

# The implementation of the Financial Management Code

Approaches and lessons learned

[cipfa.org](http://cipfa.org)

Sponsored by

**CIVICA** ideas  
into  
action



The **Chartered Institute of Public Finance and Accountancy** (CIPFA) is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, major accountancy firms and other bodies where public money needs to be effectively and efficiently managed. As the world's only professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. Globally, CIPFA leads the way in public finance by standing up for sound public financial management and good governance.



## **Building software that sustains and enhances local public services on a global scale**

We've over 30 years' experience in providing public sector organisations across the UK with technology solutions that empower teams to save money and improve lives in their community. Whether partnering with organisations at a national or regional level, we challenge ourselves and our customers to see the opportunities in every situation.

Through our commitment to turning ideas into action, we help **over 2.5 million professionals deliver the public services of the future**. Every day, our people bring a wealth of insight, combining the best of both the public and private sectors, applying local knowledge at a global scale.

3,500 organisations trust us to deliver exceptional cloud software applications. From finance management and payments to regulatory services and housing, these systems help our customers be more responsive, efficient, and innovative.

Using our sector experience, we incorporate new ideas and technology to sustain and enhance public services. Inspired by Design Thinking and best practice, our innovation lab, Civica NorthStar, accelerates the development of innovative technologies in line with evolving needs of communities.

Start the conversation: [www.civica.com](http://www.civica.com) • [@civicaUK](https://twitter.com/civicaUK) • [localgovernment@civica.co.uk](mailto:localgovernment@civica.co.uk)

# Foreword

How best can the public sector maintain financial sustainability when the broader economic and political landscape is so uncertain?

Since 2019, the constant barrage of fiscal and political pressures has been unrelenting. Inflation, a global pandemic, political change, conflict and the death of Her Majesty Queen Elizabeth II have meant constant change, hyper volatility, and mass uncertainty. Irrespective of such outside influences, the public sector has been required to maintain services, balance budgets and respond to communities in their time of need.

While there is no single, simple solution available to improve public sector finances, it has been recognised that good financial management is an essential part of a well-run organisation and, without this in place, financial resilience and sustainability are at greater risk.

To support the sector in the implementation and strengthening of financial management, CIPFA introduced the Financial Management Code in 2019. This insight, sponsored by Civica, reflects on this and has sought to identify lessons that have been learned during the initial introduction period.

The findings suggest that there is universal agreement with the aim of the Code, which is to improve standards of financial management. However, conversations have identified areas where additional support and guidance is required to improve implementation and transparency.

Civica hopes that this insight can be woven into conversations about the strengthening of financial management that are taking place across the sector and contribute to greater fiscal sustainability for public services.

# Contents

---

1. Introduction	5
2. The Financial Management Code	6
3. Understanding the requirements of the FM Code	9
4. Managing the implementation of the FM Code	11
5. Addressing the themes covered by the FM Code	13
6. Ensuring continuing compliance with the FM Code	16
7. Eight lessons learned	18
8. Looking to the future	20

---

# 1. Introduction

## The Financial Management Code

The CIPFA Financial Management Code (FM Code) seeks to promote effective financial management and to enhance local authorities' financial resilience and sustainability. It sets out the principles by which authorities should be guided in managing their finances and the specific standards that they should, as a minimum, seek to achieve.

The FM Code is designed to be flexible to the nature, needs and circumstances of individual authorities. Consequently, it is up to each authority to determine for itself the extent to which it seeks to comply with the FM Code and to identify what action it may wish to take to better meet the standards that the FM Code sets out.

## The aim of this publication

The aim of this publication is to reflect on local authorities' experiences of working towards compliance with the FM Code, to identify the lessons that they have learned and to provide advice to other authorities in the same position. The publication draws on discussions with a range of local authorities across the United Kingdom. This includes unitary authorities, county councils, district councils and policing bodies.

This publication contains consideration of:

- how authorities have sought to understand the requirements of the FM Code and assess the action they need to take to ensure compliance
- how authorities have worked to address areas of non-compliance, the issues they have faced and the sources of support that they have found useful
- the aspects of the FM Code that have presented the greatest challenge to authorities in terms of compliance and how they have overcome these challenges
- the actions that authorities plan to take in the future to further improve their compliance with the FM Code and maximise its beneficial impact.

The publication concludes with a summary of key learning points and actionable advice for authorities seeking to enhance their own arrangements for assessing, ensuring and demonstrating compliance with the FM Code.

