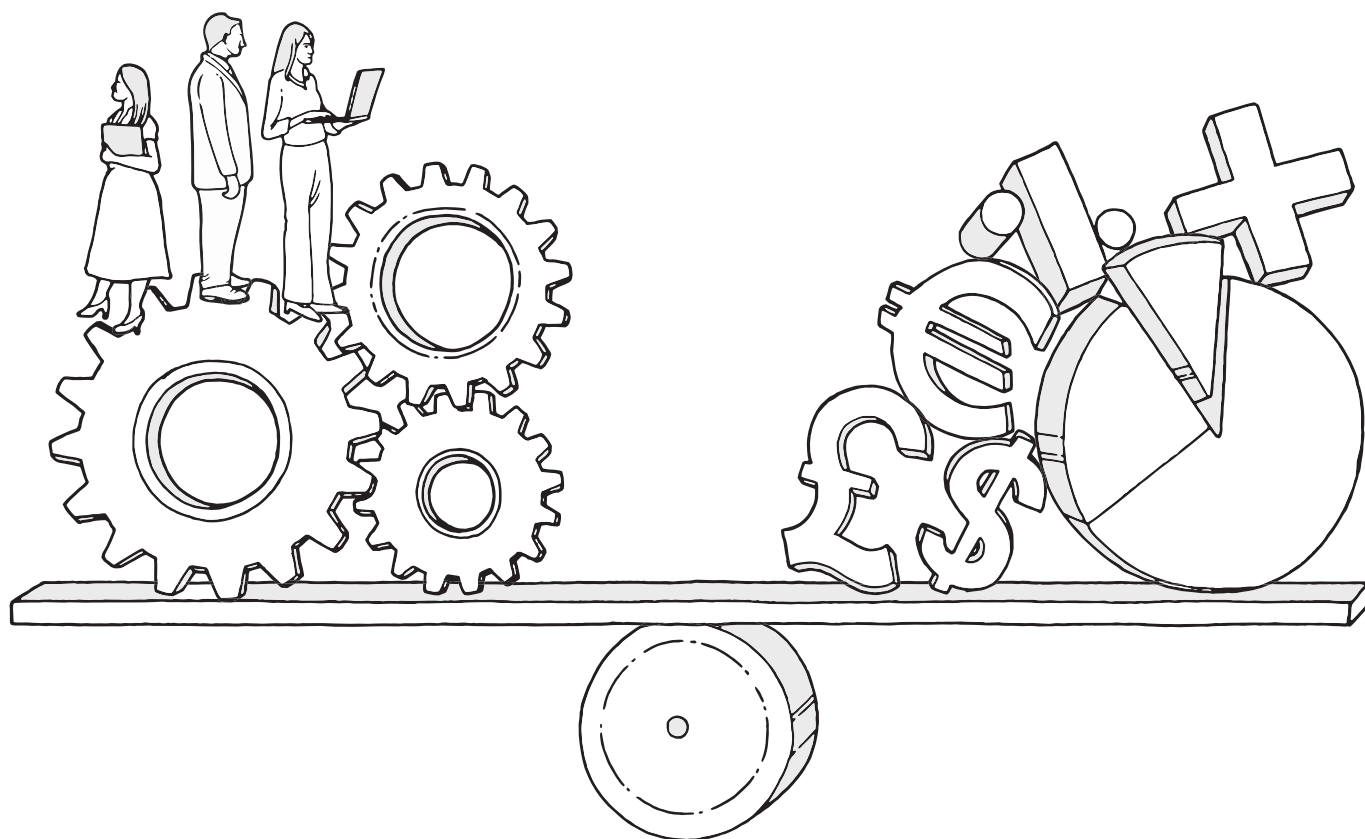


# delivering effective financial management

in Public Service Organisations

The CIPFA FM model – statements of good practice



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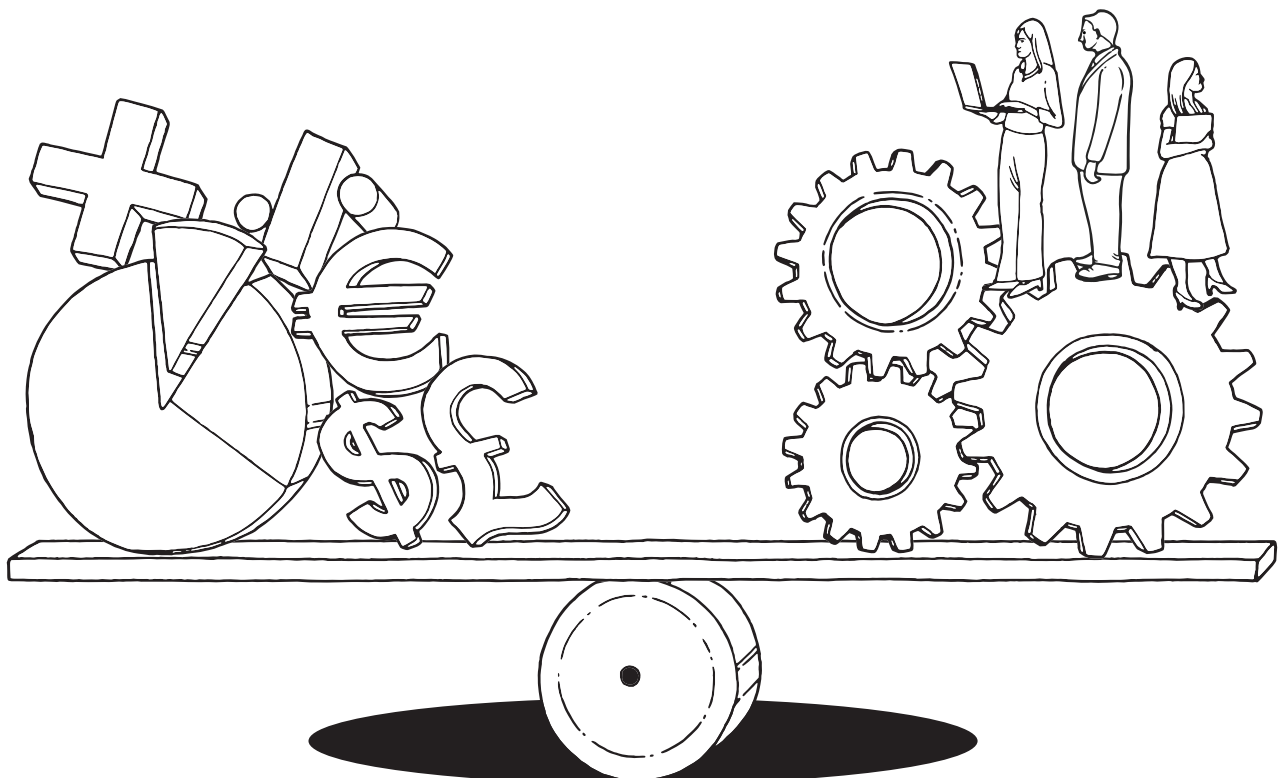
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# Foreword

In a period of continued global austerity, effective financial management has never been more critical to public service organisations. To support the necessary transformation finance professionals are refocusing their roles. As organisations contend with greater demands and fewer resources they must increasingly look to new and creative business models. At the same time, keeping a firm grip on the organisation's finances and driving efficiency are critical both to service delivery and to public credibility.

Whilst the traditional areas of accountability, cost management and value for money remain ever important, finance teams are increasingly at the forefront of transformation and commercialisation programmes to focus on the achievement of outcomes through the most effective means available, harnessing synergies with other public sector organisations as well as private and third sector providers.

CIPFA's Financial Management (FM) Model is structured around the three themes of delivering accountability, supporting performance, and enabling transformation. Its scope ranges from the essential controls that should be in place to safeguard assets and demonstrate accountability, to the aspirations of top quality organisations. Its purpose is to help organisations to carry out a health check on their own financial fitness to deliver their goals, and to identify and plan improvements.



The latest iteration of the FM Model has been tailored for the challenging financial climate in which public services must now operate and streamlined to support self-assessment and improvement. The principles of good financial management are unchanged: this is the business of the whole organisation, not just finance staff. It requires a tone set from the top, sound processes, competent and motivated people and responsiveness to stakeholders. There is also a clear emphasis on risk management through change, transactional efficiency and productivity, collaborative working and the commercial acumen of finance staff. A relentless focus on priorities, costs and income must drive out further savings both within and between organisations. New and creative solutions to make public money go further are part of the new normal and change and innovation must go hand in hand with robust accountability.

