

REPORT TO: Cabinet

MEETING DATE: 21 January 2025

BY: Executive Director for Council Resources

SUBJECT: Financial Management Code

1 PURPOSE

- 1.1 To consider the recommendation from the Audit and Governance Committee to formally adopt the principles of CIPFA's Financial Management Code on behalf of Council.

2 RECOMMENDATIONS

- 2.1 Cabinet is recommended to:
- Note the purpose and principles of the Financial Management Code, as detailed in this report.
 - Note the conclusion that overall, the Council remains compliant with the 7 principles of the Code.
 - Formally adopt the principles of CIPFA's Financial Management Code.

3 BACKGROUND

- 3.1 The Financial Management Code (FM Code) sets the standards of financial management for local authorities and is designed to support good practice and financial sustainability. The Chartered Institute of Public Finance & Accountancy (CIPFA) produced the Code in the context of the significant financial and demand pressures facing all local authorities, alongside the high-profile financial management issues which have faced a small number of local authorities in recent years.
- 3.2 CIPFA considers application of the FM Code to be a collective responsibility of each authority's organisational leadership team.

- 3.3 In September 2023, the Audit and Governance Committee considered officers' initial assessment of compliance with the FM Code, noting that the Council is broadly complying with the standards set out in the Code, with some areas in which this could be enhanced. An updated assessment of compliance against these standards and progress towards implementing agreed actions was subsequently reported to the Audit and Governance Committee in September 2024.
- 3.4 The Code itself is not prescriptive in nature, but centred around the following 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.
- 3.5 The Code translates these principles into a series of standards, which were used to form the assessment of compliance with the Code. Although compliance with the standards is not prescribed in legislation, it is the duty of each local authority to adhere to the principles of proper financial management. Compliance with the standards is established through self-assessment, which has been reported to the Audit and Governance Committee, as noted above. It should be noted that the financial management standards are minimum standards and, in some cases, may be exceeded.
- 3.6 An internal audit review of Financial Sustainability in May 2024 provided reasonable assurance in this area but noted that the principles of the CIPFA FM Code had not been formally adopted by the Council. This was considered by the Audit and Governance Committee on 17 September 2024, and given that it is not within the remit of this committee to adopt the Code on behalf of the Council, the Committee agreed that adoption of the Code principles would be recommended to Cabinet.

3.7 The purpose of this report is therefore to recommend that Cabinet agrees to formally adopt the principles of CIPFA's Financial Management Code on behalf of the Council, to support good practice and effective management of the council's financial resources.

4 POLICY IMPLICATIONS

4.1 There are no direct policy implications which arise from this report. However, they will support the Council's overall achievement of its aims by ensuring sound financial management.

5 INTEGRATED IMPACT ASSESSMENT

5.1 The recommendations do not propose any changes which would require an impact assessment.

6 RESOURCE IMPLICATIONS

6.1 Financial – There are no cost implications arising from this report. However, the recommendations are intended to support good financial management and financial sustainability.

6.2 Personnel - none

6.3 Other – none

7 BACKGROUND PAPERS

7.1 Report to the Audit & Governance Committee on 17 September 2024 – Financial Management Code Update – which can be viewed using this [LINK](#).

AUTHOR'S NAME	Ellie Dunnet
DESIGNATION	Head of Finance
CONTACT INFO	edunnet@eastlothian.gov.uk
DATE	6 January 2025