## Who should read this publication

This publication is essential reading for those charged with ensuring their authority's compliance with the FM Code and for documenting and demonstrating this compliance. It will also be of interest to chief finance officers, cabinet members with a finance portfolio and anyone else with an interest in their authority's financial management and governance arrangements.

This publication is applicable to local authorities of all types – including police, fire and combined authorities – across England, Wales, Scotland and Northern Ireland.

## Acknowledgments

We would like to take this opportunity to thank all the representatives of local authorities who have kindly shared their experiences and who have contributed to the development of this publication.

# 2. The Financial Management Code

## The aims of the FM Code

The CIPFA FM Code is designed to promote and to support good practice in financial management. It also seeks to assist local authorities in establishing and maintaining financial sustainability, as well as in demonstrating their financial sustainability to elected office-holders, local residents and other stakeholders.

The FM Code applies a principles-based approach. It does not prescribe the financial management arrangements that local authorities should adopt. Instead, the FM Code requires that a local authority ensures, and is able to demonstrate, that it satisfies the principles of good financial management for an authority of its size, responsibilities and circumstances.

The FM Code sets out:

- a statement of six fundamental principles of good financial management, which should be regarded as benchmarks against which all financial management should be judged; it is CIPFA's view that all financial management practices should be consistent with these principles
- a series of financial management standards, which translate the principles of good financial management into specific requirements, expectations and outcomes. These standards are designed to align with local authorities' existing financial reporting and governance activities and cycles.

The FM Code, the principles of good financial management and the financial management standards apply to all local authorities, including police, fire, combined and other authorities, that are defined:

- in England and Wales: in Part 1 of the Local Government Act 2003
- in Scotland: in Part 7 of the Local Government in Scotland Act 2003 or to which Section 10 of this Act applies

- in Northern Ireland: in Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

The FM Code was published in October 2019. The intention was that authorities would use the 2020/21 financial year to reflect on the contents of the FM Code, assess their current level of compliance and take the necessary action to enhance their financial management arrangements. The first full year of compliance with the FM Code was 2021/22.

## The principles of good financial management

The principles of good financial management have been designed to establish and to promote robust financial management as a way of achieving both short-term financial resilience and long-term financial sustainability.

The principles are as follows:

- 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.

If any doubt arises as to whether or how the FM Code should be applied, reference should be made to these principles of good financial management, to establish whether any proposed financial management practice is within the spirit of the FM Code.

## The financial management standards

The financial management standards address the aspects of an authority's operations and activities that must function effectively if financial management is to be undertaken robustly and financial sustainability is to be achieved.

The areas covered by the standards are:

- the responsibilities of the chief finance officer and leadership team
- governance and financial management style
- long- to medium-term financial management
- the annual budget
- stakeholder engagement and business plans
- monitoring financial performance
- external financial reporting.

The financial management standards are designed to be sufficiently flexible that they are relevant to the needs of the diverse range of authorities across the local government sector and to the varying circumstances in which these authorities operate and challenges that they face.

The detailed financial management standards set out in the FM Code are as follows:

Section 1 The 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 <a href="#">CIPFA Statement on the Role of the Chief Financial Officer in Local Government</a> .
Section 2 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 <a href="#">Delivering Good Governance in Local Government: Framework</a> (2016).
E	The financial management style of the authority supports financial sustainability.

### Section 3 Long- to medium-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.

### Section 4 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.

### Section 5 Stakeholder engagement and business plans

- 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.

### Section 6 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 that pose a significant risk to its financial sustainability.

### Section 7 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

## The authority's responsibilities in determining compliance with the FM Code

It is for each authority to determine whether its financial management practices are consistent with the principles of good financial management and whether its financial management arrangements comply with the standards set out in the FM Code. Where they do not, the authority should take such action as may be required to ensure compliance.

Authorities should be able to provide evidence that they have reviewed their financial management arrangements against the standards set out in the FM Code and that they have taken such action as may be necessary to comply with them.



# 3. Understanding the requirements of the FM Code

## Engaging with the FM Code

The preparation of the FM Code had been announced prior to its publication in October 2019 and a number of local authorities had been involved in its development. This included participating in workshops, responding to consultations and reviewing drafts of the code itself. Other authorities had sight of the FM Code only upon its publication.

Regardless of how authorities first engaged with the FM Code, there is a consensus that it is relevant, desirable and easy to understand. And while the extent to which authorities have engaged with the accompanying **FM Code Guidance Notes** varies, those who have engaged with them have found these to also be useful.