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 dispersed, managers need to be financially literate and finance professionals need to contribute challenge, interpretation and advice. The FM Model codifies good practice and provides a framework for self-assessment and continuous improvement. It is designed as a resource for the whole organisation. Boards of public bodies, finance professionals and business managers can together apply the model to develop financial management fit for their business goals and service aspirations. It can help give the Board a picture of practice in their organisation, creating 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. The model has been put to a variety of uses, including testing existing arrangements against good practice and identifying improvements, encouraging change, and specifying standards.

Good financial management is a vital corporate discipline and a feature of successful organisations. We believe that applying the FM Model will help ensure robust financial management arrangements, shaped to support your organisation in the challenging times ahead.

# Definition of terms

The public services have a variety of organisational structures and governance arrangements.

Some include elected representatives, while others are wholly appointed. The following terms are used throughout the model in a generic sense and are marked in italics. Terms in use in different parts of the public services can be substituted for the generic terms used here.

<b>Audit committee</b>	The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.
<b>Board</b>	The group of people charge with setting the strategic direction for the organisation and that is responsible for its achievement. Typically the governing body and final decision makers of the organisation.
<b>Chief executive</b>	The most senior executive role in the organisation.
<b>Chief financial officer (CFO)</b>	The organisation's most senior executive officer charged with leading and directing financial strategy and operations.
<b>Corporate business plan</b>	The organisation's overarching plan approved by the Board that sets out its strategy and how this will be realised over the coming and future years. It may be a stand-alone document or subsumed within a regulatory or statutory plan.
<b>Finance function</b>	The organisational unit in which financial duties are located and which is usually headed by a chief financial officer.
<b>Finance staff</b>	Staff with a prime responsibility for financial matters, located either in a central department or within business/service areas.
<b>Financial management</b>	Public financial management (PFM) is the system by which financial resources are planned, directed, and controlled to enable and influence the efficient and effective delivery of public service goals.
<b>Governance</b>	The arrangements in place to ensure the organisation fulfils its overall purpose, achieves its intended outcomes for citizens and operates in an economical, effective, efficient and ethical manner.
<b>Internal audit</b>	An assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives.

<b>Leadership team</b>	Comprises the Board and the management team.
<b>Management team</b>	The group of executive staff comprising the senior management charged with the execution of strategy.
<b>Managers</b>	The staff responsible for the achievement of the organisation's purpose through services/businesses to its clients/customers.
<b>Medium-term financial plan</b>	The translation of the corporate business plan using long-term forecasting and analysis of the financial and economic environment to identify potential threats or opportunities to the organisation's finances and the developed strategies in response into programmes covering the medium term (generally three to five years). The appropriate future time frame will depend on the nature of the business.
<b>Partnership</b>	An arrangement between independent bodies that together agree to co-operate to achieve a common goal through a process or a new organisation and share risks and rewards.
<b>Public service organisation</b>	One or more bodies managed as a coherent entity with the primary objective of providing public services.
<b>Public services</b>	The goods or services provided on a not-for-profit basis to the general public or for social benefit.
<b>Risk management</b>	The methods and processes used by the organisation to manage potential events that may negatively impact on its activities and assets.
<b>Scrutiny and review</b>	The arrangements in place that provide a check on the Board's plans and their execution.
<b>Treasury management</b>	The management of the organisation's cash flows, banking, money market and capital market transactions and loan management.

# Introduction

CIPFA's definition of public financial management focuses on its contribution to achieving strategic and operational goals, as a key aspect of good governance.

