
FOREWORD

Using money well means more and better public services. *The CIPFA FM Model* is designed as a tool to help public service organisations apply their financial resources to achieve their goals. First launched in June 2004, the model has now been reviewed and updated. The principles of good financial management are unchanged: that this is the business of the whole organisation, not just finance staff; that it requires a tone set from the top, sound processes, competent and motivated people and attention to the needs of stakeholders. But the model has now been updated to reflect further developments in thinking about what makes for good financial management, including contributions from the Audit Commission and from the National Audit Office. For example, there is an increased emphasis on the role of the Board, on managing assets and liabilities and on value for money. The revised version also draws on users' experience of how the model can support them in their ambitions for organisational development.

Finance is the lifeblood of any public service organisation. How it is used and managed has to be a central concern of organisational leaders. With financial responsibilities often widely diffused, managers need to be financially literate and finance professionals need to contribute challenge, interpretation and advice. Good financial management is, therefore, both a key corporate discipline and an enabler for service improvement.

This self-assessment model is designed as a resource for the whole organisation. Boards of public bodies, finance professionals and business managers can together apply *The CIPFA FM Model* to develop financial management fit for their business goals and service aspirations. It can help to create a profile of the strengths and weaknesses of financial management, its predominant style in the organisation, and how far this is aligned to supporting the organisation's strategic goals. It can help give the Board assurance about financial management practice in their organisation, ahead of external review. The model has been put to a variety of uses, including testing existing arrangements against the good practice statements and identifying improvements, encouraging change, and specifying standards for partners and contractors.

Continued overleaf

There is never enough money for the public services to do everything they would like. To make the most of their resources, organisations in the public services need to establish and sustain an improvement path for financial management. We hope that you will continue to find *The CIPFA FM Model* a valuable tool.



A handwritten signature in blue ink that reads "Sue Beauchamp".

Sue Beauchamp

Chair, FM Model Working Group
Executive Director of Finance,
Information Systems and Property
Royal Borough of Kensington and Chelsea



A handwritten signature in blue ink that reads "Steve Freer".

Steve Freer

Chief Executive
CIPFA

SECTION 1: INTRODUCING THE CIPFA FM MODEL

EFFECTIVE PUBLIC SERVICE ORGANISATIONS: WHERE FINANCIAL MANAGEMENT FITS IN

- 1.1** Using money well means more and better front-line services, and that is the business of every manager in the public service. Good financial management is how managers cope with the perennial challenge of limited resources in an environment of expanding demands and expectations, and with their obligation to spend the taxpayer pound carefully. It is also about how managers in the public services put money to work to improve services that, across the public sector, impact the lives of every citizen. Boards of public service organisations are responsible for the finances and the tone they set is critical. Financial management in the public services is no longer just about accounting for expenditure and demonstrating probity. With financial responsibilities often widely diffused throughout the organisation, managers need to be financially literate and finance professionals need to contribute challenge, interpretation and advice.
- 1.2** This self-assessment model will help organisational leaders, not just the director of finance, develop a profile of the strengths and weaknesses of financial management, its predominant style in the organisation, and how far this supports the organisation's strategic goals.
- 1.3** *The CIPFA FM Model* can be used to test stewardship for public resources, to identify how financial management can help drive performance and to consider how far it is an enabler for the organisation to achieve its change agenda. The aim of the model is to enable the leadership to set a strategic direction for financial management, to be translated into operational priorities. Its purpose is to help deliver good governance, sound finances and a strong public service.
- 1.4** For most public service organisations these days external inspection on their use of resources is a regular feature. The model's design has been informed by those who understand these inspection frameworks in depth. It can help organisations gain assurance about the penetration of good practice and so prepare themselves for their particular style of review.
- 1.5** High-performing organisations consistently demonstrate strengths in leadership, financial management and performance management. This introduction focuses on the contribution of financial management to the public sector's capability to achieve its strategic and operational goals, and to deliver improvement. It describes a model of good practice, developed by CIPFA for use by organisational leaders, finance staff and service managers, as a tool for aligning financial management with the organisation's particular development path and priorities.
- 1.6** Public service organisations are highly diverse and complex. They make complex trade-offs between competing demands and interests. They maintain a range of different

relationships with a variety of stakeholders – regulators, service purchasers, service users and the public. They manage business risks and political risks, which can be calibrated quite differently. Their financial objectives will vary, from profit centre to cost centre. But their common financial management objectives are likely to include:

- Giving a reliable account of the money they spend and the income they receive.
- Ensuring the organisation’s conduct demonstrates probity, sound financial administration, stewardship of public resources and compliance with regulatory standards.
- Ensuring value for money: economy, efficiency, effectiveness and equity in how funds are used.
- Identifying, evaluating and managing risk.
- Supporting good decision-making and assisting managers and governing structures to assess the financial consequences of policy choices.
- Analysing service activity costs and trends and using comparisons to lever performance improvements.
- Enabling the organisation to plan for the future and to align its resource allocation with its business objectives.
- Maximising income sources without being diverted from business priorities.
- Collaborating in change programmes, so that the organisation can move forward without compromising core financial management values.

1.7 The requirements of financial management in modern organisations have expanded beyond controlling expenditure and accounting for transactions to dealing with complex, dynamic and sometimes conflicting environments, in a climate of inevitable financial constraint. There is greater stress on cost reduction, risk control and performance management. Increasing use of technology puts a focus on driving down transaction costs and on streamlining back-office processes. Devolved management structures have emphasised front-line empowerment and accountability. These trends require finance staff to contribute challenge, value-added advice and interpretation.

1.8 The wider context for the role of financial management is also articulated by the debate on corporate governance during the past decade, giving rise to the following definition:

“Financial management is the system by which the financial aspects of a public body’s business are directed and controlled to support the delivery of the organisation’s goals.”

The definition has its roots in the 1992 Cadbury Report¹ on corporate governance, which laid the foundation for related work in the public services. It makes explicit reference to the parallel statement in the 1998 Hampel Report,² which further developed corporate governance concepts:

“Financial management is the system by which the financial aspects of an organisation’s business are directed and controlled, and contribute to business prosperity.”

1. *The Report of the Committee on the Financial Aspects of Corporate Governance*

2. *The Report of the Committee on Corporate Governance*

- 1.9 It also echoes Hampel's challenge to the private sector, to combine probity and accountability concerns with achieving business goals:

"The importance of corporate governance lies in its contribution both to business prosperity and to accountability. In the UK the latter has preoccupied much public debate over the past years. We would wish to see the balance corrected."

Translated to the public sector context, the same theme informs the agenda for public services. Internal control and accountability processes remain essential, but social objectives, value for money, community leadership, stakeholder interest, innovation and partnership are equally part of the recipe.

EFFECTIVE FINANCIAL MANAGEMENT

- 1.10 *The CIPFA FM Model* is presented as a series of for good practice statements for public service bodies where excellent financial management can contribute to strong organisational performance. **The model invites organisations to test themselves on the effectiveness of their own financial management in supporting their business objectives, and to consider whether the style and contribution of financial management supports or conflicts with their organisation's strategic direction.**

FINANCIAL MANAGEMENT STYLES

- 1.11 *The CIPFA FM Model* is structured around three styles of financial management:
- **Securing stewardship** — an emphasis on control, probity, meeting regulatory requirements and accountability.
 - **Supporting performance** — responsive to customers, efficient and effective, and with a commitment to improving performance.
 - **Enabling transformation** — strategic and customer led, future orientated, proactive in managing change and risk, outcome focused and receptive to new ideas.
- 1.12 The styles are progressive. The performance style encompasses all the features of stewardship, whilst all the elements of performance sit within the transformational style.
- 1.13 Stewardship is the bedrock. Stewardship ensures that public resources are properly spent, and it is also an essential element in building a relationship of trust between the public organisation and the citizen or service user. It encompasses the notions of accountability: the duty to be open, answerable for decisions, and to demonstrate the necessary financial control and regulatory compliance.
- 1.14 However, stewardship alone is not sufficient to enable an organisation to drive performance and to develop its transformational capacity. Conversely, transformation or performance programmes that are not based on a robust approach to controlling and accounting for resources are likely to founder. This underscores the importance of the financial management style both reflecting and reciprocally influencing what the public body wants to achieve. If it is seen as a hindrance to progress, preoccupied with issues of control that are peripheral to the organisational agenda, business energy is all too likely to go into subverting and bypassing good practice, rather than drawing on it as a resource.