## Undertaking an initial review of the FM Code and its standards

The first step for most authorities was to undertake an initial review of the FM Code and its constituent standards, with the aim of understanding the requirements that the FM Code places upon the authority and what the authority needs to do to demonstrate compliance.

In most cases, this initial review was undertaken by the chief finance officer (CFO) or another senior member of the authority's finance team. In other cases, the authority's head of internal audit was asked to undertake this initial review and to consider how the FM Code fits into the broader picture of scrutiny and assurance.

Within the policing sector, there has been a tendency for the CFOs of police forces and of the relevant office of the police and crime commissioner to work together in reviewing and responding to the requirements of the FM Code.

Some authorities sought at this early stage to establish a wider project team to consider the FM Code and its implications for the authority. Such teams included representatives of

the finance, internal audit, operational management, major projects, policy, communications and legal teams.

## Assessing the authority's compliance with the FM Code

The standard approach to reviewing the FM Code and to assessing the authority's current state of compliance has been to simply work through each of the standards and to ask two questions:

- To what extent does the authority comply with the standards set out in the FM Code?
- To what extent is the authority able to collate evidence to demonstrate its compliance?

Most local authorities interviewed for this publication had opted to record this baseline self-assessment of compliance by giving themselves a red/amber/green (RAG) rating for each standard, together with a summary of performance against the relevant standard and sources of evidence to support the rating.

While the definitions of the red, amber and green ratings varied from authority to authority, they generally looked something like the following:

<b>Red</b>	We do not comply with the standard and/or are unable to demonstrate our compliance.
<b>Amber</b>	We comply with the standard to some degree and can provide some evidence to support our compliance, but could improve our level of compliance or do more to provide appropriate evidence to support our compliance.
<b>Green</b>	We comply with the standard and can provide appropriate evidence to support our compliance.

Authorities have also sought to identify any improvement action that might be required to ensure full compliance with each standard and/or an improved ability to demonstrate compliance.

This process of self-assessment has, in most cases, required engagement with individuals and teams across the authority, both to understand the current level of compliance with the standards set out in the FM Code and to identify and collect appropriate supporting evidence.

Some authorities have used the FM Code Guidance Notes to flesh out the standards themselves and to assess their compliance at a more granular level. While the guidance notes are not designed to create additional compliance requirements, these authorities have found them helpful in translating the standards within the FM Code into specific processes, practices and actions.

Most authorities undertook this initial self-assessment in the 'shadow' year of the FM Code in 2020/21, giving them a year to take any necessary action to ensure compliance.

However, some authorities found that they lacked sufficient 'bandwidth' to engage with the FM Code at this time, primarily due to the impact of the COVID-19 pandemic, so undertook their initial assessment in the 2021/22 financial year. A small number of authorities are still at this stage.

## Working with others

While most authorities have focused their efforts on understanding the requirements of the FM Code and assessing their compliance with it internally, some have also collaborated with their peers to test their thinking and gain an external perspective.

An existing group of local authority finance professionals developed a 'task and finish' group to explore the requirements of the FM Code and reach a common interpretation of how to ensure and demonstrate compliance.

Some authorities have engaged their internal auditors to review their self-assessment, to verify the evidence submitted and form an independent view on the authority's compliance with the FM Code. Other authorities have engaged CIPFA or an external consultant to undertake a similar review and to provide feedback on their approach and their conclusions.

## Finding appropriate sources of evidence

Many authorities have found identifying appropriate sources of evidence to demonstrate compliance more challenging than actually complying with the standards set out in the FM Code. They know that they comply with the standards, but they have struggled to prove it.

Consequently, authorities have drawn on a broad range of evidence to support their assessment of compliance with the FM Code. This has included standing orders, financial regulations, internal audit reports, external auditors' conclusions in respect of value for money, documentation associated with major investment projects, and more.

Some authorities have found the guidance notes to be helpful in suggesting potential sources of evidence to demonstrate compliance.

While authorities have, in many cases, needed to put significant effort into collating the evidence required to support their assessment of compliance with the FM Code, there is widespread agreement that it has been a useful exercise. It has challenged them to identify appropriate evidence and to bring it together into one place.

## Reporting internally on compliance

In the main, authorities have shared the results of their self-assessment internally within their finance teams and, in some cases, with other members of the senior leadership team.

