

**To:** Audit and Governance Committee

**Date:** 29th July 2021 **Item No:**

**Report of:** Head of Financial Services

**Title of Report:** CIPFA Financial Code

## Summary and Recommendations

**Purpose of report:** To advise members of the requirements if the CIPFA Financial Code which comes into operation from 1<sup>st</sup> April 2021

**Key Decision?** No

**Executive lead member** Councillor Ed Turner (Cabinet Member for Finance and Assets)

**Policy Framework:** Budget

**Recommendation(s):** That members note the compliance with CIPFA Financial Code

## Introduction

1. The Chartered Institute of Public Finance & Accountancy (CIPFA) has introduced a new code, The Financial Management Code 2019 (FM Code), which sets out for the first time, the standards of financial management for local authorities. Full compliance with the FM Code will commence from 1 April 2021.
2. 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.
3. 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
4. Each local authority 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, (corporate management team –CMT). 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
5. 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. These principles are:
- **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
- 6 The financial management standards as contained within the Code are detailed below in 7 sections with individual financial standards lettered from A to Q. Commentary on how the Council is complying with these is also provided against each standard.

## 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.**

**Comment:** The external auditor Ernst and Young is required to undertake an annual value for money assessment and to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise the Council's arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

The auditors conclusion was that they '**did not identify any significant risks around these criteria**' which was reported to Audit and Governance in July 2020.

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

**Comment:** In assessing the effectiveness of the Council's Annual Governance Statement the Chief Financial Officer is required to review how their role in the authority meets the CIPFA Statement on the Role of the Chief Financial Officer in Local Government. Key to this assessment are a number of principles:

- The Chief Financial Officer ("CFO") in a local authority is a key member of the leadership team, helping it to develop and implement strategy.

**Comment:** In the Council the CFO is a member of the Corporate Management Team with direct access to the Chief Executive, members, Audit & Governance Committee and internal and external audit

- The CFO in a local authority must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the authority's overall financial strategy.

**Comment :** In Oxford the CFO is responsible for Risk Management, has the ability to influence decisions through meetings and reporting to members and also has a statutory requirement to advise

members of the robustness of estimates and the level of reserves and balances

- The CFO in a local authority must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently, and effectively. The CFO has a personal responsibility for financial stewardship and their prime responsibility is to the citizens to manage resources prudently, both within the authority and extending into partnerships, joint ventures and companies in which the council has an interest e.g. Oxford Direct Services Group, Oxford City Housing Limited, Oxford West End Development Limited (OxWED) and Barton LLP
- The CFO in a local authority must lead and direct a finance function that is resourced to be fit for purpose. In Oxford the CFO currently has sufficient resources to undertake the Finance function and this is subject to review
- The CFO in a local authority must be professionally qualified and suitably experienced. The CFO and a number of key staff within the Finance Team are suitably qualified. Deputising for the CFO on matters of financial accounting is undertaken by the Financial Accounting Manager and Management Accountancy Manager, with additional posts taking responsibility on matters relating to Procurement and Revenues.

## **Section 2: Governance and Financial Management Style**

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

**Comment :** In accordance with the Accounts and Audit Regulations and the Public Sector Internal Audit Standards require that the Chief Internal auditor to report to Audit and Governance Committee on the adequacy and effectiveness of the internal control system to ensure the achievement of the organisation's objectives in the areas reviewed. In September 2020 the Councils internal auditors, BDO, presented a report which advised that the internal audit service provides the Council with **Moderate assurance** that there are no major weaknesses in the internal control system for the areas reviewed in 2019/20. This moderate opinion ranks 3<sup>rd</sup> highest on a scale of 1-4 where 1 represents no assurance, 2 represents limited assurance and 4 represents substantial assurance in accordance with the following:

#### **Substantial**

- Appropriate procedures and controls in place to mitigate the key risks.

- There is a sound system of internal control designed to achieve system objectives.
- No, or only minor, exceptions found in testing of the procedures and controls.
- The controls that are in place are being consistently applied.

#### **Moderate**

- In the main, there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.
- Generally a sound system of internal control designed to achieve system objectives with some exceptions.
- A small number of exceptions found in testing of the procedures and controls.
- Evidence of non-compliance with some controls that may put some of the system objectives at risk.

#### **Limited**

- A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in- year.
- System of internal controls is weakened with system objectives at risk of not being achieved.
- A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in- year.
- Non-compliance with key procedures and controls places the system objectives at risk.

#### **No Assurance**

- For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.
- Poor system of internal control.
- Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in year affects the quality of the organisation's overall internal control framework.
- takes into account audits undertaken in a number of Non compliance and/or compliance with inadequate controls.