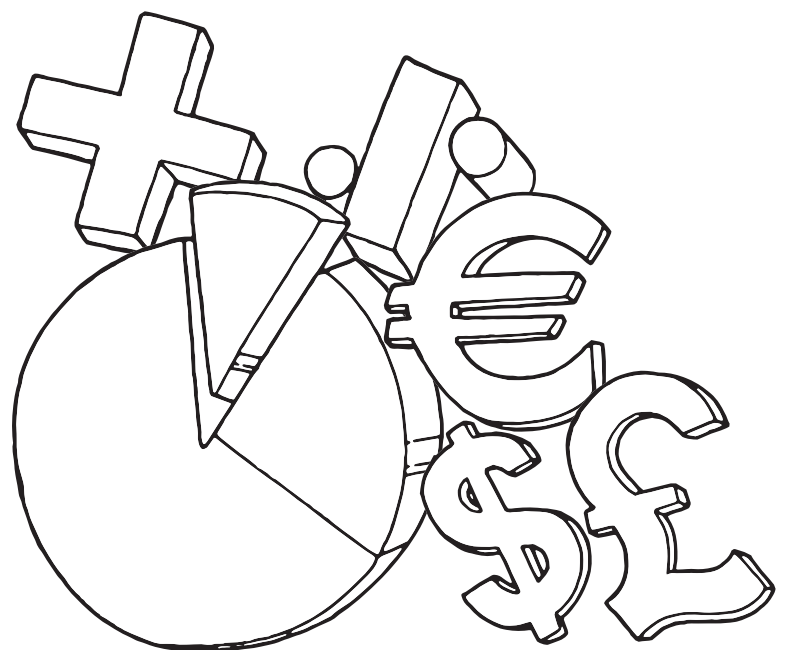
*Public financial management (PFM) is the system by which financial resources are planned, directed, and controlled to enable and influence the efficient and effective delivery of public service goals.*

This definition of PFM applies equally across multiple or single bodies, and at all levels of government. It can therefore be used in the context of national governments or regions, localities or individual public service organisations.

The public sector (ie that part of the economy where funding comes largely from government) needs to deserve the trust that goes with exacting standards of probity and accountability and demonstrable efficiency in the use of public resources. To cope with limited funding and increasing demand and expectations from citizens, new and creative solutions that make public money go further need to be found. Change and transformation must go hand in hand with the robust accountability expected of public bodies.

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 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, accountability 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 costs and trends and using comparisons to drive out further efficiencies, linking costs with activity to lever performance improvements
- enabling the organisation to plan for the future and to align its resource allocation with its business objectives
- collaborating in change programmes, so that the organisation can move forward without compromising core financial management values.



# Effective financial management in practice

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 financial constraint and retrenchment. There is a focus on re-examining priorities in response to tighter finances, reducing costs, smarter targeting of clients, risk control and performance funding linked with outcomes and results. Working with other public bodies, the third sector and companies in partnership to deliver services brings together different cultures and financial regimes, presenting new business opportunities, risks and challenges. Increasing use of technology offers reduced transaction costs and streamlining of back-office processes. Front-line empowerment brings a need for accountability and financial competency. Internal control and accountability remain essential, but social objectives, value for money, community leadership, stakeholder interest, innovation and partnership are also important. These trends require finance staff to contribute challenge, insight and solutions as well as financial control.

CIPFA's FM Model is a repository of good practice to give public service leaders insight into the quality of financial management in their organisation.

## STYLES OF FINANCIAL MANAGEMENT

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The CIPFA FM Model is structured around three styles of financial management:

- **Delivering Accountability** – 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.

The styles are progressive. The performance style encompasses all the features of accountability, whilst all the elements of performance sit within the transformational style.

Accountability is the bedrock. It ensures that public resources are properly spent, and it is also an essential element in building a relationship of trust between the public service 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.

However, accountability alone is not sufficient to enable an organisation to drive performance and to develop its capacity for change and transformation. If costs are to be radically stripped out then new business models must be embraced. Safeguarding services for users means performance must be maintained with improved productivity and value for money.

This underscores the importance of shaping the financial management style to the public body's ambitions. If it is seen as a hindrance to pace and progress and preoccupied with issues of control, business energy is all too likely to go into subverting and bypassing good FM practice, rather than drawing on it as a resource.

Organisations now face an imperative to be the adaptive, forward-facing body that the transformation level implies. They will still need to keep accountability strong. The FM Model is designed to help organisational leaders to determine where their organisation currently sits and how financial management can develop in tandem with organisational goals.

There can be a special challenge for finance people in moving between the different financial management styles. Accountability 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 and negotiation. 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 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.

For non-finance managers, progression between styles can be equally problematic. The public sector has spent over 100 years refining its practices on accountability. Throughout 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 hitting the target, not with what money actually buys or the outcomes it delivers. In central government especially, away from the agency arms, the image of finance can still be of preoccupation with auditors, technical accounting issues, and securing resources from the Treasury. For the non-finance manager, a focus on delivering service and policy targets can engender a culture where finance is about bidding and compliance rather than about extracting and driving value.