Many have reported their self-assessment to their audit committee, or its equivalent, often in conjunction with their annual governance statement. Others have also provided a report on the FM Code and the results of their initial self-assessment to their executive or cabinet. Similarly, some policing bodies have shared their self-assessment with their chief constable and their police and crime commissioner.

Other authorities have chosen not to share their self-assessment outside of the finance team. In such cases, the self-assessment has been reviewed by the CFO, but has not been reported to other senior leaders or to the audit committee.

# 4. Managing the implementation of the FM Code

## Securing organisational buy-in

Authorities recognise the importance of an organisational commitment to effective financial management. Many have used the publication of the FM Code to reinforce this commitment and raise awareness of what good financial management looks like in practice.

Indeed, authorities have noted that the FM Code looks beyond the work of the finance team to include the way in which the authority is run at the strategic and operational levels. Consequently, the FM Code has provided an opportunity to reinforce the message that financial management is not just the responsibility of the CFO.

Many CFOs and their finance teams have actively sought to secure buy-in to the FM Code from their senior leadership colleagues, their cabinet or equivalent and elected office-holders more broadly. Within the policing sector, the support of the police and crime commissioner and chief constable has likewise been sought.

Furthermore, those authorities with elections on the horizon are considering including the requirements of the FM Code in their financial induction for new elected office-holders.

## Raising awareness of the importance of robust financial management

In the main, authorities have sought to establish a strong commitment to robust financial management, resulting in widespread awareness among elected office-holders, managers and staff of the importance of financial management and what it means for them in practice.

Indeed, in many cases, there is evidence of a strong political commitment to value for money and to being able to demonstrate that this is being achieved. This has led to ready acceptance of the FM Code and support for its implementation across the authority.

In some authorities, however, while there is likewise a strong commitment to effective financial management, there has been less interest in the FM Code itself, including among CFOs. In such cases, the FM Code has been less 'visible' and its implementation has been driven by less-senior members of the finance team or by other teams with an assurance role, such as internal audit.

In a small number of authorities, securing and demonstrating value for money has been less of a political priority. In such cases, finance teams have found it more difficult to secure organisational buy-in to the FM Code and its requirements.

## Identifying the action required to comply with the FM Code

Authorities have generally used their initial self-assessment of compliance against the FM Code to identify the actions that they need to take to ensure full compliance or to be able to demonstrate their compliance.

Authorities have, in the main, found that they already comply with most of the standards set out in the FM Code. Where they consider that action is required to achieve compliance, this is focused mainly on making improvements to existing policies, procedures and practices or on developing better arrangements to collect the evidence required to demonstrate compliance.

Where authorities had assessed their compliance using a red/amber/green rating, their results generally took the form of no red ratings, 20% amber ratings and 80% green ratings. This meant that the FM Code helped such authorities to identify opportunities for improvement, but did not raise any fundamental issues of concern.

Furthermore, a number of authorities have noted that their assessment of compliance against the FM Code highlighted improvements that they wanted to make anyway, and so has provided the catalyst to now make these improvements.

## Implementing the action required to comply with the FM Code

Authorities have taken varying approaches to implementing the actions required to secure compliance with the FM Code and to be able to demonstrate this compliance.

Most authorities have developed an action plan of some form, ranging from a list of action points flowing from their initial assessment of compliance to a more substantial project plan with actions, responsibilities and timescales. Others have integrated the necessary actions into their plans for existing projects, such as reviews of financial regulations or finance improvement projects.

In most cases, the CFO has taken on overall responsibility for overseeing the necessary actions for improvement. The actual implementation of the various actions has then been allocated to individual senior managers, to members of the finance team or to other relevant individuals or teams across the authority.

Some authorities have used the implementation of improvement actions as an opportunity for members of the finance team to develop their own skills and to engage with their peers across the authority.

Where authorities have chosen to report internally on their progress in implementing the necessary actions to achieve compliance with the FM Code, this progress has generally been reported initially to the CFO and then to the senior leadership team, and in some cases to the audit committee.

# 5. Addressing the themes covered by the FM Code

## Interpreting the requirements of the FM Code

Achieving and demonstrating compliance with the standards set out in the FM Code has required varying degrees of action on behalf of individual authorities.

Some of the standards relate to existing requirements of local authorities, such as compliance with the Prudential Code (Standard H) or compliance with statutory obligations in respect of the budget-setting process (Standard J). Authorities generally already comply with these standards, as is to be expected.

