

FURTHER AND HIGHER EDUCATION NEWSLETTER

ISSUE NUMBER
ELEVEN

Summer 2004

AT THE HEART OF
PUBLIC SERVICES



In this issue:

€# Structured finance
for universities

€# Financial
Management and
Effectiveness in
Public Service
Organizations: The
CIPFA FM Model

€# A summary of
CIPFA responses to:

— Plan led Funding
Circular

— DfES White
Paper '21st
Century Skills –
Realising our
Potential

Forthcoming
publication

€# Further Education
Finance

INTRODUCTION

Welcome to the eleventh newsletter for finance practitioners and CIPFA members working in the further and higher education sectors. The Panel comprises directors of finance from a range of further and higher institutions together with representation from the funding councils, audit firms and the National Audit Office. This newsletter has been prepared by CIPFA's Further and Higher Education Panel. The Panel's members are:

Graham Try (Chairman)	<i>Richmond upon Thames College</i>
Kerry Ace	<i>CIPFA</i>
Norman Bennett	<i>Queens University, Belfast</i>
David Cameron	<i>Inverness College</i>
Dorothy Carson	<i>SFC</i>
Peter Cooper	<i>University of Dundee</i>
Kirsten Gillingham	<i>University of Brighton</i>
Richard Harris	<i>Higher Education Funding Council for England</i>
Julian Gravatt	<i>Association of Colleges</i>
Colin Hubbard	<i>Bolton Institute of Higher Education</i>
Jo James	<i>National Audit Office</i>
Philip Lloyd	<i>Learning and Skills</i>

Council

Ian Looker	<i>Pricewaterhouse- Coopers</i>
Stephanie Mason	<i>Baker Tilly</i>
Ben McLeish	<i>Edinburgh's Telford College</i>
Ian Noutch	<i>Barking College</i>
Mike Rowley	<i>KPMG</i>
Ian Starkie	<i>Staffordshire University</i>
Nicholas Williams	<i>HEFCW</i>
John Woodall	<i>University of Essex.</i>

The Panel's purpose is to develop, promote and maintain best practice standards and guidance and produce and disseminate relevant advice for finance practitioners in the further and higher education sectors.

CIPFA PUBLICATIONS

As part of its work programme, the Further and Higher Education Panel develops guidance on financial management and policy issues relating to further and higher education. The Panel's most recent publications are listed below.

Higher Education Finance (fully revised edition)

CIPFA published the first edition of Higher Education Finance in 1994 and since then the sector has continued to undergo considerable change. In

particular, funding mechanisms have evolved but the level of resources available to institutions is still a major concern. There has been major diversification and expansion of the higher education sector over the past decade, but the Government remains committed to further expansion. Higher education institutions are expected to deliver some of the Government's key economic objectives by providing a highly skilled workforce and by working with industry on collaborative research.

This fully revised edition of Higher Education Finance prepared by CIPFA's Further and Higher Education Panel outlines the essential features of the financial structures, governance arrangements and funding systems which underpin the financial requirements and practices in higher education. This edition includes new sections on European grants, costing and pricing, corporate governance and the National Committee of Inquiry into Higher Education. In addition, although it outlines practices based on the English model, it indicates where essential differences in Scottish and Welsh practice exist.

The guide is available for £79.50 for the first copy and £40.00 for second and subsequent copies.

A Model Set of Financial Regulations for Further and Higher Education Institutions

To conduct its business effectively an institution needs to ensure that it has sound financial management systems in place and that they are strictly adhered to. Part of this process is the establishment of financial regulations

which set out the financial policies of the institution.

Financial regulations make good business sense and for further and higher education institutions, they have additional significance – their grant funding depends upon it. The financial memorandum between funding bodies and the institutions they fund makes it a condition of grants that the institution ensures that it has a sound system of internal financial management and control. Similarly, funding body audit services are required to give an assurance that institutions have fully documented financial procedures in place and the funding body may withhold grant where this cannot be shown to be the case.

