



**DORSET & WILTSHIRE
FIRE AND RESCUE
AUTHORITY**

Item 22/09

MEETING	Finance & Audit Committee
DATE OF MEETING	9 March 2022
SUBJECT OF THE REPORT	CIPFA Financial Management Code
STATUS OF REPORT	For open publication
PURPOSE OF REPORT	For review and to note
EXECUTIVE SUMMARY	<p>The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued a Financial Management Code (FM Code) which aims to ensure a high standard of financial management in local authorities. This (2021-22) is the first full year where local authorities are required to comply with the FM Code and external auditors are required to have regard to the FM Code in auditing the financial statements for 2021-22.</p> <p>Appendix A sets out our self-assessment of the Authority's ability to demonstrate that it meets the requirements of the FM Code. Overall, this shows that we are able to demonstrate a high level of compliance in most areas, but we recognise that some further improvements could be made.</p>
RISK ASSESSMENT	Long-term financial sustainability remains a strategic risk for the Authority. The FM Code in itself, of course, does not eliminate financial pressure or risk but compliance with it validates the Authority's ability to identify and manage risk and plan for long term financial sustainability.
COMMUNITY IMPACT ASSESSMENT	None for the purposes of this report
BUDGET IMPLICATIONS	None for the purposes of this report

RECOMMENDATION	<p>Members are asked to:</p> <ol style="list-style-type: none">1. Note the introduction of the CIPFA FM Code and that the 2021-22 financial year is the first year for full compliance with CIPFA FM Code.2. Note Appendix A which shows the Authority's assessed level of compliance compared to the Standards contained in the FM Code.
BACKGROUND PAPERS	CIPFA Financial Management Code
APPENDIX	Appendix A – Assessment of Compliance with the CIPFA Financial Management Code
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1. Introduction

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) published the Financial Management Code (FM Code) in October 2019. Local authorities were required to apply the code from April 2020, however, CIPFA considered 2020-21 to be a 'shadow' year and required that by 31 March 2021 local authorities should be able to demonstrate that they are working towards full implementation of the FM Code. An initial assessment against the FM Code was carried out and this was noted in the Authority's Annual Governance Statement 2020-21. The first full year of compliance for the FM Code is 2021-22 and the Authority's external auditors, Deloitte LLP, will have regard to the FM Code in when auditing the financial statements for 2021-22.
- 1.2 The FM Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. For the first time the FM Code sets out the standards of financial management for all local authorities, including fire and rescue authorities.
- 1.3 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.
- 1.4 The FM Code builds on other established codes and statements, such as the CIPFA Prudential and Treasury Management Codes which require local authorities to demonstrate the long-term financial sustainability of their capital expenditure, associated borrowing and investments.
- 1.5 Each local authority (and those bodies designated to apply the FM Code) 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. 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.
- 1.6 The FM code does not have a legislative background, but it applies to all local authorities, including fire and rescue authorities. It is further supported by the

statutory requirement for all local authorities to have sound financial management. Section 151 of the Local Government Act 1972 requires that every local authority in England and Wales should “... make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.”

2. Principles of financial management

- 2.1 The FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, this code requires that a local authority demonstrates that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances.
- 2.2 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.
- 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.
- 2.3 The FM Code translates these principles into 17 financial management standards as displayed below. These financial management standards have different practical applications according to the different circumstances of each authority and

their use should therefore reflect this. CIPFA highlights that authorities should take a proportional response and focus on key gaps and risks areas.

3. Assessment of compliance



- 3.1 Appendix A sets out our self-assessment of the Authority's ability to demonstrate that it meets the requirements of the FM Code. This is set out against the 17 financial management standards.
- 3.2 Overall this shows that we are able to demonstrate a high level of compliance in most areas, but we recognise that more could be done to improve the financial management skills and awareness of managers.

4. Summary and key points

- 4.1 The Authority and Service have a strong record of sound financial management, backed up by consistent high levels of assurance from internal and external auditors. Assessing our structures, processes and procedures against the FM Code's Financial Management Standards shows a relatively high level of compliance with the underlying principles of the FM Code.

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