- 1.15** Ultimately, organisations will aspire to be the kind of adaptive, forward-facing body that the transformation level implies. They will still need to keep stewardship strong. At the start-up stage in the organisational life-cycle, establishing stewardship may be the sole focus, as it may be for organisations going through a recovery plan. At such times maintaining an emphasis on sound systems, procedures and processes may be more appropriate than launching leading-edge initiatives. The model is designed to help organisational leaders to determine the appropriate style of financial management and how this can grow in tandem with organisational aspirations.
- 1.16** There can be a special challenge for finance people in moving between the different financial management styles. Stewardship is familiar territory. Finance staff generally control the levers directly and may even have statutory backing for their role. The performance level is more complex. It reaches beyond finance department boundaries and proceeds by influence, negotiation and dotted-line accountabilities. It asks more of finance staff skills. The transformation level can be even more challenging. Finance departments are sometimes recognised for their strengths in hitting deadlines, achieving delivery and managing processes, but are left out when it comes to engaging with systems that are holistic, indefinite or that import risk, particularly where that risk threatens some known strengths and apparent certainties. But risk will be magnified if finance professionals are not also engaged with the change agenda. The best focus of the finance department's improvement plans may be on these areas.
- 1.17** For non-finance managers, progression between styles can be equally problematic. The public sector has spent over 100 years refining its practices on stewardship. Whether in central or local government, there are established mechanisms defining financial accountability, systems of internal control and reporting. This history can assign a limiting role to financial management. Budget management can seem to be preoccupied with under- or overspending, not with what money actually buys or the outcomes it delivers. In central government especially, away from the agency arms, finance can still be seen as preoccupied with dealing with auditors, technical issues like resource accounting, and securing resources from the Treasury. For the non-finance manager, an overriding focus on delivery of service and policy targets can engender a culture where finance is about bidding and compliance rather than about extracting and driving value. Financial management competencies may not be appreciated as relevant to policy delivery (unlike staff management) if they are not core to career development.
- 1.18** This is a fast changing environment. Increasingly Boards must seek assurances about financial management and demand that managers give an account of business and service success in terms of resources applied to given ends. Managers need to understand how resources have been applied, what it costs to deliver their activities and how this can be improved; organisational measures of success must express operational performance in terms that include finance.

MANAGEMENT DIMENSIONS

- 1.19** *The CIPFA FM Model* is also organised by four management dimensions. These cover a blend of 'hard-edge' attributes – things that we can cost and measure – as well as softer features like communications, motivation, behaviour and cultural change. They are:
-

- **Leadership**, which focuses on strategic direction and business management, and the impact on financial management of the vision and involvement of the organisation's Board members and senior managers. The tone set from the top will be critical.
 - **People**, which includes both the competencies and the engagement of staff. This aspect generally faces inward to the organisation.
 - **Processes**, which examines the organisation's ability to design, manage, control and improve its financial processes to support its policy and strategy.
 - **Stakeholders**, which deals with the relationships between the organisation and those with an interest in its financial health, whether government, inspectors, taxpayers, suppliers, customers or partners. It also deals with customer relationships inside the organisation, between finance services and their internal users.
- 1.20** These dimensions are deliberately related to other well-used quality and performance management tools, such as the balanced scorecard and the European Foundation for Quality Management self-assessment model, so that they can be assimilated relatively easily into other performance management tools that organisations may already be applying.
- 1.21** The components of *The CIPFA FM Model* are summarised below as a matrix, where each element is a statement of good practice against which an organisation can test its own experience. The model in summary is on page 11.
- 1.22** Behind each of the statements lies a set of questions, which invite the organisation to explore the practical implications of the statements. They are intended as an aid to self-assessment, and as a signpost to the development of improvement plans. Not all the questions will apply to every organisation, especially smaller bodies.

The CIPFA FM Model matrix

	LEADERSHIP	PEOPLE	PROCESS	STAKEHOLDERS
SECURING STEWARDSHIP	L1, L2	P1, P2	PR1 – PR10	S1 – S3
SUPPORTING PERFORMANCE	L3 – L5	P3, P4	PR11 – PR14	S4 – S6
ENABLING TRANSFORMATION	L6, L7	P5, P6	PR15, PR16	S7, S8

- 1.23** The model can look dauntingly long. While we have tried to be succinct, it is meant to be a comprehensive repository of current thinking about good practice, so it will unavoidably have a good deal of detail. For those who want to concentrate on the big picture, the statements are the focus of attention.