CIPFA first published its model set of regulations in 1995. The model set has now been fully revised and reflects current best practice and provides a practical source of guidance. This edition includes new sections on issues including use of institution credit cards and whistle blowing. The new draft covers three principal types of institution – 'old' universities, 'new' universities and colleges of higher education and also further education institutions. Where there are differences in the financial regulations that are required, because of their different status, options are shown as (a), (b) and (c) to produce financial regulations which are applicable to its own circumstances and structures. This model set has been written in a format that will enable institutions to present it to their governing bodies, following modification to their own requirements.

The model set comes with a CD-ROM

that will enable institutions to modify the regulations to their own requirements.

£35.00 for first copy of the book, £20.00 for subsequent copies, CD-ROM £66.43, combined pack £77.29.

For further details please contact CIPFA's Publications Unit on 0207 543 5600 or see CIPFA's website www.cipfa.org.uk/shop.

Other relevant publication include:

Mergers and Collaboration – A Guide for Further and Higher Education Institutions (2000) £49.50

A Resource Quantification Model : Case Study from the Further and Higher Education Sector (2000) £19.50

FORTHCOMING PUBLICATION

Further Education Finance (fully revised edition)

This publication is a major update of the previous 1995 guide, which reflects the significant change in further education finance since that time, particularly with the formation of the Learning and Skills Council (LSC) in April 2001. It provides a thorough briefing on the financial structures and funding systems which underpin the further education sector and the regulatory framework in which institutions must operate.

Further Education Finance will be as useful for new finance staff joining the sector and a useful reference guide for those already working in the sector. It will also be of value to college governors, particularly those serving on

finance committees and to those outside the sector who deal with, or have an interest in, further education.

This guide will be available shortly.

For further details, please see CIPFA's website www.cipfa.org.uk/shop

OTHER PROJECTS

The Further and Higher Education Panel is currently developing the following guides:

- €# A Handbook for Audit Committee Members in Further and Higher Education (fully revised edition).
- €# Guidance on Partnerships and Alliances.

These guides will be published in 2005.

CIPFA COURSES

Developments in Further and Higher Education – Autumn 2004, Central London)

This one day course will include sessions on:

- €# education policy
- €# fees
- €# the impact of international accounting standards
- €# treasury management
- €# pensions schemes
- €# CIPFA's Financial Management Model (see article on pages 9-18 of this newsletter)
- €# procurement
- €# employment law.

This course will be of particular interest to finance staff from further and higher education institutions and colleagues

from other sectors who deal with further and higher education institutions and who need to gain an insight into these areas.

For further information, please contact Sarah Edwards on 020 7543 5680 (sarah.edwards@cipfa.org).

THE FURTHER AND HIGHER EDUCATION PANEL'S WORK PROGRAMME

As part of its work programme, CIPFA's Further and Higher Education Panel responds to circulars in which it has a particular interest. The key points from its latest submissions are summarised below. The full responses can be found on the Panel's web pages on CIPFA's website at www.cipfa.org

LSC Circular 03/05 – Plan Led Funding

CIPFA supports in overall terms the proposals and considers that the principles underpinning them will lead to more effective and efficient financial management and auditing of individual institutions and of the further education sector as a whole. CIPFA also welcomes the specific proposals such as further simplification, the ending of the Individual Learner Record audit and of in year claw-back of funding, which will bring the funding arrangements of further education more into line with those for other public service organisations.

DfES White Paper '21st Century Skills – Realising Our Potential'

Introduction

CIPFA welcomes the recognition given in the White Paper to the achievements of the further education sector and the role that the sector plays in developing the skills needed for the nation's continued economic, cultural and social success.

Implications for the Future Funding System

- €# The commitment of the Government to simplify the funding system in the future is welcomed.
- €# There is also a real need for stability in the funding system to enable reliable forecasting of income projections by further education institutions and to enable institutions to develop their own soundly based course costing models and benchmarking comparisons.

Broadening the current range of training providers (eg para 4.32) that in turn would bring more private providers within the scope of public funding

- €# CIPFA believes that the Government must ensure that the standards for those institutions in receipt of public money must be high and applied consistently across all providers to ensure the required standards of probity in the stewardship and accountability of public funds. It is important that there is a 'level playing field' in terms of the required standards and controls and the audit regime.