Other standards are of a binary nature, whereby an authority clearly either complies with them or it does not. This includes applying the CIPFA/Solace Delivering Good Governance in Local Government Framework (Standard D) and including in the authority's budget report a statement by the CFO on the robustness of the estimates used (Standard K). Authorities have found it relatively straightforward to comply with these standards and to demonstrate their compliance.

Other standards have, however, proven more challenging, in terms of both ensuring and demonstrating compliance.

The most challenging areas have been those that require a more subjective interpretation, such as demonstrating that services provided by the authority provide value for money (Standard A), adopting a management style that supports financial sustainability (Standard E) and presenting financial information in a way that allows the leadership team to make strategic financial decisions (Standard Q).

In such cases there is not necessarily a universal definition of what 'good' looks like, so authorities have found it necessary to interpret the relevant standards in the light of their authority's own priorities and in response to their own local contexts and circumstances.

Similarly, police and fire authorities have also had to interpret some of the standards in the light of their own sector context, primarily where this differs from that in local councils.

## Determining how far to go

One difficulty that some authorities have faced, especially with regard to the more subjective standards in the FM Code, is how far to go to ensure and demonstrate compliance.

Some authorities have found that the FM Code itself does not always provide sufficient detail to allow them to determine what, specifically, they need to have in place to comply with some of its standards.

They note also that, while the accompanying guidance notes provide advice on actions authorities can take to ensure compliance, it is not feasible for them to do everything that is suggested.

Other authorities in a similar position have worked with their peers, or with their internal audit teams, to 'moderate' their interpretation of the FM Code's requirements and ensure a proportionate response.

Some authorities have also experienced difficulty in interpreting the requirements of the FM Code where they are engaged in collaborative arrangements with other authorities or partners. This includes shared service delivery arrangements, collaborative procurement arrangements and similar mechanisms.

In such cases, authorities do not necessarily have direct control over the way in which the collaborative arrangement is managed or have oversight over the arrangements in place to ensure robust financial management. They have also not necessarily been able to access evidence to demonstrate compliance with the FM Code.

## Achieving and demonstrating value for money

The most challenging issue faced by authorities in ensuring and demonstrating compliance with the FM Code has been the need to achieve and evidence value for money.

While authorities recognise the importance of value for money, it is a highly subjective area. There is no single definition of what constitutes value for money and no single way in which it can be measured. Consequently, while authorities invariably have a desire to achieve value for money, they do not necessarily have in place a systematic approach to defining it and assessing whether it has been achieved.

Some authorities have therefore used the publication of the FM Code as a catalyst to develop an organisation-wide understanding of what value for money means to the authority and how its achievement can be measured.

Others have drawn on existing definitions of value for money within the organisation. These are often rather high-level definitions, so will need to be interpreted in a more detailed way to allow them to be applied to individual services and activities. Such definitions of value for money tend to consider a number of factors including the cost of a service or activity, its operational performance and the extent to which it contributes to the delivery of the authority's corporate priorities.

Where authorities have developed a corporate approach to defining, assessing and evidencing value for money, either previously or in response to the FM Code, they have invariably found this to be an extremely useful exercise that allows them to better understand their organisational performance and to focus management attention where it is most needed.

## Improving the authority's financial management style

The notion of an authority's financial management style is another subjective area where authorities have experienced difficulty in discerning how best to comply with the FM Code and how to demonstrate their compliance.

Authorities are working hard to embed the notions of financial resilience and sustainability into the way in which their organisations make decisions at all levels. Approaches taken include financial training for elected office-holders and senior managers, greater integration of strategic, operational and financial planning mechanisms, and a move to a business partnering structure within the finance team.

A very small number of authorities mentioned challenging cultural behaviour among those in elected roles, such as failing to prioritise good financial management and the need to ensure value for money. This has resulted in poor decision making at senior levels and in complaints from staff, service users and members of the public.

## Enhancing long- to medium-term financial planning

Authorities already have in place mechanisms to ensure consistency between their corporate priorities and their medium-term financial strategies.

However, the FM Code also requires that authorities' medium-term financial strategies are aligned with sustainable service plans. For some authorities, this has proven more challenging to achieve. These challenges arise in terms of ensuring that service plans are 'sustainable' and aligning them with the authority's financial plans.

Two factors exacerbate this: authorities' lack of control over demand for some services, such as social care, and the lack of certainty regarding future funding settlements.

While authorities are making every effort to align their corporate, service and financial plans, they recognise that the limitations imposed on them mean that their ability to achieve and maintain financial sustainability will present an ongoing challenge.