## MANAGEMENT DIMENSIONS

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CIPFA's FM Model is 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. The dimensions 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 management team. The tone set from the top will be critical.

- People, which includes both the competencies and the engagement of staff, within and throughout 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 acknowledges the relationships between the organisation and those with an interest in its financial health. Public service organisations interact with a web of stakeholders from government, inspectors, taxpayers, partners, suppliers, customers or clients. External stakeholders have legitimate expectations about the finances of the organisations. This is enveloped by the public interest.

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 model.

## THE MATRIX ANALYSIS

The FM Model’s component good practice statements, that describe the characteristics of good financial management for public service organisations, are summarised as a matrix.

Financial Management Styles	Management Dimensions			
	Leadership	People	Processes	Stakeholders
Delivering Accountability	L1 – L3	P1 – P2	PR1 – PR9	S1
Supporting Performance	L4 – L5	P3 – P5	PR10 – PR13	S2
Enabling Transformation	L6	P6	PR14 – PR15	S3

# The principles

## LEADERSHIP

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### Delivering Accountability

- L1 Financial capability is regarded as integral to supporting the delivery of the organisation's objectives. The CFO is an active member of the board, is at the heart of corporate strategy/business decision making and leads a highly visible, influential and supportive finance team.
- L2 The organisation has an effective framework of financial accountability that is clearly understood and applied throughout, from the board through executive and non-executive directors to front line service managers.
- L3 Within an annual budget setting process the organisation's leadership sets income requirements including tax and allocates resources to different activities in order to achieve its objectives. The organisation monitors its financial and activity performance in delivering planned outcomes.

### Supporting Performance

- L4 The organisation has a developed financial strategy to underpin medium and longer term financial health. The organisation integrates its business and financial planning so that it aligns resources to meet current and future outcome focused business objectives and priorities.
- L5 The organisation develops and uses financial/leadership expertise in its strategic decision-making and its performance management based on an appraisal of the financial environment and cost drivers.

### Enabling Transformation

- L6 The organisation's leadership integrates financial management into its strategies to meet future business needs. Its financial management approach supports the change agenda and a culture of customer focus, innovation, improvement and development.

## PEOPLE

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### Delivering Accountability

- P1 The organisation identifies its financial competency needs and puts arrangements in place to meet them.
- P2 The organisation has access to sufficient financial skills to meet its business needs.

### Supporting Performance

- P3 The organisation manages its finance function to ensure efficiency and effectiveness.
- P4 Finance staff provide business partner support by interpreting and explaining performance as well as advising and supporting on key business decisions.
- P5 Managers understand they are responsible for delivering services cost effectively and are held accountable for doing so. Financial literacy is diffused throughout the organisation so that decision takers understand and manage the financial implications of their decisions.

### Enabling Transformation

- P6 The organisation develops and sustains its financial management capacity to help shape and support its transformational programme.

## PROCESSES

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### Delivering Accountability

- PR1 Budgets are accrual-based and robustly calculated.
- PR2 The organisation operates financial information systems that enable the consistent production of comprehensive, accrual based, accurate and up to date data that fully meets users' needs.
- PR3 The organisation operates and maintains accurate, timely and efficient transactional financial services (eg creditor payments, income collection, payroll, and pensions' administration).
- PR4 The organisation's treasury management is risk based. It manages its investments and cash flows, its banking, money market and capital market transactions, balancing risk and financial performance.
- PR5 The organisation actively manages budgets, with effective budget monitoring arrangements that ensure 'no surprises' and trigger responsive action.
- PR6 The organisation maintains processes to ensure that information about key assets and liabilities in its balance sheet is a sound and current platform for management action.
- PR7 Management understands and addresses its risk management and internal control governance responsibilities.

- PR8 Management is supported by effective assurance arrangements, including internal audit, and audit and risk committee(s).
- PR9 The organisation's financial accounting and reporting are accrual based and comply with international standards and meet relevant professional and regulatory standards.