Implications for capital resources

- €# There is significant emphasis within the Strategy on various revenue funding inducements targeted at providers and individual learners, with the aim of seeking to meet higher learner targets. However, little emphasis or coverage is included on capital funding needs.
- €# The higher Government target set out in the Skills paper will further increase the pressure on current resources.
- €# The ability to meet the increased demand for skills will be dependent upon sufficient capital resources being made available as a priority to providers to fund both expansion and improvements in the quality of existing facilities. It is essential that the infrastructure generally of providers is a sufficient standard to attract new learners, many of whom will have been outside of learning and such environments for many years.
- €# Funding may be problematic for institutions that move towards the provision of more complex services such as business solutions, research and development and product design, which requires considerable up-front investment.

Priorities for resource allocation and the new fees policy

- €# Whilst the Government's rationale for prioritising resource allocation is made clear in the Strategy, work and provision that has and is currently taking place to support skills for lower priority learners could be adversely affected. The new fees policy proposed in the Strategy could

add to this through the greater restrictions on colleges from the new National Framework for the setting of fees and the proposed aggregate income target for each college and training provider.

- €# The new National fees framework and income target, even though the latter is to be set at an overall college level, may lead to restrictions on individual institutions who may not be able to take into account local factors in the way they currently can and this could lead to a reduction in the demand for courses.
- €# The current flexibility enables colleges to keep courses open on the basis that they are making a marginal contribution towards fixed costs, but it may not be possible to do this in the future with a more tightly defined fee policy. This in turn could lead to the closure of some existing courses in these areas.

The new framework of partners for colleges

- €# The new framework of agencies that will have a future role to play in implementing the Skills Strategy and seeking to achieve the higher targets set out in the paper, are given comprehensive coverage. However, there are a number of these, eg RDAs, SSCs, LSC, etc and it is essential that their respective roles are effectively managed and that the new comprehensive framework does not place an additional bureaucratic burden on further education institutions.
- €# The greater involvement of employer-led training is to be welcomed, provided that it is done in an atmosphere of genuine

partnership and transparency.

STRUCTURED FINANCE FOR UNIVERSITIES

The following article was first published in *Public Money & Management* (Volume 24, No 3, June 2004). The views expressed in this article do not necessarily reflect those held by CIPFA's Further and Higher Education Panel.

Universities need to borrow to fund activities such as estate refurbishment, new construction, expansion of academic, library and research facilities; also revenue-earning activities like accommodation, sport and leisure and the provision of science and industrial parks. Borrowing is simple and cheap and loans are readily available to borrowers in the sector. So why should universities consider structured finance – a more complicated and sometimes more expensive means of raising money? Quite simply, by paying a little more, a university will be getting a better product that will enable it to raise substantially more money than simply by borrowing and also through the redemption of existing borrowings, enable debt to be raised for trophy projects previously unattainable, such as academic expansion or upgrading student accommodation with en suite facilities and internet access. The chosen route available to universities is usually some form of securitization of student rents.

Securitization and How it Works

The best way of understanding a structured finance securitization solution to a university's need to raise money is

that it is not a property transaction, but a disposal of future rent in return for a payment now – the university has leased or sold some or all of its future rent for its present value. The purchaser is not looking at the value of the properties nor at the location. The purchaser is concerned only with rent, its level of escalation, its collection, voids and default record. The idea is to get away from older concepts, such as loan to value, yields and desirability, and to justify the fund raising on the basis of the mathematics. The great attraction to a university is that the sums raised are based entirely on the university's own assumptions and financial ambitions. The purchaser of the rent, who will fund the acquisition simply by borrowing or issuing a bond, needs only to be satisfied that the assumptions used will fully repay the funding. For the university the securitization solution involves a genuine transfer of risk to the third party purchaser of the rent; the university is never required to repay the premium received and the solution is principally without recourse to the university. In the event of a rent shortfall, the purchaser of rent has taken on that risk and underwrites that risk itself or insures against it happening. In the securitization world, this is called 'wrapping' the transaction and required the purchaser of the rent to pay for insurance from a specialist 'monoline' insurer.

