

## London Borough of Enfield

### Finance and Performance Scrutiny Panel

11 March 2021

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**Subject: CIPFA Financial Management Code**

**Cabinet Member: Cllr Mary Maguire, Cabinet Member for Finance**

**Executive Director: Fay Hammond, Executive Director for Resources**

**Key Decision: No**

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#### **Purpose of Report**

1. In October 2019, CIPFA published the Financial Management (FM) Code. The code is intended to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.
2. The FM Code applies a principles-based approach rather than a prescriptive approach, allowing for flexibility and for a proportionate approach to be applied based on the circumstances of each local authority. Each local authority must demonstrate that the requirements of the code are being satisfied. The first full year of compliance is 2021/22.
3. This report provides an overview of the code and the approach at Enfield.

#### **Proposal**

4. The Finance and Performance Scrutiny Panel is recommended to note this report and consider including a further progress report in the future year workplan for the Panel.

#### **Reason for Proposal(s)**

5. To update members on the CIPFA Financial Management Code and proposed approach to demonstrating compliance by Enfield Council.

#### **Relevance to the Council's Corporate Plan**

6. Good Financial Management and financial sustainability supports the three objectives of the Corporate Plan.
  - a) Good homes in well-connected neighbourhoods.
  - b) Build our Economy to create a thriving place.
  - c) Sustain Strong and healthy Communities.

#### **Background**

7. The FM Code is designed to support good practice in financial management and to assist local authorities demonstrate their financial sustainability. The FM Code is a principle-based approach, with six key principles which are the benchmarks that all Financial Management should be judged. These principles are then translated into a series of standards. Each local authority must demonstrate that the requirements of the code are being satisfied.
8. In addition to the code, CIPFA has set up a Governance and Financial Management panel to focus on governance and financial management

principles across public services. In recognition of the COVID pressures faced by Local Authorities, the panel recently provided further clarification on compliance in 2021/22 advising the following:

- i. "CIPFA has concluded that while the first full year of compliance can remain as 2021/22, it can do so within a more flexible framework where a proportionate approach is encouraged. In practice this is likely to mean that adherence to some parts of the Code will demonstrate a direction of travel".
  - ii. "We consider that commentary within the annual governance statement may be used to demonstrate local decisions and will provide additional guidance".
9. This report provides further details on the six underlying principles of the code, standards and the approach at Enfield in line with the requirements of the code and recent clarification from CIPFA on arrangements for 2021/22.

## **Main Considerations for the Council**

### **Principles**

10. The six underlying principles of the FM Code are as follows:
- i. Organisational leadership – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture
  - ii. Accountability – financial management is based on medium-term financial planning, which drives the annual budget process supported by effective risk management, quality supporting data and whole life costs
  - iii. Financial management is undertaken with transparency at its core using consistent, meaningful and understandable data, reported with appropriate frequency and with evidence of periodic officer action and elected member decision making
  - iv. Adherence to professional standards is promoted by the leadership team and is evidenced
  - v. Sources of assurance are recognised as an effective tool mainstreamed into financial management and include political scrutiny and the results of external audit, internal audit and inspection
  - vi. 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

### **Standards**

11. The CIPFA FM Code translates the principles of good financial management into a series of standards. The areas covered by the standards detailed financial management standards are as follows:
- i. The responsibilities of the chief financial officer and leadership team
    - o The leadership team is able to demonstrate that the services provided by the authority provide value for money
    - o The authority complies with the *CIPFA Statement on the Role of the Chief Finance Officer in Local Government (2016)*
  - ii. Governance and financial management style
    - o The leadership team demonstrates in its actions and behaviours

- responsibility for governance and internal control
    - The authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework (2016)*
    - The financial management style of the authority supports financial sustainability
  - iii. Long to medium-term financial management
    - The authority has carried out a credible and transparent financial resilience assessment
    - The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members
    - The authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities*
    - The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans
  - iv. The annual budget
    - The authority complies with its statutory obligations in respect of the budget setting process
    - The budget report includes a statement by the chief finance officer on the robustness of the estimates and a standard of the adequacy of the proposed financial reserves
  - v. Stakeholder engagement and business plans
    - The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget
    - The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decision
  - vi. Monitoring financial performance
    - The leadership team takes action using reports, enabling it to identify and correct emerging risks to its budget strategy and financial sustainability
    - The leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability
  - vii. External financial reporting
    - The chief finance officer has personal responsibility for ensuring that the statutory accounts provided to the local authority comply with the *Code of Practice on Local Authority Accounting in the United Kingdom*
    - The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions
12. It is for individual authorities to determine whether they meet the standard, providing evidence that they have reviewed their financial management arrangements against the standards and are taking actions as may be necessary to comply with the standards.

### **Approach**

13. In line with the recent CIPFA guidance, Enfield's approach to the standard is to take a proportionate two stage approach in the first year of compliance as follows:
- i. Stage 1 – light touch internal assessment (May to July 2021)

- ii. Stage 2 – external independent assessment undertaken by CIPFA (Late Summer/early Autumn)

14. Update reports will be provided to the Finance and Performance Scrutiny Panel. We will also look to include commentary within the annual governance statement, in line with the CIPFA guidance once further details are provided.

### **Safeguarding Implications**

15. None

### **Public Health Implications**

16. None

### **Equalities Impact of the Proposal**

17. None

### **Environmental and Climate Change Considerations**

18. None

### **Risks that may arise if the proposed decision and related work is not taken**

19. The report is for noting

### **Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks**

20. The report is for noting

### **Financial Implications**

21. The costs of CIPFA undertaking the review is expected to be in the region of £30k and will be funded from within existing budgets. Any additional costs arising out of the review will be reported through the Quarterly Revenue Monitoring reports.

### **Legal Implications**

22. There are no legal implications arising directly from the CIPFA FM Code.

### **Workforce Implications**

23. None arising directly from the Review.

### **Property Implications**

24. None

### **Other Implications**

25. None

### **Options Considered**

26. None

### **Conclusions**

27. The key implications for the Council will be to undertake an initial self-assessment in 2021/22. This will be followed by an independent assessment.

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