

BIRMINGHAM CITY COUNCIL

Report to:	AUDIT COMMITTEE
Report from:	Director of Council Management and S151 Officer
Date of Decision:	28 September 2022
Subject:	CIPFA Financial Management Code (FM Code)
1 Purpose	
1.1	To remind Elected Members of the requirements of the CIPFA Financial Management Code and provide the results of the Council's self-assessment and further action to be taken.
2 Recommendations	
	Members are asked to note:
2.1	The requirements of the CIPFA Financial Management Code.
2.2	The results of the self-assessment and action to be taken.
2.3	That this is the second self-assessment and that the self-assessment will continue to be refreshed annually and reported to Elected Members.

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3 Compliance Issues:

- 3.1 Are Decisions consistent with relevant Council Policies, Plans or Strategies?
Yes
- 3.2 Relevant Ward and other Members/Officers etc. consulted on this matter:
The Chair of the Committee has been consulted.
- 3.3 Relevant legal powers, personnel, equalities and other relevant implications (if any):
n/a.

3.4 Will decisions be carried out within existing finances and resources?
Yes

3.5 Main Risk Management and Equality Impact Assessment Issues (if any):
n/a.

4 Background

4.1 The Chartered Institute of Public Finance and Accountability (CIPFA) have developed a Financial Management Code (FM Code) to support good practice in financial management and to help local authorities demonstrate financial sustainability. Local government finance in the UK is governed by primary legislation, regulation and professional standards as supported by regulation. The CIPFA FM Code sets out for the first time, the standards of financial management for local authorities.

4.2 2022/23 is the second full year Councils are required to undertake a self-assessment, the first full year of compliance was 2021/22. It is up to each authority to determine the extent to which it complies with the FM Code and to identify what action it may wish to take to better meet the FM Code standards. Guidance notes have been issued by CIPFA to assist authorities to comply with the FM Code.

4.3 CIPFA advises that authorities should be able to provide evidence that they have reviewed their financial management arrangements against the standards and that they have taken such action as may be necessary to comply with them. The financial management standards are minimum standards.

4.4 To help with the completion of this year's assessment Birmingham Audit undertook a review of the first assessment to provide assurance that the process we undertook was robust. Two recommendations were made:-

- Providing adequate detail to support the self-assessment RAG rating and
- Maintaining an evidence file to support the detail in the self-assessment.

4.5 Both of these recommendations have been addressed in this self-assessment.

4.6 While the FM code is a self-assessment tool, the we would like to be assured that we are assessing ourselves correctly and recognising our strengths and development opportunities in the correct manner so have asked CIPFA to undertake a peer review of our self-assessment over the summer. The finding of which will be reported to the Audit Committee later in the year.

5. The Financial Management Code

- 5.1 The FM Code is made up of, the CIPFA Statement of Principles of Good Financial Management and the Financial Management Standards.
- 5.2 The FM Code applies a principles-based approach. It does not prescribe the financial management arrangements that local authorities should adopt. There are six underlying principles that inform the FM Code which have been developed in consultation with senior practitioners from local authorities, local policing bodies and associated stakeholders. The principles have been designed to focus on robust financial management as a way of achieving both short-term financial resilience and long-term financial sustainability. The six principles are set out below:

CIPFA Statement of Principles of Good Financial Management	
•	Organisational leadership – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
•	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.
•	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.
•	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 and include political scrutiny and the results of external audit, internal audit and inspection.
•	The long-term sustainability of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

- 5.3 To test conformity with the six principles, the FM Code translates these principles into a series of financial management standards which set out the professional standards to be met if a local authority is to meet the minimum standards of financial management acceptable to meet fiduciary duties to taxpayers, customers and lenders.

The Financial Management Standards (17)

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 Statement on the Role of the Chief Finance Officer in Local Government (2016)

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 Delivering Good Governance in Local Government: Framework (2016)
E	The financial management style of the authority supports financial sustainability
Medium to long-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 Prudential Code for Capital Finance in Local Authorities
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans
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 of the adequacy of the proposed financial reserves
Stakeholder engagement and business cases	
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
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 which pose a significant risk to its financial sustainability
External financial reporting	
P	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
Q	The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions

6 Self- Assessment

- 6.1 The second annual self-assessment of the Council's current position against the Financial Management Standards in terms of being able to demonstrate that it meets the requirement of the FM Code and further steps which will be taken to ensure that this is the case, is attached at Appendix 1.