Because the transaction is not a borrowing its accounting treatment is different. The receipt is treated as deferred income and, if used to redeem existing debt, reduces gearing in the balance sheet, thereby financially strengthening the university or allows the university to increase its

conventional borrowing for other activities. Subsequently rent from newly built or acquired properties can be added to the existing securitization again to redeem the construction period debt or expand further, thereby creating a virtuous circle of growth. Provision for the daily, weekly and monthly maintenance and management of the estate is catered for in the transaction by limiting part of the students' rent acquired to a proportion sufficient to raise the capital sought by the university, leaving the balance of the students' rent acquired to cover the F&M cost. If the university's assumptions prove accurate throughout the period of the transaction (and it is reasonable that the assumptions are those adopted by the university with or without the transaction), there will always be enough students' rent to cover the payments to the debt providers and payments for F&M. At the end of the transaction the university receives the estate back unencumbered, maintained and free to repeat the whole process again. All that the transaction does is unlock the value in the slumbering assets that are student's rents.

Securitization and its Costs

Structured finance is sometimes more expensive than conventional borrowing because arrangement and legal fees can be higher than for a loan. Also if the transaction is wrapped, then the premium paid to the insurer (out of the proceeds of the transaction) is the price for the genuine transfer of risk to a third party that the university has achieved. If the transaction is debt funded, the margin cost is likely to be similar to straight borrowing, where some universities have achieved margins below 30 basis points for term loans. If

the transactions are funded by the issuing of bonds or by private placement, margins in the gilt markets are higher at, for example, 90 basis points but currently offer a much lower cost of funds and are fully fixed for periods as long as 40 years. The cost of funding can be significantly enhanced by a university becoming rated by one of the specialist rating agencies such as Standard & Poor's. Several universities (Bristol: AA; King's College, Sheffield and Nottingham: AA-; and Lancaster: BBB+) have now been publicly rated; two housing associations, Broomleigh and Shaftesbury, have been rated at A- and, despite opposition from the Government, three local authorities are rated – the Greater London Authority (AA+; its subsidiary Transport for London is AA-), Kensington and Chelsea (AAA), and Huntingdon (AAA); these are all investment grade ratings. The emerging use of ratings is a sign of the structured finance market in the publicly funded sector maturing and accepting concepts that have long been tools used by the commercial sector.

Owengate Securities Ltd and Securitization

Owengate Securities and its predecessor companies have provided structured finance to the public sector for the past 25 years. Owengate identifies structured finance solutions and then markets them to lenders and investors as completed packages for their subscription. This keeps costs of structured finance solutions to acceptable levels and encourages smaller users of such solutions into the market; transparency of earnings, fees and costs ensures that the economics of a proposal are available to all participants.

Douglas D Pinnock

Owengate Securities Ltd, London

FINANCIAL MANAGEMENT AND EFFECTIVENESS IN PUBLIC SERVICE ORGANIZATIONS: THE CIPFA FM MODEL

The following article was first published in *Public Money & Management* (Volume 24, No 3, June 2004)

Improving services in the public sector is not just about front-line delivery – effective governance and financial management are key drivers for public bodies on the improvement path. Regulatory frameworks are putting these elements in the spotlight as they seek to track additional investment and its impact on services. No longer just about accounting for the money and demonstrating stewardship, financial management in the public services is about giving the right decision support and enabling the right choices. Modern public bodies need to make sure they are financially literate throughout their operations to meet their organizational goals effectively. Self-assessment and improvement planning can work for financial management and a framework developed by public finance professionals in the UK's public sector is described in this article. The article draws upon the CIPFA FM Model that is to be launched in Summer 2004.

High-performing organizations consistently demonstrate strengths in leadership, financial management and performance management. This article focuses on the contribution of financial management to the public sector's capability to achieve its strategic and

operational goals and deliver improvement; it draws on material from a model of good practice developed by CIPFA for use by finance staff and other managers, as a tool for aligning financial management with the organization's particular development path and priorities.

Public service organizations are highly diverse and complex. They make complicated trade-offs between competing demands and interests. They maintain a range of different relationships with a variety of stakeholders, from regulators, service purchasers, service users and the general public interest. 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 organization'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 organization to plan for the future and to align its resource allocation with its business objectives.
- €# Maximizing income sources without being diverted from business priorities.
- €# Collaborating in change programmes, so that the organization can move forward without compromising core financial management values.