In a similar vein, English authorities have welcomed the creation of CIPFA's **Financial Resilience Index** and have sought to use it in the preparation of their financial resilience assessment, as required by the FM Code. However, for policing bodies, the later publication of the Financial Resilience Index for the policing sector has meant that such bodies have not all had the opportunity yet to undertake the necessary assessment.

## Implementing an option appraisal methodology

The FM Code requires authorities to use an appropriate documented option appraisal methodology to demonstrate the value for money of their decisions.

While authorities generally have in place mechanisms to consider the financial and operational impact of significant decisions, and indeed undertake option appraisals for significant investment decisions, many felt that their approach did not constitute a formal methodology.

Consequently, some authorities are now reviewing their approach to financial appraisal, to create a more coherent approach that allows them to define, assess and demonstrate value for money in their decision making.

This approach is likely to include a range of mechanisms, so that the approach taken in each case is proportional to the nature and magnitude of the decision to be taken. The consensus view was that a full option appraisal, along the lines of **HM Treasury's Green Book**, would be reserved for the most significant investment decisions.

## Monitoring financial performance

All authorities have in place mechanisms to monitor and report on their financial performance. However, the FM Code has prompted some authorities to review the scope of their financial monitoring mechanisms and to take action to ensure that such mechanisms encompass all aspects of their financial performance.

A particular area of focus for some authorities is the financial health of their balance sheet, especially their performance in managing debtors, ie those who owe money to the authority.

Many authorities make use of peer reviews or other external assessments to inform their understanding of their operational and financial performance. However, such reviews tend to be undertaken on a periodic – rather than an annual – basis, meaning that they do not always provide up-to-date evidence to demonstrate compliance with the FM Code.

Furthermore, the pandemic has meant that many cycles of peer review and external assessment have been disrupted. It is hoped, however, that where such reviews and assessments have not already recommenced, they will do so in the near future.

# 6. Ensuring continuing compliance with the FM Code

## Using the FM Code to understand how well things work at the moment

Many authorities have found that the FM Code presents an opportunity to take a step back and reflect on their financial management arrangements, how well these arrangements work and how they could be improved.

It has similarly prompted them not just to think about what they do, but also to think about how they can collate the evidence to demonstrate that they do it.

Authorities have likewise found that the FM Code provides a good framework against which to consider the bigger picture around financial management and to assess the extent to which they have in place robust arrangements to ensure effective financial management across the organisation.

## Using the FM Code to drive improvement

Authorities recognise that there is a risk with assurance frameworks such as the FM Code that they become a 'box-ticking' exercise that ceases to generate any value for the participating organisations. Most authorities are therefore keen to use the FM Code to drive improvement on an ongoing basis.

Many authorities are looking actively for ways to embed the principles and standards set out in the FM Code more effectively into their existing processes and practices. This will help to avoid the FM Code becoming a stand-alone exercise and instead integrate it into the way the authority works.

Others go further and talk about using the FM Code to create a culture of effective financial management. This has included creating short videos on topics such as value for money and the FM Code, targeted at elected office-holders, managers and

staff alike. Elsewhere, authorities have sought to integrate the principles and standards from the FM Code into the financial training provided to managers.

Some authorities, however, mindful perhaps of the many other challenges they face, have adopted a more modest approach to engaging with and implementing the FM Code. In such cases, their priority has been to do what is necessary to ensure compliance.

## Embedding the FM Code into the annual financial reporting cycle

Authorities acknowledge the value of reporting internally on their compliance with the FM Code, but note that the FM Code itself does not specify the form that such reporting should take, how frequently compliance should be reported or to whom reports should be presented.

Most authorities plan to refresh their self-assessment of compliance against the FM Code each year. Some have opted to report the results of their self-assessment to their cabinet, but most plan to report to their audit committee.

In some authorities, the audit committee has been given specific responsibility for ensuring compliance with the FM Code and plays a key role in monitoring any improvement actions that might be identified.

In most cases, authorities anticipate that they will report on compliance with the FM Code on an annual basis, usually retrospectively at the end of the financial year. Some authorities, however, plan to develop an improvement action plan at the start of each financial year and to report on progress against this plan over the course of the year.



## Responding to evolving challenges and circumstances

Most authorities intend to use the FM Code as a catalyst for continuous improvement of their approach to effective financial management. This will help to ensure that their efforts add genuine value to the organisation.