The assessment covers areas across the council including the implementation of audit recommendations made. The Council have implemented most audit recommendations. Those that weren't implemented were largely down to the impact of COVID in late March and these have since been implemented. In 2019-20, the escalation process for follow up was refined to improve effectiveness. All non-responses and recommendations with several revised due dates were reported to the

Operation Delivery Group (ODG) meeting each quarter. This has improved the follow up process and implementation of recommendations. All audit reports indicated moderate effectiveness with 2 reports indicating substantial effectiveness. This is an improvement in comparison to the previous year where two areas indicate limited control effectiveness.

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

**Comment :** An annual governance statement is presented to Audit and Governance Committee alongside the Councils Statement of Accounts in accordance with the CIPFA/ SOLACE Delivering Good Governance Framework. This fulfils the statutory requirement under the Local Authority Accounting Code of Practice in the United Kingdom for a local authority to undertake an annual review of the effectiveness of internal control. The framework also includes the seven principles of Good Governance as follows

**a) Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

Examples that demonstrate this include:

- Updated officer and member code of conduct
- Regular performance appraisals and 121's for all staff
- Updated 'avoiding bribery fraud and corruption policies
- Updated whistleblowing policy
- Updated register of gifts and hospitality
- Complaints policy and evidence of responding to complaints about behaviour
- Statements made in procurement and tender documentation

**b) Ensuring openness and comprehensive stakeholder engagement**

Examples that demonstrate this include:

- Up to date Freedom of Information Act 2000 publication scheme
- Published medium term financial plans and Corporate Plans
- Budget Consultation
- Council tax information leaflet
- Record of decision making including decisions delegated to officers
- Resident surveys

**c) Defining outcomes in terms of sustainable economic, social and environmental benefits**

Examples that demonstrate this include:

- Social value included as major part of the Procurement Strategy
- Zero carbon policy

**d) Determining the interventions necessary to optimise the achievement of the intended outcomes**

Examples that demonstrate this include:

- A Corporate Plan which has been consulted on with a wide range of stakeholders to determine the Councils priorities
- A Medium Term Financial Strategy which supports the Corporate Plan taking account of key income streams and grant funding and setting out the councils plans for efficiency savings
- Regular quarterly financial monitoring and performance reporting to ensure plans and performance stay on track
- Robust business case development overseen by a project management officer for significant items of capital expenditure
- An approved risk management strategy which sets out the Council's appetite for risk taking and monitors the risks arising in partners and wholly owned companies.

**e) Developing the entity's capacity, including the capability of its leadership and the individuals within it**

Examples that demonstrate this include:

- A People Strategy, which develops and nurtures our staff to perform at their best, taking ownership of problems
- Pay and conditions policies that ensures the right calibre of staff are attracted to and retained by the authority
- An apprenticeships schemes which develops staff of the future
- Holding staff to account through regular performance reviews which take account of training or development needs.
- Equality and Diversity policy that ensures diversity of our people reflecting the communities which we serve
- Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing
- Ensuring staff are appropriately trained to undertake their roles

**f) Managing risks and performance through robust internal control and strong public financial management**

Examples that demonstrate this include:

- A effective risk management strategy which is formerly adopted and approved by Audit and Governance Committee
- The monitoring of risks at the operational, strategic and project management level by Audit and Governance and the Risk Management Group
- Business Continuity Plans that are regularly tested
- Assessing internal controls through the continuous internal audit reported to Audit and Governance Committee

- An updated avoiding bribery fraud and corruption policy
- Production of an Annual Governance Statement
- A defined role for the Data Protection Officer supported by approved policies on data protection
- Freedom of Information Act 2000 arrangements are in place
- Complaints policy is in place with escalation to CEO where required
- A continuous internal audit is maintained with independent reporting to Audit and Governance Committee
- Approval of a Medium Term Finance Strategy
- Approval of the Annual Statement of Accounts by Audit and Governance Committee
- Approval of an annual Treasury Management Strategy including prudential indicators
- Financial Management and Controls incorporated into the Councils Constitution
- Receipt of an unqualified audit opinion and the VFM conclusion

**g) Implementing good practices in transparency, reporting and audit to deliver effective accountability.**

Examples that demonstrate this include:

- Internal audit reporting to Audit and Governance Committee
- Approval of annual statement of accounts and reporting to audit committee
- Approval of the Annual Governance Statement by Audit and Governance Committee
- External audit reports and annual audit letter reported to Audit and Governance Committee
- Quarterly reporting of financial, performance and risk information to Cabinet

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

**Comment :** 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** – all staff within the authority, are responsible for ensuring value for money for every £1 spent. Those staff specifically involved in finance functions whether working within the Financial Service Directorate or in other services areas have additionally responsibility to ensure appropriate financial management and the maintenance of financial controls within the authority. The financial rules within the Councils Constitution set out the expectation of

staff operating in these areas together with how staff will be accountable for such action or inaction. Staff operating in these areas are required to understand and comply with the financial rules