The requirements of financial management in modern organizations have expanded beyond controlling expenditure and accounting for transactions to dealing with these 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. Financial management responsibilities are now widely diffused and are not the exclusive interest of the director of finance. All this demands a high degree of financial literacy from managers throughout the organization.

A MODEL FOR EFFECTIVE FINANCIAL MANAGEMENT

The model described in this article, which was developed by a CIPFA working group, can be used to assess the contribution that financial management makes to a successful public service organization.

The model for good practice is presented as a matrix of statements for public service bodies that perform well in financial management. It invites organizations 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 organization's strategic direction.

The model is structured around three styles of financial management:

- €# *Securing stewardship* – an emphasis on control, probity and meeting regulatory requirements.
- €# *Supporting performance* – responsive to customers, efficient and effective, and with a commitment to improving performance.
- €# *Enabling transformation* – strategic and customer led, future orientated, pro-active in managing change and risk, outcome focused and receptive to new ideas.

The styles are progressive. The performance style encompasses all the features of stewardship, while all the elements of performance sit within the transformational style. *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 and accountability between the public organization and the citizen or service user. However stewardship alone is not sufficient to enable an organization to drive performance and to develop its transformational capacity. Conversely, transformation or performance programmes that are not founded in 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 organizational agenda, business energy is all too likely to go into subverting and bypassing good practice, rather than drawing on it as a resource.

Ultimately, organizations will aspire to be the kind of adaptive, forward-facing body that the transformation level implies. However, there may be stages in the organizational life-cycle when other styles can be more appropriate. Establishing stewardship may be the right focus for bodies at start-up stage, or 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.

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 recognized 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 in these areas, rather than the traditional home ground, if there is a bigger contribution to be made elsewhere.

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. In central government departments especially, finance can still be seen as preoccupied by 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 lead to 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 it is not core to career development.

Management Dimensions

The CIPFA model is also organized by five management dimensions. These cover a blend of ‘hard edge’ attributes—things that can be costed and measured—as well as softer features like communications, motivation, behaviour and cultural change. They are:

- ## *Leadership*, which focuses on strategic direction and performance management, and the impact on financial management of the vision and involvement of the organization’s board members and senior managers.
- ## *People*, which includes both the competencies and the engagement of staff. This aspect generally faces inward to the organization.
- ## *Processes*, which examines the organization’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 organization 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 organization, between finance services and their internal users.
- ## *Results*, which acts as a reality check on outcomes, where the organization can include its local performance indicators, trends and any statutory financial performance.

These dimensions are deliberately

related to other well-used quality and performance management tools, such as the balanced scorecard or European Foundation for Quality Management (EFQM) self-assessment model, so that they can be assimilated relatively easily into other performance management tools that organizations may already be using.

Figure 1 summarizes the components of the model. It represents a matrix, where each component is a statement of good practice against which an organization can test its own experience. Behind each of the statements in figure 1 is a set of questions, which invite the user 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 future improvement plans. The questions will not be exhaustive—good practice can be context specific and can take more than one form. And not all the questions will apply to every organization, especially smaller bodies.

A Self-Assessment Tool

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. Using a self-assessment model, like the CIPFA FM model, as part of an external assessment will allow regulatory agencies to move towards proportionate and risk-based regulation. High-performing organizations might therefore be ‘lighter touch’ and regulatory agencies will be better able to target compliance and improvement effort. For local authorities in England,

the model is expected to feature in the Audit Commission's development of regulatory arrangements for self-assessment in financial management.

The model's practical applications are to:

- €# Enable the organization to establish a profile of its financial management.
- €# Compare this with where it wants financial management to be positioned, in order to maximize organizational effectiveness in the short or longer term.
- €# Identify strengths and areas for improvement.
- €# Develop an action plan.
- €# Help prioritize improvement.

Figure 1. The model in summary.