A SELF-ASSESSMENT TOOL

- 1.24 *The CIPFA FM Model* is a self-assessment tool for bodies to measure themselves against an external framework of generic good practice. Public sector bodies are subject to a range of inspectors and assurance processes, which collectively aim to analyse strengths and improvement areas and evaluate capacity to improve. Financial management capacity is routinely part of those reviews. Self-assessment as part of external assessment within the regulatory framework can enable regulatory agencies to move towards proportionate and risk-based regulation, so that high-performing organisations receive a lighter touch and regulatory agencies are better able to target compliance and improvement effort.
- 1.25 *The CIPFA FM Model's* practical applications are:
- to enable the organisation to establish a profile of its financial management
 - to test organisational leaders' skills in financial management
 - to compare this with where it wants financial management to be positioned, in order to maximise organisational effectiveness in the short or longer term
 - to build a team-based approach to improvement in financial management
 - to identify strengths and areas for improvement
 - to develop an action plan
 - to help prioritise improvement
 - to review and track its progress over time.
- 1.26 The statements in *The CIPFA FM Model* are scored to give an overall picture of financial management in the organisation. Questions linked to each statement explore whether there are relevant groundwork **policies and practices** in place, whether they are **deployed** consistently and effectively, whether they influence or **impact** the organisation's behaviour or results, and whether they deliver the required **outcome**.
- 1.27 The judgement is expressed as a score from 0 to 4, based on how far the statement of good practice is matched. The linked questions facilitate a checklist of where the organisation meets good practice, wholly or partly, or where there are gaps. But it goes beyond a box-ticking exercise. The judgements on some statements may be more subjective than others. Organisations are asked to exercise thoughtfulness and judgement when they make their score. They are also encouraged to look at what really happens, rather than focusing simply on documentation. They should take in a broad range of views from across the organisation. They should record their observations and the evidence for their judgement.
- 1.28 Scores are amalgamated to give an overall profile of the positioning and contribution of financial management to the organisation, either across Securing Stewardship → Supporting Performance → Enabling Transformation, or across the dimensions of Leadership, People, Processes and Stakeholders. Looking at the detail of individual best practice statements will show how that picture was derived. The detail may also reveal other common themes or patterns.
-

- 1.29 The flexible matrix structure allows profiles to be displayed so that, for example, relative confidence in leadership or processes, or in stewardship and transformation, can be examined. *The CIPFA FM Model* is also sufficiently fine-grained to identify performance on individual components, such as competencies of non-financial managers, or budget monitoring practices.
- 1.30 Recording observations and evidence is critical to ensure that assessments are soundly based – especially important if this is part of an external assessment. It will also help to identify perceptions of strengths and areas to improve when action plans are drawn up. Some types of evidence are listed on page 15; others are prompted in the more detailed descriptions of *The CIPFA FM Model*.
- 1.31 Organisations can choose to use the model in a variety of ways. For example, it can be used in its entirety, or in parts to test individual aspects. Different groups within the organisation can be asked a customised set of statements and questions that are relevant to them. Organisations may choose to come together to discuss their scores with peers to help drive improvement.
- 1.32 The full power of the model will be realised only if board members and managers take part in the assessment alongside finance staff, so that it gives a holistic picture of the effectiveness of financial management from the corporate and business perspective.

ORGANISATIONAL PROFILES

- 1.33 The scores profiles over styles and management dimensions can promote discussion of the outcomes: whether these represent a fair view of the organisation, what they reveal about strengths and weaknesses, whether the organisation has a mature or underdeveloped financial management style, and whether it positively contributes to organisational aspirations.
- 1.34 Below are shown organisational profiles for both axes of *The CIPFA FM Model* matrix.

Organisation scoring profile for the financial management styles

	Securing Stewardship	Supporting Performance	Enabling Transformation
Maximum Score	68	48	32
Organisation Score	60.5	32.5	12.5
	88.97%	67.71%	39.06%

Overall averages for the financial management styles



