The Chartered Institute of Public Finance & Accountancy

the CIPFA FM model

Assessment of Financial Management in Public Service Organisations

Statements of Good Practice

KEYSTONES

for public financial management

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our members and trainees work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a route to qualification and membership for people already working in senior financial management positions. These are taught by our own CIPFA Education and Training Centre, as well as at other places of learning around the world face to face, online and by distance learning.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, counter fraud tools and qualifications, courses and conferences, property and asset management solutions, advisory and recruitment services for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with international aid donors and agencies, partner governments, accountancy bodies and the wider public sector as well as private sector partners around the world to advance public finace and support better public services.

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Foreword

In a period of global austerity, public sector organisations will depend on three core contributions from financial management: assurance that finances are under control; help to manage costs and maximise value for money; and support in realising ambitions and the benefits of change programmes. Seldom has this span of contribution been more relevant. 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.

CIPFA's Financial Management (FM) Model is structured around these three themes of securing stewardship, 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 FM fitness to deliver their goals, and to identify and plan improvements.

This is the third iteration of the CIPFA FM Model since it was first developed in 2004, and it has been tailored for the challenging financial climate in which public services must now operate. 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. But there is also now a clear emphasis on risk management through change, transactional efficiency and productivity, collaborative working, the commercial acumen of finance staff – and, following the Iceland banking trauma – on treasury management. 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 will need to be found, and change and innovation must go hand in hand with robust stewardship.

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 CIPFA FM Model is a repository of good practice and a framework for assessment. 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 FM 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 key corporate discipline and a feature of successful organisations. We believe that applying the CIPFA FM Model will help ensure robust financial management arrangements, shaped to support your organisation in the challenging times ahead.

Contents

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.

Audit Committee	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.
Board	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.
Chief Executive	The most senior executive role in the organisation.
Chief Financial Officer	The organisation's most senior executive officer charged with leading and directing financial strategy and operations.
Corporate Business Plan	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.
Finance Function	The organisational unit in which financial duties are located and which is usually headed by a Chief Financial Officer.
Finance Staff	Staff with a prime responsibility for financial matters, located either in a central department or within business/ service areas.
Financial Management	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.
Governance	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.

Internal Audit	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.
Leadership Team	Comprises the Board and the Management Team.
Management Team	The group of executive staff comprising the senior management charged with the execution of strategy.
Managers	The staff responsible for the achievement of the organisation's purpose through services/businesses to its clients/customers.
Medium-term Financial Plan	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.
Partnership	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.
Public Service Organisation	One or more bodies managed as a coherent entity with the primary objective of providing public services.
Public Services	The goods or services provided on a not-for-profit basis to the general public or for social benefit.
Risk Management	The methods and processes used by the organisation to manage potential events that may negatively impact on its activities and assets.
Scrutiny and Review	The arrangements in place that provide a check on the Board's plans and their execution.
Treasury Management	The management of the organisation's cash flows, banking, money market and capital market transactions and loan management.

SECTION ONE

About the CIPFA FM Model: A Reference for Good Practice

INTRODUCTION

1 CIPFA's Financial Management (FM) Model is a repository of good practice to give public service leaders insight into the quality of financial management in their organisation, and into its fitness to support business goals while keeping a firm grip on its finances. It can be used as a dipstick or as a full financial management diagnostic.

THE FINANCIAL MANAGEMENT MODEL UPDATED

2 Since the CIPFA FM Model was last updated in 2007 important developments in the public service environment have shifted expectations of financial management. This further iteration of the model reflects the changing landscape, including:

- The change from a period of funding growth to one where resources will ratchet down rather than up and where savings are critical to meeting rising demand and expenditure pressures. The public services will still seek improvement but these cannot be floated by a rising tide of finance.
- Efficiency techniques and mechanisms, such as lean processing, professionalised procurement, shared services, self-service, more sophisticated income generation, regarded as standard.
- New business models widely being explored and taken forward.
- Greater requirement for finance staff to demonstrate commercial skills.
- Greater requirement for finance staff to participate in project and programme management, to be risk aware rather than risk averse and to ensure financial control without inhibiting the pace of change.
- Less tolerance in the organisation for overspends and lax budget management.
- Beyond budget management – managers need to focus on managing their costs not on how to spend an allocation of money most effectively.
- Systematic use of customer insight, customer-driven process, co-production, and participatory budgeting.
- Easy access and efficiency of transactional processes for customers, for example in paying bills online.
- Broader focus on cross-organisational working and its outcomes.

- The Iceland banking crisis and its treasury management ramifications – a jolt that reminded organisations of the importance of fundamental controls as well as strategy and performance.

PUBLIC FINANCIAL MANAGEMENT: A KEY TO GOOD GOVERNANCE AND EFFECTIVE PERFORMANCE

3 The public sector (i.e. 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 stewardship expected of public bodies.

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.

Using money well is the business of every manager charged with delivering public services. 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.

4 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 and managers need to be financially literate and finance professionals need to contribute challenge, interpretation and advice, allied with control and compliance.

5 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 taxpayer pound carefully.

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 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 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.

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 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.

FINANCIAL MANAGEMENT STYLES

8 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.

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

10 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 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.

11 However, stewardship 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.

12 Organisations now face an imperative to be the adaptive, forward-facing body that the transformation level implies. They will still need to keep stewardship strong. The CIPFA 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.

13 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 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.

14 For non-finance managers, progression between styles can be equally problematic. The public sector has spent over 100 years refining its practices on stewardship. 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. Financial management competencies may not be appreciated as relevant to policy delivery (unlike staff management) nor seen as core to career development.

15 Boards want assurances about financial management and must 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

16 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. 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.

17 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

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

	Leadership	People	Process	Stakeholders
Securing stewardship	L1, L2	P1, P2	PR1 – PR11	S1, S2
Supporting performance	L3 – L6	P3, P4	PR12 – PR16	S3, S4
Enabling transformation	L7	P5, P6	PR17 – PR19	S5, S6

USING THE MODEL

19 The CIPFA FM Model is 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.

20 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.

21 The model can look dauntingly long. While we have tried to be succinct, it is meant to be a repository of current thinking about good practice, so it unavoidably has a good deal of detail.

SELF-ASSESSMENT AND IMPROVEMENT PLANNING

22 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.

23 Routes to utilising the good practice standards set out in the CIPFA 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 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.

24 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.

25 Using the CIPFA 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.

26 The judgment 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 judgments on some statements may be more subjective than others. 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.

27 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.

28 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.

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Find out more about commissioning the full model at www.cipfa.org/fmmodel

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