- **supporting performance** – the performance of staff on financial management may be enhanced and monitored in a number of ways including:
  - **Internal check**, where the work of one member of staff through authorisation levels is a direct check on the work of another
  - **Internal audit** – the continuous internal audit carried out on processes and systems which are reported to Audit and Governance Committee
  - **Finance Teams** – Provision of financial monitoring information and financial advice for the operation of services by the finance team
- **enabling transformation.** – The authority has established a transformation Board to drive a number of work streams aimed at delivering change and financial savings into the authority. Led by the Chief Executive the Board currently has oversight of 20 projects aimed at delivering ongoing financial savings of £3million per annum. Multi-disciplinary teams are being established to drive the projects most of which include finance staff.

These styles of financial management are hierarchical and the Code makes reference to the higher the risks within an authority the higher the stronger the style of financial management. In the COVID pandemic where the authority is less resilient to deal with material overspends the style of management would be more delivering accountability.

### **Section 3: Long to Medium-Term Financial Management**

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

**Comment :** In his report to Council on 17<sup>th</sup> February 2021 on the robustness of estimates and adequacy of reserves the Council's Chief Finance Officer referred to work undertaken by the professional accounting body CIPFA on financial resilience. The prudent level of reserves that the Council should maintain is a matter of judgement. Generally the higher the risk of the council's financial plans the higher the level of reserves and balances that should be held.

In February 2021 CIPFA produced a table of resilience ratios for all local authorities albeit based on 2019-20 data which is shown below:

RESILIANCE INDICATORS - NON METROPOLITAN DISTRICTS - 2019/20								2021/22 Est	
		Minimum	Oxford	Maximum	Risk			Oxford	Risk
			Council					Council *	
Level of reserves (%) <b>1</b>		33.22	256.64	300.00	L			143.58	M
Change in reserves (%) <b>2</b>		-34.47	16.66	128.19	M			-12.82	M
Interest payable/ Net Revenue Expenditure		0.00	49.14	49.14	H			31.46	H
Gross External Debt (£000)		2,265k	198.5k	358,271k	M			198.5k	L
Fees and Charges to Service Expenditure ratio (%)		8.21	18.80	37.07	M			37.99	H
Council tax requirement/net revenue expenditure		42.07	59.56	100.00	L			63.05	L
Growth above baseline %		8.00	124.00	140.00	H			113.00	H
	*	Based on Oxfords position for 2021-22							
	Notes								
	1	The level of reserves to net revenue expenditure							
	2	Average change in reserves over the last 3 years							

Given the changes arising from COVID the data may be considered to be misleading since levels of reserves and fees and charges for instance may be markedly different now than they were in 2019-20. To assist in understanding the figures for Oxford compared to other local authorities a comparison has been made of Oxford's position for 2021-22. Points worthy of note include:

- Interest payments compared to net revenue expenditure is considered to be high risk. Whilst this may be the case on the face of it for other authorities for Oxford all external debts relates to the HRA and interest paid is consequently paid for from council house rents. The HRA is more financially resilient than the Councils General Fund and therefore this does not present a high risk
- Fees and charges for 2021-22 is high compared to the class average and is reflective of the Oxford Model.
- Business rates growth above baseline is high compared to the class average and represents a high risk to the Council in any future changes to business rates retention through fairer funding or business rates reset. The Council has made adequate provision from 1-4-2022 when both these changes will be brought in the Government to cover the financial implications.

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

**Comment :** The Council undertakes four year medium term financial planning and reports a refresh of such plans annually to Council together with the actions taken to achieve a rolling four year balanced plan. Such plans take account of the reserves and balances to be used in the balancing of the plan and a more detailed explanation of this is provided to Council annually during budget setting on the position of reserves and balances after use of those taken to balance the plan together with the Chief Financial Officers view on their adequacy.

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

**Comment :** The CIPFA Prudential Code for Capital Finance in Local Authorities sets out a framework for self-regulation for local authorities. The Code requires local authorities to determine that capital expenditure and investment decisions are **affordable, prudent and sustainable**, and to set limits on the amount they can afford to borrow in the context of wider capita

The code introduced the requirement for local authorities to produce a capital strategy. The purpose of the capital strategy is to firmly place decisions around borrowing in the context of the overall longer-term financial position of the authority and to provide improved links between the revenue and capital budgets.

The legislative requirements of the code require that the Council set an annual Minimum Revenue Provision (MRP) Policy to ensure prudent provision in relation to the repayment of debt.

The Council is also required to set annual Prudential Indicators to ensure that external debt is kept within sustainable prudent limits.

