves statement for the period ■ balance sheet as at the end of the period ■ cash flow statement for the period, and ■ notes, comprising significant accounting policies and other explanatory information.
Asset management plan	Asset management plans align the asset portfolio with the needs of the organisation.
Audit committee	A special committee of the council that reviews the financial management and accounts of the council.
Balance sheet	A financial statement presenting a summary of the authority's financial position as of 31 March each year. In its top half it contains the assets and liabilities held or accrued. As local authorities do not have equity shares, the bottom half is comprised of reserves that show the location of the authority's net worth between its usable and unusable reserves.
Capital budget	The money a council plans to spend on investing in new buildings, infrastructure and other equipment.
Capital financing charges	The amount a council has to pay to support its borrowing to pay for the purchase of major assets.
Capital receipt	The money a council receives for selling assets that can only be used to repay debt or for new capital expenditure.
Chief financial officer	The most senior finance person in a council responsible for ensuring the proper financial management of the council.
CIPFA FM Model	The CIPFA FM Model is the tool that helps public service organisations apply their financial resources to achieve their goals.
Code of Practice on Local Authority Accounting in the United Kingdom	A code produced by the CIPFA/LASAAC Local Authority Code Board. It specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position, financial performance and cash flows of a local authority, including the group accounts where a local authority has material interests in subsidiaries, associates or joint ventures. The Local Authority Accounting Code is established as a proper practice by the four relevant administrations across the UK.
Earmarked reserve	Money set aside for future use on a specific area of expenditure. It remains a part of the general reserves of the authority.

FINANCIAL MANAGEMENT CODE

Financial management	Financial management encompasses all the activities within an organisation that are concerned with the use of resources and that have a financial impact. CIPFA has defined financial management for public bodies as “the system by which the financial aspects of a public body’s business are directed and controlled to support the delivery of the organisation’s goals”.
General fund balance (also council fund or police fund)	The general fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. The general fund balance therefore summarises the resources that the authority is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the council is required to recover) at the end of the financial year.
Governance	The framework by which a council can gain assurance that it is setting and achieving its objectives and ensuring value for money in the proper way.
Housing Revenue Account (HRA)	An account used to record the income and expenditure related to council housing.
IFAC (International Federation of Accountants)	IFAC is the global organisation for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. CIPFA is a member.
Internal audit	An internal review of the organisation’s systems to give assurance that they are appropriate and being complied with.
Leadership team	Executive committees, elected mayors, portfolio holders with delegated powers and other key committees of the authority. In the police service this leadership is provided by police and crime commissioners and chief constables.
Non-domestic rates	A tax paid by local businesses to their council.
Public Sector Internal Audit Standards	These standards, which are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.
Provision	A provision is a present liability whose timing or amount of settlement is uncertain. For example, it may be a charge for liabilities that are known to exist, but have to be estimated.
Prudential Code	A code produced by CIPFA that councils are required to follow when deciding upon their programme for capital expenditure.
Revenue budget	The amount that a council spends on its day-to-day running of services through the financial year.
Ringfencing	A term for the earmarking of money (eg a grant or fund) for one particular purpose, so as to restrict its use to that purpose.
Society of Local Authority Chief Executives (SOLACE)	SOLACE’s purpose is to develop the highest standards of leadership in local government and the wider public sector.
Treasury management	CIPFA has adopted the following as its definition of treasury management activities: ■ the management of the organisation’s borrowing, investments and cash flows ■ its banking ■ money market and capital market transactions ■ the effective control of the risks associated with those activities ■ the pursuit of optimum performance consistent with those risks.

Treasury Management Code	A professional and statutory code produced by CIPFA that councils are required to follow in managing their treasury management activity.
Treasury management strategy	An annual document approved by full council that sets out how a council will manage its cash and borrowings.

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APPENDIX 2 – CIPFA FINANCIAL MANAGEMENT CODE EVIDENCE OF CURRENT COMPLIANCE AND PROPOSED ACTION PLAN

The CIPFA Financial Management Code is intended to support good practice in financial management and assist in demonstrating the local authority's financial sustainability. The code sets out the standards of financial management for local authorities. The table below provides an assessment of how West Lothian Council currently complies with the Code and sets out proposed actions to ensure compliance with the code by 2021/22.