## Supporting Performance

- PR10 The organisation's medium-term financial planning process underpins fiscal discipline, is focussed upon the achievement of strategic priorities and delivers a dynamic and effective business plan.
- PR11 Forecasting processes and reporting are well developed and supported by accountable operational management. Forecasting is insightful and leads to optimal decision making.
- PR12 The organisation systematically pursues opportunities to reduce costs and improve value for money in its operations.
- PR13 The organisation systematically pursues opportunities for improved value for money and cost savings through its procurement, commissioning and contract management.
- PR14 The organisation continually re-engineers its financial processes to ensure delivery of agreed outcomes is optimised.
- PR15 The organisation manages its finance function to ensure efficiency and effectiveness.

## Enabling Transformation

- PR16 The organisation's financial management processes support organisational change.

## STAKEHOLDERS

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### Delivering Accountability

- S1 The organisation provides external stakeholders with evidence of the integrity of its financial conduct and performance, and demonstrates fiscal discipline including compliance with statutory/legal/regulatory obligations.

### Supporting Performance

- S2 The organisation demonstrates that it achieves value for money in the use of its resources.

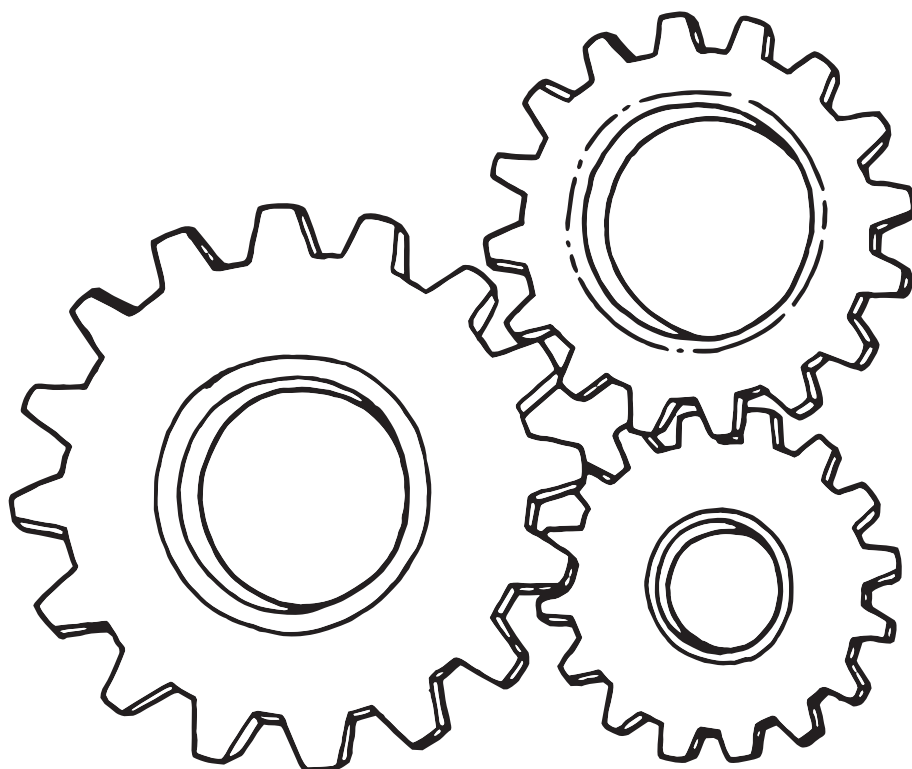
### Enabling Transformation

- S3 The organisation is responsive to its operating environment, seeking and responding to customer and stakeholder service and spending priorities that impact on its financial management.

# Using the Model

The FM Model has been developed by CIPFA for use by organisational leaders, finance staff and service managers as an improvement tool for bodies to measure themselves against an external framework of generic good practice and for aligning financial management with the organisation's own development path and priorities.

Behind each statement lies a set of linked questions, which explore the practical implications of good practice. These also signpost the development of improvement actions. Not all the questions will apply to every organisation, reflecting the diversity of the public services.



# Self-assessment and improvement planning

Whatever the level of external inspection it is always important that organisations demonstrate the discipline and self-confidence to set their own development path by testing themselves against good practice. Sound financial control helps organisational leaders to sleep at night, but financial management can also be consciously designed to lever performance and to support change.