Furthermore, authorities recognise that the environment in which they operate is a dynamic one, and so they may on occasion need to adapt their approach to financial management in order to maintain compliance with the principles and standards set out in the FM Code.

Some authorities have suggested that the FM Code is – for the moment, at least – a rather ‘static’ document. They would like to see the FM Code evolve as the sector learns more about how best to manage its resources in such challenging times and in response to lessons learned from organisational difficulties and failures.

This might entail a periodic refresh and strengthening of the FM Code. There has also been a suggestion from some authorities that the enhancement of the FM Code to provide some form of maturity model, with increasingly demanding levels of compliance, would be welcomed, as it would allow those who wish to improve further to have access to a framework that would facilitate this.

Others have noted that the guidance notes accompanying the FM Code provide ideas for those who wish to explore ways to improve their financial management arrangements beyond those required for basic compliance.

## Verifying compliance with the FM Code

It is unclear to many authorities whether or how their compliance with the FM Code will be subject to external scrutiny or verification – or indeed whether such external scrutiny would be desirable.

Most authorities have not, so far, sought external validation of their compliance with the FM Code. Some have asked their internal auditors to review their self-assessment of compliance, and others have shared their self-assessment and the associated evidence with their external auditors, but most have not.

It is unclear to authorities what interest, if any, their external auditors will have in their compliance with the FM Code. Most would prefer that the FM Code did not become a tool by which external auditors assess authorities’ performance. This is primarily because of the cost and administrative burden that such a development would entail.

That said, some authorities have noted that the FM Code lacks any real ‘teeth’ as, unlike other CIPFA Codes, it is not part of statutory legislation. Consequently, its ability to improve standards of financial management and to help authorities to avoid the financial difficulties that have been faced by some of their peers is, in the view of some authorities, likely to be limited.

## Assessing the impact of the FM Code

It is too soon to determine what the long-term impact of the introduction of the FM Code on authorities and on the wider local government sector will be.

While authorities feel, in the main, that their financial management arrangements – and, indeed, the overall culture of financial management across their organisations – have improved in recent years, such improvements cannot be attributed to the FM Code alone.

The FM Code has, however, helped authorities to satisfy themselves that they are doing the right things and identify ways in which they could do more to enhance their own financial resilience and sustainability. The FM Code has also helped them to embed financial management across the organisation, rather than just within the finance team.

Those authorities that have engaged most fully with the FM Code have seen the greatest benefit, but they recognise that this is just the start of the journey.

# 7. Eight lessons learned

## 1. The FM Code reinforces good financial management practice

The FM Code sets out a framework for effective financial management. It sets out the principles with which authorities should seek to comply and the standards that they should seek to achieve.

These principles and standards are not, however, new. They represent established good financial management practice, and they should not come as a surprise to authorities.

The FM Code brings together established financial management principles and standards in one place. And it does so in a way that helps authorities to 'sell' these principles and standards to others across their organisation and to embed them into their organisations' ways of working.

It also helps to improve financial understanding and awareness.

For policing bodies, CIPFA's [Financial resilience self-assessment and medium-term financial planning toolkit](#) provides additional guidance to supplement the FM Code Guidance Notes.

## 2. Authorities do not have to do everything at once

While some of the standards set out in the FM Code offer a binary state of compliance, where authorities either comply with them or do not, others allow a more subjective interpretation of what constitutes compliance.

Consequently, authorities have the opportunity in such cases to achieve a baseline level of compliance initially, and to then improve their compliance over time by further enhancing their financial management arrangements.

Authorities do not have to achieve perfect compliance with the FM Code from the outset. They can take action over time to improve on their initial level of compliance as they strengthen their financial management practices.

Similarly, authorities can build up over time a growing base of evidence to support their compliance with the FM Code, for example as individual service reviews are undertaken, as better performance data becomes available, or as external auditors report on their conclusions in respect of value for money.

## 3. The FM Code helps authorities to see the bigger picture

By bringing together the principles and standards that together contribute to effective financial management, the FM Code allows authorities to take a holistic view of the arrangements in place across their organisations to manage their financial resources effectively.

This includes not just financial systems, processes and practices, but also the organisation's overall culture, its strategic priorities and the way in which it integrates corporate, service and financial planning and performance monitoring.

The FM Code also provided authorities with the catalyst to take a step back and to reflect on their current practices, with a view to identifying what could be done better and how this could be achieved.