Section 1 – The responsibilities of the chief finance officer and leadership team

Financial Management Standard	Evidence of Compliance	Actions and Timescale
<u>Financial Management Standard A</u> – The leadership team is able to demonstrate that the services provided by the authority provide value for money.	The leadership team of the council utilise a number of frameworks and documents to ensure that the council provides value for money. These include: • Ensuring compliance with the council's Best Value Framework • The delivery of the Capital Strategy • Undertaking priority based budget analysis • The delivery of the Asset Management Strategy • Quarterly financial monitoring and risk based monitoring providing necessary and required scrutiny and feedback. • Twice yearly financial performance reporting to PDSPs. • Integrated Impact Assessments are carried out to ensure services are accessible to all who can benefit from them	Continue with the existing systems of internal control and the management of risk. The Financial Regulations will be reviewed to ensure that they fully reflect the requirements of the Code, and the amended regulations reported to Council Executive for approval.

Financial Management Standard	Evidence of Compliance	Actions and Timescale
Financial Management Standard B – The authority complies with the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.	The role description of the Head of Finance and Property Services, who is the Chief Financial Officer for West Lothian Council, complies with the principles set out in the CIPFA statement; this is evidenced by the role, responsibilities and status of activities undertaken by the Head of Service. Principle 1 – Is a key member of the Leadership Team (at West Lothian this is Executive Management Team and Corporate Management Team) Principle 2 – Takes lead role in the council’s financial strategy (the Head of Finance and Property Services reports to EMT, CMT and council committees on all financial strategy matters) Principle 3 – Leads and promotes good financial management (the Head of Finance and Property Services encourages and emphasises sound financial management via a variety of means) Principle 4 – Leads and directs the finance function of the council which is fit for purpose (the Head of Finance and Property Services manages the finance function) Principle 5 – Is professionally qualified with suitable experience (the Section 95 Officer is required to be a qualified accountant, with significant relevant experience) The Scheme of Delegation also sets out the section 95 officer role and responsibilities, however it does not refer to the CIPFA statement.	Update appendix 3 of the Scheme of Delegation, including the section 95 officer role and responsibilities, to demonstrate compliance with the CIPFA statement in February 2021, following consideration of the Code by Council Executive.

Section 2 – Governance and financial management style

Financial Management Standard	Evidence of Compliance	Actions and Timescale
<u>Financial Management Standard C</u> – The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.	The governance structure of the council demonstrates the actions and internal controls in place. This includes the council's Financial Regulations, Standing Orders, the Council's Code of Corporate Governance and the Scheme of Delegation. The Scheme of Delegation states that the Head of Paid Service (the Chief Executive) is responsible for ensuring that proper arrangements are in place for the appointment and organisation of the authority's staff. The Scheme of Delegation states that the monitoring officer is responsible for providing appropriate advice to elected members and council officers regarding the promotion of high standards of conduct, and ensuring that suitable training is given regarding compliance with the codes of conduct for councillors and officers.	The relevant governance documents are reviewed at least once each administrative term.
<u>Financial Management Standard D</u> – The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework 2016.	The council has a Code of Corporate Governance and a compliance process which is aligned to the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework 2016. The Code of Corporate Governance is reported annually to Council Executive and the Audit Committee along with bi-annual updates to the Risk and Governance Committee on any governance issues identified in the annual governance statement.	None. The council fully applies the CIPFA/SOLACE Delivering Good Governance in Local Government Framework 2016.
<u>Financial Management Standard E</u> – The financial management style of the authority supports financial sustainability.	The financial management style of the council has been recognised by external auditors Ernst and Young as being good practice. This includes the reporting and documentation of the following: • Priority based approach to medium-term financial strategy • Detailed three year budgets • Treasury Management Plan • Capital Strategy • Ten year capital programme • Asset Management Strategy • Budget Monitoring Framework and Procedures	Continue with current prudent approach which supports financial sustainability.