	Leadership	People	Processes	Stakeholders	Results
S T E W A R D S H I P	<p>L1 There is a clear framework of financial accountability throughout the organisation.</p> <p>L2 The organisation plans how resources are allocated to different services and activities and monitors that money is spent accordingly.</p>	<p>P1 The need for financial competencies is identified and met.</p> <p>P2 There are sufficient specialist skilled finance staff to meet business needs.</p>	<p>PR1 There are proper arrangements for internal control.</p> <p>PR2 Proper arrangements are in place to identify and manage key business risks.</p> <p>PR3 Proper arrangements are in place to prevent and detect fraud and corruption.</p> <p>PR4 There are proper arrangements for provision of internal audit.</p> <p>PR5 Budgets are soundly based.</p> <p>PR6 Managers are accountable for managing their budgets.</p> <p>PR7 Budget monitoring and forecasting reports ensure 'no surprises' and inform active budget management.</p> <p>PR8 There are proper arrangements in place for partnership working.</p> <p>PR9 Financial information systems meet users' needs.</p> <p>PR10 Financial accounting and reporting meets regulatory and professional standards.</p> <p>PR11 Specialist financial services are accurate, timely and efficient.</p>	<p>S1 There is confidence in the integrity of the organisation's financial conduct.</p> <p>S2 Customers/service users are given clear information about financial services and are treated consistently.</p>	<p>R1 The evidence shows the organisation performs well on stewardship measures.</p>
P E R F O R M A N C E	<p>L3 The organisation has developed financial management policies to underpin sustainable finances, and reviews performance against them.</p> <p>L4 The corporate business plan is integrated with financial planning and influences resource allocation.</p> <p>L5 Financial management supports strategic decision making and performance management.</p>	<p>P3 Managers know when and how to access financial advice.</p> <p>P4 There are active efforts to equip the organisation with the financial management competencies it needs to realise its goals.</p> <p>P5 Finance staff have the skills to analyse financial issues and offer options and advice.</p>	<p>PR12 A medium term financial planning process sustains business and financial performance.</p> <p>PR13 Value for money is the responsibility of all managers and finance staff.</p> <p>PR14 Procurement processes deliver value for money.</p>	<p>S3 There is public confidence that the organisation delivers value for money (vfm).</p> <p>S4 There is equity in the treatment of customers/service users of financial services.</p> <p>S5 Internal financial services are organised to give their customers a value added service.</p> <p>S6 Financial services to the public and internally are customer focused.</p>	<p>R2 The evidence shows that financial management contributes to the organisation's performance.</p>
T R A N S F O R M A T I O N	<p>L6 Financial management and governance arrangements encourage wide-ranging input to develop future goals and customer focus.</p> <p>L7 Financial management strategies are based on present and future business needs. They support the change agenda and a culture of innovation, improvement and development, balancing control and flexibility.</p> <p>L8 The organisation is ambitious in its strategic goals and realistic in its delivery plans.</p>	<p>P6 Financial literacy is diffused throughout the organisation.</p> <p>P7 The organisation develops and sustains its capacity to enable financial management to shape and support its transformational programme.</p>	<p>PR15 Financial management processes support organisational change agendas.</p> <p>PR16 Internal financial processes are radically re-engineered when appropriate.</p>	<p>S7 Customers and service users can bring influence to bear on key financial management policies, including resource allocation and tax decisions.</p> <p>S8 The service is user centred and there is individualised treatment of customers.</p>	<p>R3 The evidence shows that financial management contributes to and supports the organisation's transformational capacity.</p>

Review and track its progress over time.

The tool is aimed at managers and finance staff in the public services, to enable them to take an holistic view of the contribution that financial management makes to the success of their organization. It may well be championed by the organization's director of finance, but it is important that it is not thought to be exclusively about finance staff. It is about finance as the lifeblood of services.

The statements in the model are scored to give an overall picture of financial management in the organization. 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 organization's behaviour or results, and whether they deliver the required outcome.

The judgement is expressed as a score from 0 to 4, according to how far the statement of good practice is matched. The linked questions facilitate a checklist of where the organization 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. Organizations 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 record their observations and the evidence for their judgement. The model includes an electronic survey tool to allow a broad view across the organization to be gained. An example of a scoring statement for one of the good practice propositions is shown in figure 2.

Figure 2. Example of scoring sheet for statement PR6 in the CIPFA model for good practice. PR6 Managers are accountable for managing their budgets.