Routes to utilising the good practice standards set out in the FM Model are varied, ranging from a full diagnostic self-assessment baseline review, to testing known problem areas by dipping selectively into the full content. The full diagnostic can help organisations develop a profile of the strengths and weaknesses of financial management, the predominant financial management style in the organisation and how far this is aligned with the organisation's strategic goals. Known areas of weakness can be thoroughly examined in a targeted manner. It can be used to test accountability 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.

Using the Model will allow an organisation:

- to establish a profile of its financial management
- to compare where FM is currently with where it needs 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 examine specific aspects such as financial planning, capacity to drive down costs, and accountability for spending.

From the results of the assessment action plans follow which can be used to track progress.

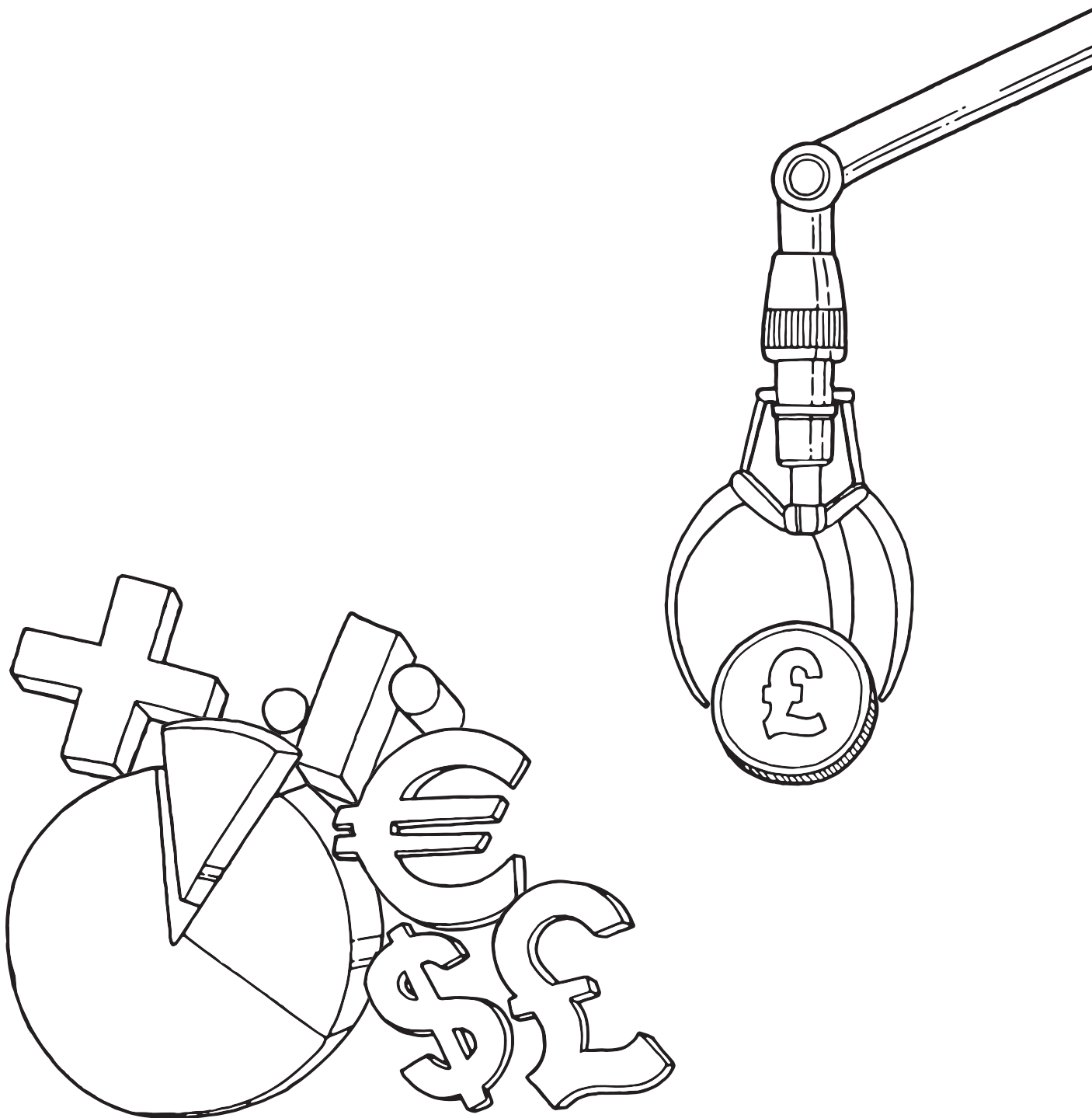
Using CIPFA's FM Model will involve scoring the good practice statements in the model and answering the linked questions for each statement. The questions explore whether there are relevant groundwork policies and practices in place, whether they are deployed consistently and effectively, whether they influence or impact the organisation's behaviour or results, and whether they deliver the required outcome.

