

**Society of District Council Treasurers**

**Response to CIPFA consultation on the Draft Financial Management Code**

The Society welcomes the focus of CIPFA on embedding financial management as a core governance characteristic of effective Councils. Recent and potential S114 Notices and Section 24 recommendations indicate that CIPFA need to step into the gap not only with standards and a resilience index but also with support to S151 Officers and Finance teams who seek to influence, shape and control the financial sustainability of Councils. Interestingly, there have been no District Councils who are subject to negative external assessments – this is despite District Councils experiencing significant volatility in funding streams, especially around Business Rate retention.

The Society represents nearly 200 District Councils and aims to represent the interests of District Councils with Government, Auditors, Professional Bodies and other stakeholders. Opportunities exist for District Councils to learn from each other and across the Country there are effective Treasurers Groups operating.

Previously, the SDCT responded to the consultation on the Financial Management Index – this response should be read alongside that response as the Society feel that the current code and index does not maximise the opportunity for the sector make a step change in financial management within Councils and support the need for financial sustainability in the future. It is not clear in the code issued for consultation whether the focus is for Council leadership teams to assess governance and performance, or as an aide for external auditors in their VFM assessment. On both fronts, SDCT feel that code and index misses the opportunity to drive improved financial management and to allow Councils to demonstrate maturity in their arrangements and competencies in respect of financial management. The Code has been structured primarily around a compliance with a ‘minimum’ standard (a tick box approach) rather than a more intelligent and progressive approach which characterised Use of Resources (but involved excess paperwork).

The Society would encourage CIPFA to be specific about the status of the code. Is this code mandatory or discretionary? If the code is for guidance only it has no formal status (especially for non CIPFA members who can not be ‘mandated’ to use it though their professional qualification) it can be challenged by a Council and ignored. This is especially as this code will not be embedded in statute and legislation.

The Society support the need for a Code given the external scrutiny on the sector but would encourage CIPFA to focus on creating a common standard and index that will be adopted by MHCLG, NAO, Auditors, LGA etc. Currently this does not appear to be the case. In addition, it is not clear whether there will be any external assessment and review of the Code to ensure compliance and consistently – arguably some of the Northamptonshire issues were not adequately raised by CIPFA members to those charged with Governance. SDCT do not believe that CIPFA have the capacity to be standard setter and ‘policeman’.

The Society suggests that the code needs to make clearer links to other key governance assessments, for example the Annual Governance Statement, the s151 Section 25 statement, Head of Internal Audit statement, external audit opinion etc. These assessments (if acted upon) provide an important holistic view of controls, risks and governance that should be cross referenced in the code. The importance of financial management as an integral part of a Council’s Governance framework supports the need for an overarching governance framework (which the code feeds into) to identify the overall ‘health’ of a Council and not just whether Councils meet a ‘minimum’ financial standard.

The Society considers that the proposed Code is not proportionate with a number of the standards currently requiring evidence where there is no perceived gap or issue at the moment, for example whether a Council produces and Annual Governance Statement – this is a requirement of the annual accounts. The revised Prudential Code requires the production of Capital Strategy etc. These existing building blocks do not need to be assessed again. Reviewing the mapping of the Financial Management Standards into CIPFA principles of Good Financial Management all Councils could easily tick about 12 of the standards as these are measured and reviewed by the External Auditors already. Equally, the other standards about Leadership, Transparency and Sustainability feel underdeveloped in respect of what are the hallmarks of effective financial management that Councils should aspire to. At the moment it feels that a compliance with a minimum standard (that should be easy for most to comply with) will not prepare Councils for the tough challenges of financial sustainability for the future. The Society feel that the code should be focused on delivering financial outcomes as planned and delivered rather than a focus on financial process and systems, i.e. how effective are a Council’s financial management arrangements.

The Society welcomes the focus in the consultation draft of the role of the Leadership team rather than just the S151 Officer. (Q1 on the Response Sheet). The Code could be developed in how the Leadership Team can seek assurances on the effectiveness of a Council’s financial management arrangements – currently the focus is primarily on complying with the role of the Chief Financial Officer in Local Government (2016). The Code should be developed to include core competencies of Member and Officer Leadership teams set down in the CIPFA/SOLACE framework for delivering Good Governance. If developments were made in the Code to strengthen the links to the CIPFA/Solace Framework the Society would support the requirement within the code for disclosure within the Annual Governance statement (Q3 on the response sheet).

The Society support the requirement for financial planning in the future – this already take place as indicated by the financial sustainability of the majority of District Councils in the recent resilience index. However, reality of Government spending review periods and fixed 4 year terms in District Councils make financial planning (in public) beyond this period unlikely to be adopted or meaningful. The Society feel that the code should focus more on whether there are costed and deliverable financial plans for the future as ‘gaps in the future with no plans’ can be a trigger to financial sustainability issues. (Q4 on the response sheet). Equally, the need for a robust assessment of future resources is constrained by funders planning horizons, volatility in funding sources etc. Currently, there is a requirement for each S151 Officer to report in the Section 25 statement the robustness of the estimates which details the setting of a legal and balanced budget. The Society consider that role of the S151 Officer in discharging their professional obligations and complying with the roles set out in CIPFA’s guidance on the CFO will allow sufficient influence and therefore there does not need to be additional prescription within the Code. (Q5 on the response sheet).

The Society is concerned with the requirement for Peer and Critical Review (E5) it is unclear what frequency this needs to be and to what level of assessment. Reviews can be expensive for many District Councils and can distract Cabinet and Senior Leadership teams form delivering improved outcomes for residents and businesses.

The Society acknowledges a number of positive changes from the initial consultation, for example ratio of qualified staff, prescriptive level of reserves etc. However, it is felt that further engagement with Treasurer’s societies is necessary to ensure that the code becomes an integral part of a Council’s Governance arrangements and not just a stand alone professional code. There also needs to be clear links with the financial resilience index which in itself needs to become more forward looking.

In summary, the Society welcomes the addition of a Financial Management Code alongside other CIPFA codes but feel that the code needs further strengthening from a compliance tick list to a code that can measure and stimulate ‘effective’ financial management. The Code should build on top of the current disclosures requirements of S151 Officers to promote and measure effective financial management within Officer and Political leadership teams.

The Society believes that the Code on Financial Management and the Resilience Index should be developed and published alongside each other to ensure synergies and integration. Recently, CIPFA has called together representatives from ALATs to develop the index through a targeted practitioner group of S151 Officers. It is suggested that the next iteration of the code is developed through this group to ensure integration prior to subsequent discussion and testing with Treasurers Groups.

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