## 4. Authorities need to interpret the FM Code in the light of their local context

The subjective nature of some aspects of the FM Code – for example, the difficult-to-define notion of value for money – means that authorities need to interpret some of the requirements of the FM Code in the light of their individual local circumstances.

Such circumstances might include existing definitions of or approaches to value for money, the authority's corporate priorities, the service and financial pressures that it faces, its current financial position, the views of elected office-holders and more.

It is important that this local interpretation of the requirements of the FM Code is robust and that it provides the necessary incentive to strive for improvement. It should not be used to facilitate a more relaxed interpretation of the FM Code's compliance requirements.

## 5. Compliance can be more work than authorities might anticipate

The level of work required to undertake a self-assessment of compliance against the FM Code, to identify the necessary improvement actions and to implement the necessary changes varies from authority to authority, depending on their individual circumstances and on the way in which they have approached compliance.

**For many authorities, the process of assessing compliance and, in particular, collating the evidence to support their assessment, has proven to be more time- and resource-intensive than they had anticipated at the outset.**

This is due primarily to the broad range of individuals and teams from across the authority whose input has been required to ensure and to demonstrate compliance with the FM Code.

Furthermore, those who have engaged more thoroughly with the accompanying guidance notes, and who have sought to implement some of the suggestions set out in these guidance notes, have spent more time on activities related to compliance with the FM Code than those authorities that have focused solely on the FM Code itself.

## 6. The FM Code itself will not ensure financial sustainability

**While the FM Code sets out the standards required to demonstrate sound financial management, compliance with the FM Code is not in itself sufficient to ensure the financial resilience or sustainability of individual authorities or of the sector as a whole.**

There are numerous internal and external factors, beyond an authority's financial management arrangements, that can impact on financial resilience and sustainability: service demand, funding settlements, cost pressures, central government decisions, local political decisions and many more.

While compliance with the FM Code will not mitigate these challenges, the robust financial management arrangements that result from compliance will help authorities to identify them when they arise, to assess their impact and to respond to them promptly and proactively.

Compliance with the FM Code helps to provide assurance that, while the authority may still experience financial challenges, these challenges are less likely to be caused or exacerbated by internal failings in respect of financial management.

## 7. Authorities need to consider how they will report against the FM Code

The FM Code does not set out specifically how authorities should report their compliance – or indeed whether they should report their compliance at all. Most authorities, however, wish to record their compliance in some way, and so they must determine how they will do this.

**Many authorities have shared their self-assessment of compliance internally with their audit committee and/or with some other forum of elected office-holders, such as their executive or cabinet or, for policing bodies, the police and crime commissioner. The most common way in which authorities have reported on their compliance to an external audience is in their annual governance statement.**

Some authorities are aware, though, that their approach to reporting on compliance with the FM Code in future may depend on the views of their external auditors.

## 8. Financial management needs to be embedded across the organisation

Effective financial management cannot be achieved by an authority's finance team alone. It requires the development of an overarching culture of financial management that is embraced by elected office-holders, senior leaders, managers and staff alike.

Such a culture needs to be shared by collaborative partners and service delivery agents.

**It is important that the development of robust financial management arrangements is accompanied by a drive to ensure that these arrangements are embedded across the organisation. They cannot be an add-on. Rather, they need to be an integral part of how the authority thinks and works.**

The authority's finance team should have a role in decision-making at all levels across the organisation. But the creation of an embedded culture of financial management means that the principles and standards of effective financial management will be respected and embraced even when the finance team is not involved directly.

# 8. Looking to the future

Our discussions with local authorities have identified a number of lessons that have been learned during the initial introduction of the FM Code.

Overall, there is a good level of understanding of and agreement with the aim of the FM Code, which is to improve standards of financial management. However, our conversations have also identified areas where additional support and guidance is required to improve implementation and transparency.

As this publication has highlighted, those aspects of the FM Code that relate to value for money and resilience have been the focus of much discussion, as those who work to implement the FM Code seek to identify a balanced and proportionate approach.

The findings from our discussions with local authorities regarding their approach to the implementation of the FM Code demonstrate promise. Looking ahead, however, it is evident that the FM Code must be nurtured and supported if it is to deliver on its potential in the longer term.





77 Mansell Street, London E1 8AN  
+44 (0)20 7543 5600

The Chartered Institute of Public Finance and Accountancy.  
Registered with the Charity Commissioners of England and Wales No 231060.  
Registered with the Office of the Scottish Charity Regulator No SC037963.

[cipfa.org](http://cipfa.org)

Sponsored by