Section 3 – Medium to long-term financial management

Financial Management Standard	Evidence of Compliance	Actions and Timescale
<u>Financial Management Standard F</u> – The authority has carried out a credible and transparent financial resilience assessment.	The council presents an annual Treasury Management Plan as well as reporting on prudential indicators to demonstrate financial resilience. A Horizon Scan is also reported quarterly to PDSP reporting on various factors that could have influence over the financial resources and policy decisions of the council, the horizon scan interprets the impact of information from a local, national and global level. This information is used to assess the impact on budget assumptions.	Building on existing activities, it is proposed that from 2021/22, the budget report will include a section that demonstrates financial resilience and sustainability. This will be included in the revenue report going to council in February 2021.
<u>Financial Management Standard G</u> – The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.	The council's Corporate Plan and Corporate Strategies set out the vision for the delivery of the councils priorities, the Corporate Plan and associated strategies have gone through the necessary scrutiny and approval processes.	The councils Corporate Plan is currently for the period 2018/19 to 2022/23. Although the code is not prescriptive it suggests that a longer strategy and strategic vision should be developed that has at a ten year outlook. Therefore, a high level ten year financial strategy will be developed for 2023/24 to 2032/33 setting out a high level strategy and a range of assumptions on the high level expenditure, grant and council tax based on forecast demographic growth and economic assumptions. This will be reported in early 2023, as part of the planning process for the next Administration term.
<u>Financial Management Standard H</u> – The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.	The council's Capital Strategy 2019/20 – 2027/28 was approved by Council in March 2019. The council sets prudential indicators as part of the annual budget setting process and the annual Treasury Management plan and	A Capital Strategy update will be undertaken for the current financial year and reported to the Council by the end of March 2021.

Financial Management Standard	Evidence of Compliance	Actions and Timescale
	reports on the progress of these indicators as part of the Treasury Management interim and annual performance reports to full council.	None. The council complies fully with the Prudential Code.
<u>Financial Management Standard I</u> – The authority has a rolling multi-year medium term financial plan consistent with sustainable service plans.	The council has a medium-term financial plan for the period 2018/19 to 2022/23 with budgets updated annually to ensure they reflect the latest circumstances and most up-to-date information. Annual service management plans are prepared that are consistent with the medium-term financial strategy and align with the council's Corporate Plan. The Council's Asset Management Strategy was approved in February 2018 alongside the ten-year general services capital investment strategy. As per Financial Management standard H, the council's Capital Strategy 2019/20 to 2027/28 was approved by Council in March 2019. Quarterly horizon scan reports are undertaken to ensure delivery of the financial plan is sustainable.	The financial plan is currently approved for a five year period, 2018/19 to 2022/23. A new financial plan will be prepared for the next five year administrative term 2023/24 to 2027/28. In addition, a high level ten year financial strategy will be produced and updated on an annual basis. A Capital Strategy update will be undertaken by the end of March 2021.

Section 4 - The annual budget

Financial Management Standard	Evidence of Compliance	Actions and Timescale
<u>Financial Management Standard J</u> – The authority complies with its statutory obligations in respect of the budget setting process.	The council's annual budget report complies with statutory requirements as a balanced budget was set prior to 11 March 2020, as well as fulfilling Council Tax setting requirements and providing a statement of the General Fund Balance and other reserves. For 2020/21 the uncommitted General Fund Balance was maintained at £2 million which was assessed as appropriate as a result of the agreed medium-term financial strategy which is underpinned by clear financial planning arrangement, sound financial management and a substantial number of other ear marked reserves. This	Continue to met statutory obligations by approving the annual budget and council tax within statutory timescales.

Financial Management Standard	Evidence of Compliance	Actions and Timescale
	approach means that the low level of reserves should not impact on flexibility around budget decisions.	
<u>Financial Management Standard K</u> – 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 provides information on the robustness of estimates and assumptions for the annual budget and future financial planning. Officers continue to closely monitor the economic position, funding announcements and budget assumptions to identify any potential impact to the budget model, with updates provided to the P&R PDSP on financial planning assumptions in the quarterly horizon scan report. As noted for Financial Management Standard J, the budget report contains a statement on the appropriate level of financial reserves to be held within the section on the General Fund Balance and Reserves.	Currently there is a statement on the financial reserves; however there is no specific statement from the chief finance officer within the report setting out the robustness of estimates and assumptions. Therefore, the annual budget report to Council will be updated to include a statement from the chief finance officer on the reliability and robustness of estimates in the budget in February 2021.