A Capital Strategy and Treasury Management Strategy is approved annually by Cabinet and Council in compliance with the Treasury Management and Prudential Codes.

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

**Comment :** The Council's approved Corporate Plan outlines its key priorities of:

- Enabling an inclusive economy
- Delivering more affordable housing
- Supporting thriving communities
- Pursuing a zero carbon oxford

Service Plans outlining key work streams and objectives for meeting these priorities are supported by a 4 year Medium Term Financial Strategy (MTFS) which is approved annually by cabinet and Council

#### **Section 4: The Annual Budget**

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

**Comment :** The Council is required to set a balanced budget taking account of working balances and any other available reserves

before the commencement of the financial year to which it relates. The Council extends this requirement to a rolling four year Medium Term Financial Strategy

**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.**

**Comment :** An annual report is prepared by the Chief Finance Office on the robustness of the estimates and the adequacy of financial reserves. The report this year was presented to Council on 17th February and considered alongside the budget report. In relation to the robustness of estimates the Councils Chief Finance Officer commented

That the process for the formulation of General Fund, HRA and Capital budgets, together with the level of challenge, provides

- A reasonable assurance of their robustness.
- The approach which has been taken to those funding streams which are currently uncertain is prudent and puts the Council in a positive position to manage underlying pressures going forward based on current information
- The level of contingencies provided for unachieved efficiency savings and income projections etc. is prudent

Additionally the Chief Finance Officer commented that the level of reserves and balances is considered adequate over the medium term but consideration should be given to topping them up from surpluses on the General Fund Revenue Account when possible in order to improve the council's financial strength

## **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.**

**Comment :** In preparing the budget the Council engages with a wide range of key stakeholders both within and outside of the Council including:

- Senior management and heads of service are involved in drawing up the MTFS
- Councillors- members debate the budget and MTFS at Cabinet and Council
- Formal consultation is undertaken with residents, staff, businesses and unions with 190 responses received to the exercise undertaken in 2020.

**M The authority uses an appropriate documented option**

**appraisal methodology to demonstrate the value for money of its decisions.**

**Comment :** As part of its approved Capital Strategy the Council has a methodology for assessing capital schemes which bring long term benefits over a period of time, taking into account pay back, net present value and internal rate of return (IRR) information when making decisions on options to be undertaken.

## **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.**

**Comment :** Monthly reports are presented to senior management on financial performance, service performance against a number of key performance indicators agreed by the authority and strategic and operational risks being managed by the authority. Similar quarterly reports are presented to Cabinet. Corrective action to bring forecast variations back into line are made at officer or member level with approval as appropriate.

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

**Comment :** Contingencies and reserves and balances are monitored to ensure that they remain sufficient to cover medium term and long term commitments and liabilities. Emerging liabilities arising from legal challenge or otherwise are identified through regular monthly meetings between management accountancy staff and Heads of Service. Monthly bank reconciliations are undertaken and cash flow forecasting is maintained within the Treasury function of the Financial Accounting Team who have regular meetings with the Head of Financial Services (Section 151 Officer).

## **Section 7: External Financial Reporting**

**P The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.**

**Comment :** The Chief Financial Officer's responsibilities are set out in the "Statement of Responsibilities" within the annual Statement of Accounts. This statement clearly sets out that the Chief Financial Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United

Kingdom and to certify that they show a 'true and fair view' of the financial position of the council.

Independent external auditor's report annually to Audit and Governance Committee and give an opinion on whether the Statement of Accounts have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, bringing any matters of concern to the attention of the committee. In recent times the opinion issued by the Council's auditors Ernst and Young have been 'unqualified' with no significant issues to report to Committee.

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

**Comment :** Monthly financial monitoring reports are presented to the Corporate Management Team and the Heads of Service providing income and expenditure to date on General Fund Revenue, Housing Revenue Account and Capital compared to budget together with a forecast outturn for each. Similar quarterly monitoring reports are presented to Cabinet. Where significant adverse variations are identified corrective action is taken where appropriate under officer delegated powers or approval sought from Cabinet and Council to bring the forecast budget back in balance.

**7 Financial Implications**

The Council have outlined above how it complies with individual financial standards contained within the CIPFA Financial Code. There are no direct financial implications at this stage in connection with this report but noncompliance with the standards in the Code may expose the Council to risk from financial losses which would be undesirable, especially given the impact of the COVID pandemic on the Councils finances. There is no room for complacency and the Council should periodically check its compliance with such standards.

**8 Legal Implications**

These are covered within the main body of the report.

**9 Risk Implications**

The risk of financial losses to the Council are largely mitigated by the compliance of the Council with the Financial Code.

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**Background papers: None**

**Version number:**

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