Organisations are asked to exercise thoughtfulness and judgment when they make a score. They are also encouraged to look at what really happens, rather than focusing on documentation. They should take in a broad range of views from across the organisation.



Observations and evidence need to be recorded to ensure that assessments are soundly based. Evidence will also help to identify perceptions of strengths and areas to improve when action plans are drawn up. Some types of evidence will come from documented sources; other evidence is embedded within the linked questions of each of the good practice statements.

Different groups within the organisation will be involved in a variety of ways, either through electronic surveys, interviews or workshops. Gathering differing perspectives provides a powerful snapshot around the organisation, itself evidence of the reality of how arrangements are working on the ground.



# Conclusion

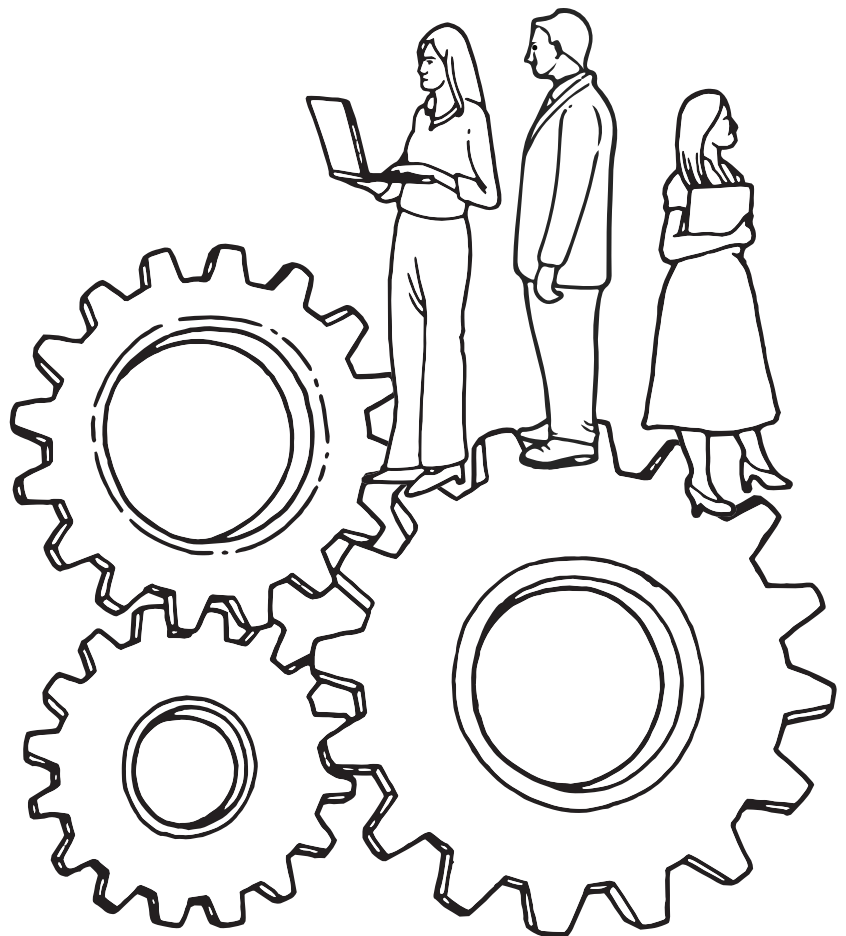
High performance means consistently demonstrating strengths in leadership, public financial management and performance management. Public financial management is not just about accountants keeping score. With diffused financial responsibilities, the leadership team and managers need to be financially literate and finance professionals need to contribute challenge, interpretation and advice, allied with control and compliance. Good financial management helps managers deal with the pressures of balancing limited resources with expanding demands and expectations, and with their obligation to spend the taxpayers' pound carefully.

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