

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	AUDIT COMMITTEE
Report from:	Interim Director of Council Management
Date of Decision:	29 June 2021
Subject:	CIPFA Financial Management Code
Wards affected: All	
1	Purpose
1.1	To inform Members of the requirements of the CIPFA Financial Management Code, the results of the Council's self-assessment and action being 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 being taken.
2.3	That the self-assessment will be refreshed annually and reported to Members.

Contact Officer: Rebecca Hellard
Telephone No: 0121-303-2950
E-mail address: rebecca.hellard@birmingham.gov.uk

Contact Officer: Alan Layton
Telephone No: n/a
E-mail address: alan.layton@birmingham.gov.uk

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) has 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 The first full year of application of the FM Code is 2021/22 and 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 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 set out in the Code should be seen as minimum standards.

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.

CIPFA Statement of Principles of Good Financial Management

- 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.

Financial Management Standards

- 5.3 To enable local authorities to test their conformity with the six principles, the FM Code translates the six principles into a series of financial management standards which set out the minimum standards of financial management acceptable to meet fiduciary duties to taxpayers, customers and lenders.

The Financial Management Standards

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 A self- assessment of the Council's current position against the Financial Management Standards has been undertaken using the template provided by CIPFA which sets out key questions against each of the standards. The completed self-assessment is attached at Appendix A.
- 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 star assessment being reported to Cabinet in June. A small number of areas are identified for further improvement and actions to address these are already planned to take place. The following discusses each of the areas identified for further improvement rated Amber.

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

- 6.3 The finance function must have a firm grasp of the authority's financial position and performance. The Chief Finance Officer has a responsibility to ensure that there is sufficient depth of financial expertise, supported by effective systems, to discharge this responsibility and to challenge those responsible for the authority's activities to account for their financial performance. Question 4 which asks if the finance team is suitably resourced and fit for purpose has been rated Amber. The current assessment is that after significant reductions in finance staff headcount in the past the function is not consistently resourced and relies too heavily on interim resources to fulfil its functions.
- 6.4 This conclusion has been recognised in 2020. Work has been undertaken on a procurement target operating model and work is being undertaken to identify the appropriate Service Finance target operating model. A recruitment campaign in Service Finance started in 2020 and is ongoing. To date a number of vacant posts have been filled by permanent appointments, in particular two permanent Finance Business Partners have been recruited in early 2021. The results of the target operating model work could lead to a need for additional resource and the council should support the Chief Finance Officer in meeting their responsibilities by adequately resourcing the function.

E - The Financial Management Style of the authority supports financial sustainability

- 6.5 Critical to the authority's ability to achieve financial sustainability and address other challenges, is to have in place a robust approach to financial management, together with the capacity and capability to implement this approach consistently over time. This includes ensuring that those with specific responsibility for aspects of the authority's governance and financial management arrangements have the delegated powers and the appropriate skills and training to fulfil these responsibilities. The self-assessment is broadly rated Green with several further improvements already planned to take place such as:
- a) Further embedding budget holder accountability and improve establishment control.
 - b) Completing the recruitment of permanent Finance Business Partners
 - c) Attaining a CIPFA 3-star financial management rating

d) Rolling out governance and financial management training

- 6.6 The one area rated Amber was the assessment of whether managers across the authority possess sufficient financial literacy to deliver services cost effectively and are held accountable for doing so. There is currently no evidence that this is consistent across the Council and likely reflects an underinvestment in the recent past in supporting managers to develop financial literacy. A significant level of training and support is planned on the back of the implementation of the new Oracle ERP system which is also designed to be more budget holder friendly and encourage them to take greater responsibility for their budgets.

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

- 6.7 This standard tests how financial resilience is integrated into the authority's strategic plan and into the financial strategy associated with the delivery of this strategic plan. The Council has considerable strength here and its strategic plan, priorities and Financial Plan were updated in February 2021. The one Amber assessment relates to the need to develop a long term sustainable financial strategy to address the structural deficit, identified in the Financial Plan 2021 -2025 over the life of the medium-term financial plan.

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

- 6.8 This is in the main a strong area for the Council. The Financial Plan sets out a medium term financial plan which is produced on a rolling multi-year basis. The one area rated as Amber is the provision of a suitable asset management plan. This has been recognised as an area requiring improvement and significant work supported by external expertise is underway through the Delivery Plan and through the development of the corporate landlord target operating model.

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

- 6.9 Option appraisal is very important for making good informed decisions and Birmingham has in place procedures and processes. However the assessment is mainly Amber. It has been recognised in 2020 as part of the Finance Improvement Programme that many of these processes could be improved. Significant work has been undertaken in 2020 which will be rolled out during 2021 to strengthen corporate processes, documentation, and raise awareness of the procedures, processes and best practice.

Conclusion

- 6.10 Members should take comfort that the self-assessment indicates that financial management in the Council is in a reasonable place. While there are 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:

- External assurance on Highways PFI value for money

- Concluding work on Finance target operating models
- Further embedding budget holder accountability and improving establishment control
- Strengthening Audit Committee with suitably qualified external support.
- Completing the recruitment of permanent Finance Business Partners
- Attaining a CIPFA 3-star financial management rating
- Rolling out governance and financial management training
- Improving budget holder financial training and support alongside the ERP implementation
- Address the structural deficit in the medium-term financial plan
- Deliver improvement in asset management planning
- Roll out the improvements to option appraisal processes
- Continue to improve balance sheet monitoring.

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Rebecca Hellard, Interim Director of Council Management

Appendices

Appendix 1 – CIPFA Financial Management Code Self Assessment