- 6.2 In overall terms the self-assessment presents a positive picture for financial management at the Council and is consistent with the results of the CIPFA Financial Management 3-star assessment. A small number of areas are identified for further improvement and actions to address these are already taking place. The following discusses each of the areas identified for further improvement rated Amber.

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

- 6.3 The issue identified is the adequate resourcing of the Finance team and its over reliance on interims. This was identified last year and while progress has been made, the permanent appointment of the S151 Officer being a key example there is still further recruitment work being undertaken. The Target Operating Model for the Finance team continues as planned to be developed and implemented and adverts have recently closed for two permanent Assistant Director roles that will add strength and capacity to the finance leadership team.
- Recruitment has also taken place for finance apprentices and graduate trainees and a number of high-quality appointments have been made. These posts are key roles within the team both now and in the future as we 'grow our own' talent especially in the current recruitment market where attracting and securing high calibre staff can be challenging.

Standard E: The Financial Management Style of the authority supports financial sustainability

- 6.4 The self-assessment highlights that it is still difficult to fully evidence that managers across the council possess sufficient financial literacy to deliver services cost effectively and are held accountable for doing so. The Finance Improvement Programme has strengthened manager accountability with the introduction in 2020 of Accountability Letters issued to all Directors and Assistant Directors. The introduction of the new Oracle ERP system which went live in April 2022 and the associated budget manager training will further strengthen and enhance the financial literacy knowledge and skills of managers.

Standard I: The authority has a rolling multi-year Medium Term Financial Plan consistent with sustainable service plans

- 6.5 The council is currently undertaking a corporate review of assets to ensure the portfolio best meets the needs of organisation as we transition out of the covid pandemic and operate in a different manner with a greater focus on hybrid working. This review will result in an enhanced asset management plan which will ensure we deploy the right assets in the best way to achieve strategic aims and deliver high quality best in class value for money services.

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

- 6.6 The Council has significant strengths in this standard evidenced by its comprehensive Financial Plan 2022-2026. However, that plan while balancing the budget in the short term sets out the significant financial challenge facing the Council over the medium term that need to be addressed. Work is underway with the Corporate Leadership Team to close the future budget gap and deliver a balanced and sustainable budget.
- 6.7 Further improvement and enhancement opportunities associated with investment business cases and options appraisal have been enhanced in the last year and will be further enhanced to demonstrate value for money even more clearly.

7 Conclusions

- 7.1 Members should take comfort that the self-assessment indicates that financial management in the Council is in a strong place as also evidenced by the award of a 3-star CIPFA Financial management rating in the spring of 2021.
- 7.2 While this is a self-assessment tool it is always reassuring to seek external verification that assumptions made are realistic, so we have asked that CIPFA undertake a peer review for us. This review is expected to take place over the summer and report will be brought back to the audit committee later in the year.
- 7.3 While there are some specific improvements to address amber assessments there are improvements planned in other areas rated green demonstrating an appetite to go beyond the CIPFA standards. In summary the improvements identified are:
- Concluding the work on the finance target operating model and embedding this into the team as 'business as usual'
 - Further embed the business case requirements and process developed with the CPMO and ensure procurement procedures and processes are fully adopted
 - Further embed budget holder accountability with training sessions
 - Complete the roll out of ERP – Enterprise Resources Planning tool
 - Improving budget holder financial training and support alongside the ERP Implementation
 - Conclude the recruit of key staff in the finance team including 2 permanent Assistant Directors and Business Partners
 - Implementation of a single online members register of interests
 - Balance the budget gap in the medium-term financial plan
 - Complete the Corporate Landlord transformation programme
 - Enhance resident engagement in respect of corporate resourcing to encourage greater response rates

- Deliver improvement in asset management planning
- Continue the roll out of improvements to option appraisal processes
- Continue to improve balance sheet monitoring.

Rebecca Hellard, Director of Council Management, S151 Officer

Appendices

Appendix 1 – CIPFA Financial Management Code Self-Assessment