1. <i>Are revenue and capital budgets assigned to individual managers?</i>	Yes/ No
2. <i>Are financial and managerial responsibilities aligned?</i>	Yes/ No
3. Is there a formal scheme of budget delegation?	Yes/ No/ Partly/ Not known
4. Are budget holders involved in setting their budget and do they take ownership?	Yes/ No/ Partly/ Not known
5. Are all budgets notified to managers before the start of the financial year?	Yes/ No/ Partly/ Not known
6. Are the responsibilities of budget holders clearly documented?	Yes/ No/ Partly/ Not known
7. Is there guidance for budget holders (for example a budget manual or budget timetable)?	Yes/ No/ Partly/ Not known
8. Are budget holders aware of their responsibilities?	Yes/ No/ Partly/ Not known
9. Are budget holders aware of the impact of their decisions within the overall budgetary position? Yes/ No/ Partly/ Not known	
10. Are budget holders able to explain how they manage their budgets? Yes/ No/ Partly/ Not known	
11. Are budget holders held accountable for any deviations from the budget? Yes/ No/ Partly/ Not known	
12. Is this included as part of their performance assessment? Yes/ No/ Partly/ Not known	
Record your observations and evidence	
Scoring: How far does this statement apply? Hardly = 0/0.5 /1. Somewhat = 1.5/2. Mostly = 2.5/3. Strongly = 3.5/4	
<i>Notes: Questions in italics are fundamental, a 'no' answers will mean a 0 score.</i>	
<i>Questions in bold are the hardest tests. Unless they are all answered 'yes', a score of 4 should not be awarded.</i>	

Scores can be amalgamated to give an overall profile of the positioning and contribution of financial management to the organization, either across a spectrum (Securing stewardship/Supporting performance/Enabling transformation), or to show amalgamated scores 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. It may also reveal other common themes or patterns. The Results dimension provides an evidence-based verification on the scoring profiles.

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 model is also sufficiently fine-grained to identify performance on individual components, such as competencies of non-financial managers or budget-monitoring practices.

Recording observations and evidence is critical to ensure assessments are soundly based—especially important if the model is being used as 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 in figure 3; others are prompted in the more detailed descriptions of the model.

The model will be hosted on a website to enable email survey and data collection. Electronically gathered views from different groups (for example finance staff or budget managers), coupled with review workshops, can help an organization pinpoint where perceptions

converge or differ. The perceptions of non-executives will also be important. In the longer term the web-based approach also has the potential to allow organizations to tap into views across other (anonymised) public sector bodies in reviewing their scores.

The model can be used by finance staff to evaluate their role and the positioning of financial management. But the full power of the model will only be realized if senior budget holders and non-financial managers also take part in the assessment, so that it gives a global picture of the effectiveness of financial management from the corporate and business perspective.

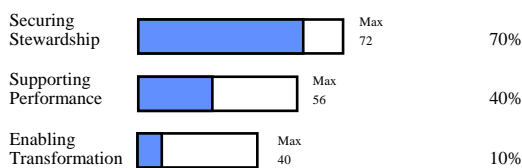
Figure 3. Examples of documentary sources of evidence for the model.

- | |
|--|
| Constitution |
| Corporate governance framework |
| External corporate performance assessments |
| Corporate plan |
| Medium-term financial plans |
| Capital investment strategy |
| Annual budget report |
| Performance plans |
| Annual report |
| Audit reports |
| External inspection reports |
| Risk management policy |
| Financial standards and regulations |
| Internal control procedures |
| Treasury management policy |
| Audit plan |
| Policy on fraud and corruption |
| Policy on whistle-blowing |
| Complaints policy |
| Information strategy |
| Partnership framework |
| Service Level Agreements |
| Business case protocols |
| Performance and budget-monitoring reports |
| Benchmarking results |
| Equalities action plan and performance |
| Financial key performance indicators |
| Satisfaction ratings |
| Customer/stakeholder surveys |
| Interviews |