Section 5 – Stakeholder engagement and business cases

Financial Management Standard	Evidence of Compliance	Actions and Timescale
<u>Financial Management Standard L</u> – 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 pro-active history of consultation and engagement with communities and stakeholders, evidenced by the latest budget consultation undertaken in 2017. The consultation sought stakeholder opinions on priorities for the five years to 2022/23. The consultation received 7,026 responses, with over 45,000 comments from all respondents. West Lothian's Community Choices is a process which is currently being undertaken that will further enhance community involvement in the design of services and allocation of specific budgets. Budget areas were approved by Council Executive in November 2019 and totalled £4.039 million across general fund revenue, general fund capital and HRA capital.	The council will continue to engage on financial plans and on specific elements of the financial plan. In particular, there will be engagement on new plans for 2023/24 onwards.

Financial Management Standard	Evidence of Compliance	Actions and Timescale
<u>Financial Management Standard M –</u> The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.	The utilisation of business cases is an essential element of capital planning. This approach has been used successfully since 2007. The format of strategic outline business cases (SOBCs) has been revised over the years to reflect recommendations from the Audit, Risk and Counter fraud unit on best practice. SOBCs are developed for the initial stages of investment prioritisation. A number of potential options are set out with a recommendation of which option should be progressed. SOBCs are required for all capital investment, including existing projects, asset maintenance, prudential investment and potential new projects. The agreed approach to asset management and capital investment is: • Estimation of total resources • Preparation of SOBCs • Consideration of all potential investment • Scoring of SOBCs based on non-financial considerations, service delivery, corporate priorities and financial assessment. • Use information to determine a capital programme for approval by elected members. The council has a well organised and documented priority based budget approach which is undertaken as part of the established integrated approach to corporate and financial planning and part of the process includes the option appraisal of potential savings measures.	The council will continue to utilise priority based budgeting and strategic outline business cases to prioritise resources and demonstrate value for money.

Section 6 – Monitoring Financial Performance

Financial Management Standard	Evidence of Compliance	Actions and Timescale
<u>Financial Management Standard N</u> – The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.	The council has Financial Regulations and approved Budget Monitoring Framework and Procedures which includes the monitoring and reporting of budgets and the identification of risks which allows for mitigating actions being undertaken. This is completed in conjunction with reports being presented on the outcome of UK and Scottish Government budget announcements and economic forecasts as well as Horizon Scan reports.	There are regular reports to the CMT and Council Executive on the progress on the current year budget and any changes to budget assumptions for future years. These will be reviewed to identify any potential improvements.
<u>Financial Management Standard O</u> – The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.	The Council adopts a risk-based monthly approach to monitoring with full budget monitoring exercises carried out at months four, six and nine. Elements of the balance sheet posing a risk to financial sustainability, are identified through the budget monitoring process along with mitigating actions and reported to CMT and Council Executive as part of that process. The Governance and Risk Committee receive regular reports on high risks areas and risks relating to the delivery of the financial plan.	In addition to regular monitoring, a statement on risks to elements of the balance sheet will be included in the covering report to the council's final accounts for 2020/21 which will be reported in June 2021. This was not required for the 2019/20 accounts.

Section 7 – External financial reporting

Financial Management Standard	Evidence of Compliance	Actions and Timescale
<u>Financial Management Standard P</u> – 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 Scheme of Delegation includes the role and responsibility of the chief finance officer for ensuring that the council complies with Code of Practice on Local Authority Accounting. The outturn and final accounts are reported to Council Executive, with the final accounts being audited and signed off by an external auditor with the statement of accounts meeting all statutory requirements. The unaudited accounts, prior to review by external auditors, are reported to the Audit Committee and following sign-off from the external auditors the accounts are presented to full Council.	This responsibility is clearly set out in the council's governance arrangements. Accounts will continue to be produced in accordance with the Code of Practice.
<u>Financial Management Standard Q</u> – The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions.	The final outturn reports for General Fund Revenue, General Services Capital and Housing Revenue and Capital are presented to Council Executive annually, with the latest reports being approved in June 2020 for financial year 2019/20. These reports provide information on performance against budget and identify reasons for any variances as well as recommended actions to be undertaken. Financial performance reports which report on the final outturn are reported to the relevant PDSP's following the year end.	There is a robust process in place for reporting final outturn figures to Council Executive and PDSPs, and this provides elected members with the opportunity to make strategic financial decisions.