

Cipfa Financial Management Code consultation response

30 April 2019

1. About the Local Government Association

1.1 The Local Government Association (LGA) is the national voice of local government. We are a politically-led, cross party membership organisation, representing councils from England and Wales.

1.2 Our role is to support, promote and improve local government, and raise national awareness of the work of councils. Our ultimate ambition is to support councils to deliver local solutions to national problems.

1.3 We welcome the opportunity to comment on this consultation from Cipfa. Sound financial management is crucial to the financial resilience of councils and Cipfa's proposed new code is a welcome addition to the tools and guidance that councils can use to achieve that.

1.4 We have addressed the specific consultation questions in the format requested and these are attached as part of this response. In addition we would like to make some general comments about the code, which are outlined below.

2 General comments on the Cipfa Financial Management Code

2.1 The objectives of the code on its first page outline that, in line with other successful Cipfa codes and statements, the Financial Management code is based on principles rather than prescription. In addition the objectives state that the code has sought to rely on the local exercise of professional judgement backed when appropriate by peer review.

2.2 The code does not have legislative backing as is outlined in the code document itself, but Cipfa states that it would be difficult to envisage circumstances in which the absence of statutory backing for the code would be a reason for non-compliance.

2.3 We believe these are important points.

2.4 We agree that the approach of principles rather than prescription is the right one. A great deal of the code is based on existing agreed publications. The Financial Management code exemplifies good practice which will be useful to local authorities. However, ultimately it is the responsibility of local authorities to determine how they will achieve sound financial management appropriate to their local circumstances, supported by the statutory section 151 officer

2.5 The approach adopted by the code as it is currently drafted is therefore the right one as it does not direct local authorities into specific courses of action.

2.6 Paragraph 70 of the draft code states that "Each local authority has its own financial management style; many display excellent practices but all would benefit from a critical evaluation." Cipfa suggests peer review would be a way of achieving this. Peer review lends itself to a code that is based on good practice principles rather

than compliance. The LGA itself offers Finance peer reviews as part of the Sector Lead Improvement programme and finance is one of the five key themes of the Corporate Peer Challenge. We will consider how best to reflect the Financial Management Code into the LGA's peer review offer

CIPFA Financial Management Code
Consultation Questions and Response Sheet

The Financial Management (FM) Code is an important new initiative for local government and those with an interest in its success. The consultation version has been developed with the oversight of a stakeholder group including local government, the audit community and others with an interest in the project. It has also been the subject of practical 'road testing' by a sample containing different types of authorities.

Notwithstanding this rigorous development process, CIPFA are still keen to receive feedback, most especially on those aspect of the Code where good practice has proved difficult to codify.

Consultation Process

Please use this FM Code Word format response sheet since this will ensure that your responses can be incorporated consistently into our analysis.

The responses may be shared with members of the stakeholder groups and other CIPFA boards responsible for the governance of the code. If you wish your response to be anonymised for this process then please give reasons why this needs to be the case in submitting your response

Organisation/Respondent	Local Government Association
Contact Name	Bevis Ingram
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Any other relevant information on the respondent	
This response has been cleared by the leading members of the LGA's Resources Board. Please also see formal covering note which forms part of the LGA's submission.	

Return by email to FMcode@cipfa.org by 30 April 2019

The Responsibility of the Chief Finance Officer and Leadership Team

The FM Code has sought to establish the correct balance between the personal responsibilities of the CFO and the collective responsibilities of the leadership team for financial management.

Q1 How can the collective responsibility of the leadership team for Financial Management be made more explicit in the Code.

Response

Each council's constitution will outline the specific arrangements that apply to the governance of the council, outlining how the different roles and responsibilities of the various parts of the council's leadership interact and what the different roles and responsibilities are, matching what suits the local arrangements with the statutory responsibilities of those involved. This will vary from council to council and may very well use different terminologies in different councils to achieve the same ends (financial regulations, financial instructions, standing orders etc). The same point is likely to apply, at least broadly, to other non-council local authorities.

The code should cross reference to these local arrangements and should refer to good practice in what councils should adopt but should not be prescriptive about exactly what local arrangements should look like.

It needs to be clear that good financial management is not solely the responsibility of the section 151 officer

The Applicability of the Financial Management Code

The FM Code will apply 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, and
- in Northern Ireland are defined in legislation for the purposes of Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

Q2: Does the applicability of the FM Code satisfactorily reflect the increasing complexity and variety of local bodies.

Response

As is outlined in the draft code and its objectives, the code will not have legislative backing and will be based on principles rather than prescription. This is the right approach. It should therefore be possible for the code to be adopted by local authorities in a way that reflects their local circumstances, including any flexibility and variety in their arrangements. The code needs to be sufficiently flexible so that will not restrict practical and appropriate ideas coming forward to help councils meet the financial challenge.

The code outlines good practice and it is down to individual local authorities to use the code to help organise their financial management arrangements working through their local structures to ensure sound financial management. It is important that the code specifies good practice and what should be achieved but does not over specify how that should be achieved – this will be down to local authorities working with their local risks and appropriately reflecting them in their local financial management plans. Where alternative structures such as commercial companies are in place the code should not seek to replace or direct local authorities away from standard management and accounting principles applicable to those structures.

Compliance with the FM Code

Stakeholders have suggested that inclusion of the Code within the Annual Governance Statement would be an appropriate way for local authorities to report compliance. This may require the *CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016)* to be amended. CIPFA would welcome comments on the merits and practicality of this suggestion

Q3 Would the inclusion within the Annual Governance Statement of a statement of how the authority had complied with the Code be an effective means of reporting compliance?

Response

As outlined above, the code will not have legislative backing and will be based on principles rather than prescription. How local authorities decide to demonstrate that they comply with the code will therefore be down to local decision, based on what works best for their local arrangements. One option could be to include something in the Annual Code of Governance Statement.

Long Term Financial Strategy and Medium Term Financial Management

An important objective of the FM Code is to establish longer term financial planning in local authorities. CIPFA wants to encourage local authorities to be more ambitious in their choice of timescale for financial planning.

Q4 Given that the FM Code makes Medium and Long Term financial planning obligatory, how can CIPFA encourage local authorities be more ambitious in the timescales chosen?

Response

Councils are restricted by the funding horizons of the Government and timetable of the Local Government Finance Settlement which may not provide information beyond a single financial year and recently has not been published in draft until December before the year to which it relates. Whilst this does not remove the need for medium and longer term planning it does add risk and uncertainty that councils have to manage in their plans and reduces the value of such plans. In this context the merits of encouraging ambition in choosing timescales are debatable.

Long and medium term planning are an important part of sound financial management and need to be undertaken in a practical way that enables sensible decisions about the best use of resources. This means local discretion needs to be applied, taking account of both local factors, including factors like election cycles, risks and the changing national picture.

Financial Resilience Assessment
To comply with the FM Code an authority will have aligned its spending plans to a robust assessment of its future resources. Where this has not yet happened the leadership will need to take the decisions necessary to restore financial sustainability.
<i>Q5 How can the FM Code give additional support to leadership teams in taking the decisions necessary to restore financial sustainability.</i>
Response The code should provide guidance on the steps that councils should consider when seeking to restore financial sustainability and exemplify good practice in financial management. That will be of value to councils and other local authorities in establishing how best to put in place arrangements that achieve sound financial management.