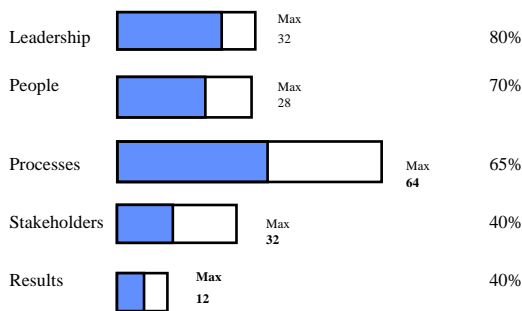
An example is shown in figure 4 of a

profile display, at strategic level, of both style positioning and of relative strengths and weakness across the management dimensions. Charts for the breakdown for individual statement scores within each bar can also be drawn up and data on how questions were answered can be accessed from the website database.

Organisation Profile 1



Organisation Profile 2



Using the Profile

The aims of the self-assessment are for diagnosis and to develop a prioritized action plan for improvement that can be owned, and delivered, by both finance and business staff. It is likely that the organization's board or management team will be most interested in the strategic picture that emerges from the summary financial management profiles. This can be compared with a broad 'ideal' that the organization would set for itself, to support its business goals. This strategic analysis should facilitate a

discussion about organizational direction, establish the main themes for development and set high-level priorities.

Senior management's vision will, however, need to be translated into operational tasks, with the usual action plan disciplines of identifying who is responsible, when it is to be done and what resources are needed. This exercise will be guided by the results of assessments against individual statements and their sub-components, and particularly by sieving the areas where the assessment process highlights shortfalls against good practice. The model potentially contains a great deal of detail which can be mined for information. The key is to use the data to hold a mirror to the organization's financial management practices and ensure that they serve the organization's purposes. This will call for selectivity, judgement and prioritization, keeping in mind the strategic outcomes to manage the detail.

Conclusion

Financial management needs to involve not only the finance professional, but also the service managers who control the business and spending decisions. It needs to provide timely and reliable management information on costs, trends and business forecasts to enable an organization to move forward. This suggests that the financial management style can be consciously designed to support change and development, and focused on risk management, rather than simply on levels of control.

A low score on securing stewardship will still be a danger sign. Most public bodies can expect to score more highly

in this traditional area. For some organizations this may be the principal imperative and financial stewardship is a fundamental building block throughout the public sector. But it can be as, or more, important to develop broader concepts of financial management, for a public sector body to achieve its multiple goals.

Acknowledgement

The authors are grateful to all the members of the CIPFA Working Group for their invaluable contributions. The work was also assisted and enriched by a number of internal good practice documents from a variety of organizations, including especially HM Treasury, the Inland Revenue and Warwickshire County Council, which were shared with the authors.

References

- Audit Commission (2002), *Comprehensive Performance Assessment Audit Judgements* (London).
- CIPFA (1998), *Achieving Excellence in Financial Management* (London).
- CIPFA/Solace (2001), *Corporate Governance in Local Government—A Keystone for Community Governance* (London).
- CIPFA (2002), *A Statement on the Role of the Finance Director in the Modern Local Authority* (London).
- Commission for Health Improvement (2002), *Acute Trusts Corporate Management Team Self-assessment* (London).
- Learning and Skills Council (2003), *Governance and Financial Management Self-Assessment Aide-Memoire for Colleges* (Coventry).

Office of the Auditor General of Canada (1999), *Financial Management Capability Model* (Ottawa).

United States General Accounting Office, Accounting and Information Management Division (2000), *Creating Value Through World-Class Financial Management* (Washington, D.C.).

**Sue Beauchamp and
Carole Hicks**

For details on Public Money & Management please contact Sandra Harper (sandra.harper@cipfa.org).

If you have any suggestions on topics the Further and Higher Education Panel could address in its guides and newsletters, please list them below. In addition, any comments on the seminar programme mentioned in the newsletter and suggestions for other sessions that could be included in future courses would be welcome.

Fax back Further and Higher Education Panel
 Newsletter Number Eleven

To Kerry Ace
 Finance and Policy Manager
 Policy and Technical Directorate, CIPFA

Fax 020 7543 5695

From-----

Organisation-----

Contact
Number -----

Email
address -----

or email Kerry at kerry.ace@cipfa.org

Comments: