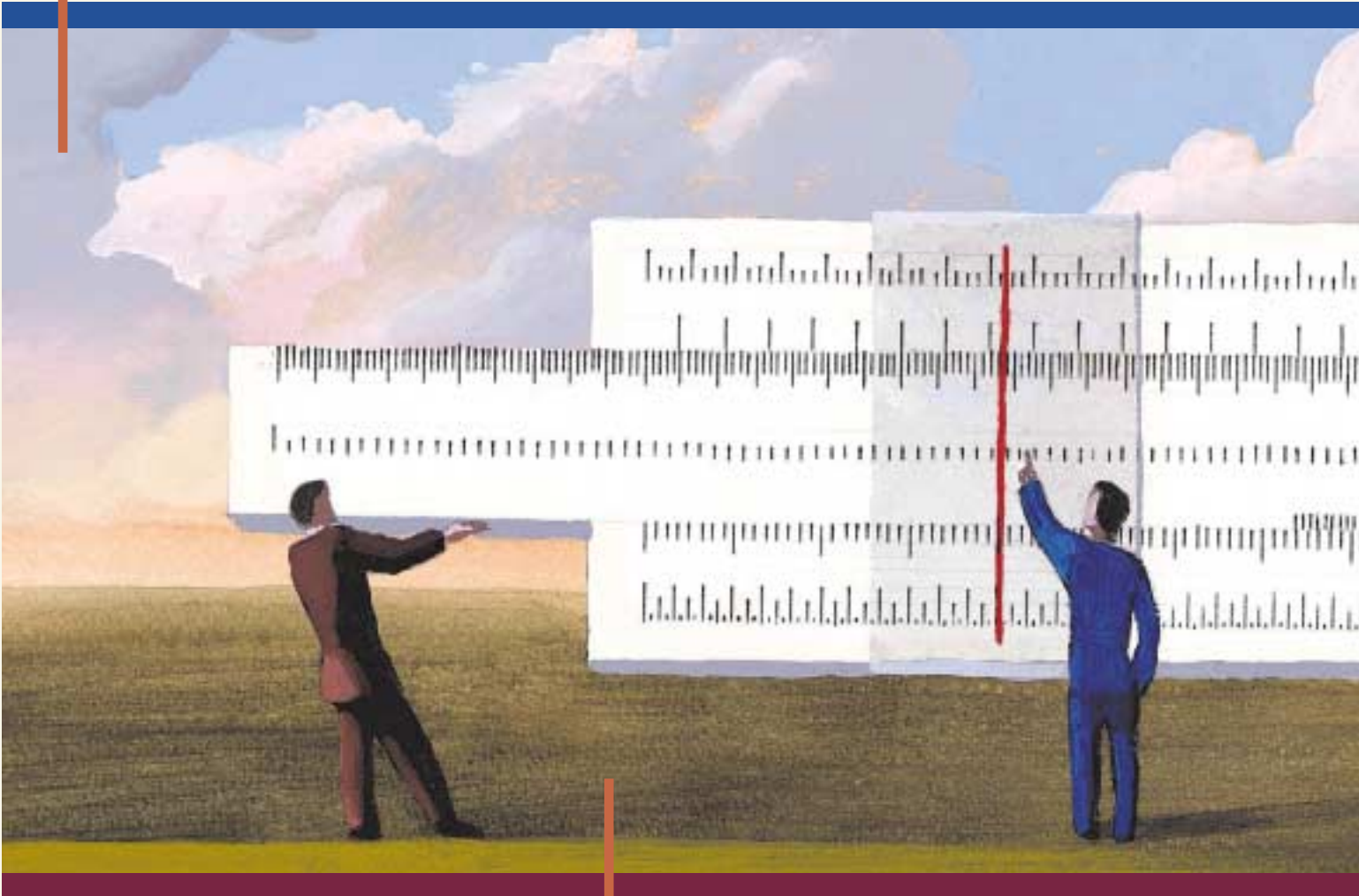
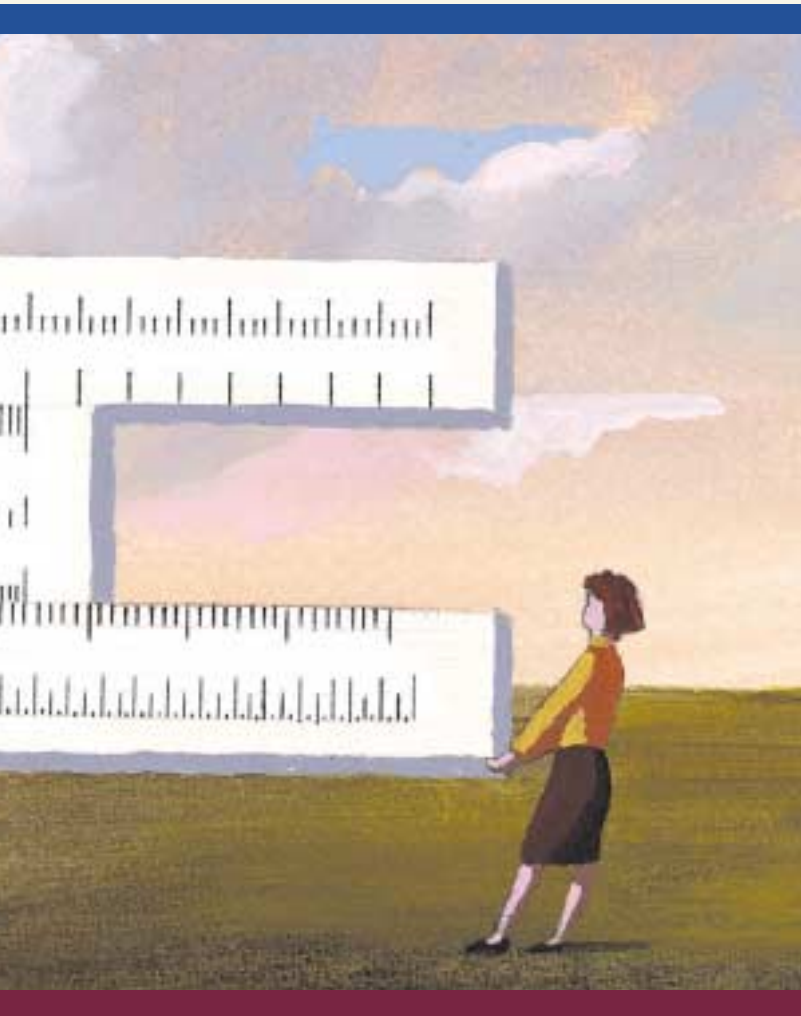


**Financial Management and Effectiveness  
in Public Service Organizations**

# **THE UK'S CIPEA FM MODEL**



**BY SUE BEAUCHAMP  
AND CAROLE HICKS**



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**H**igh-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 ability to achieve its strategic and operational goals and deliver improvement; it draws on material from a model of good practice developed by The Chartered Institute of Public Finance and Accountancy<sup>1</sup> 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 among 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 that can be calibrated quite differently. Their financial objectives vary from profit center to cost center. 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.
- Analyzing service activity costs and trends and using comparisons to bring about 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 programs, 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

## Exhibit 1: The CIPFA FM Model in Summary

	Leadership	People
<b>Stewardship</b>	<p>L1 There is a clear framework of financial accountability throughout the organization.</p> <p>L2 The organization 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>
<b>Performance</b>	<p>L3 The organization 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 organization with the financial management competencies it needs to realize its goals.</p> <p>P5 Finance staff have the skills to analyze financial issues and offer options and advice.</p>
<b>Transformation</b>	<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 organization is ambitious in its strategic goals and realistic in its delivery plans.</p>	<p>P6 Financial literacy is diffused throughout the organization.</p> <p>P7 The organization develops and sustains its capacity to enable financial management to shape and support its transformational program.</p>

Process	Stakeholders	Results
<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 organization’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 organization performs well on stewardship measures.</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 organization 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 organized to give 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 organization’s performance.</p>
<p>PR15 Financial management processes support organizational 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 centered and there is individualized treatment of customers.</p>	<p>R3 The evidence shows that financial management contributes to and supports the organization’s transformational capacity.</p>

use of technology puts a focus on driving down transaction costs and on streamlining back office processes. Devolved management structures have emphasized front-line empowerment and accountability. Financial management responsibilities are now widely diffused and are not the exclusive interest of the director of finance. All of 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 devel-

op its transformational capacity. Conversely, transformation or performance programs 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.

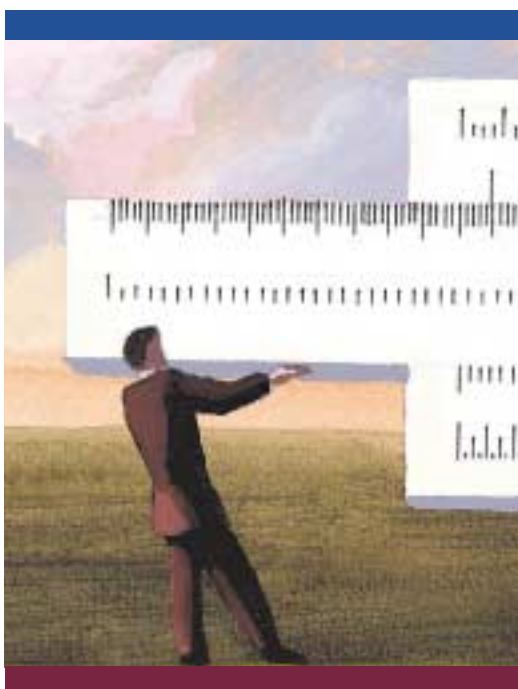
Ultimately, organizations will aspire to be the kind of adaptive, forward-facing body that the transformation level implies. However, there may be stages in the organizational lifecycle when other styles can be more appropriate. Establishing stewardship

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 among 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 among 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, behavior, 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 examine 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 the European Foundation for Quality Management’s self-assessment model, so that they can be assimilated relatively easily into other performance management tools that organizations may already be using.

Exhibit 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 Exhibit 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 analyze 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 toward 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 efforts. 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.
- 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 a 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 behavior or results, and whether they deliver the required outcome.

The judgment 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 judgments on some statements may be more subjective than others. Organizations are asked to exercise thoughtfulness and judgment 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 judgments. 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 Exhibit 2.

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.

The model will be hosted on a Web site to enable e-mail 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 (anonymous) 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.

## Exhibit 2: Example of Scoring Sheet for Statement PR6 in the CIPFA Model

### PR6 Managers are accountable for managing their budgets.

1.	<i>Are revenue and capital budgets assigned to individual managers?</i>	<b>Yes/ No</b>
2.	<i>Are financial and managerial responsibilities aligned?</i>	<b>Yes/ No</b>
3.	Is there a formal scheme of budget delegation?	<b>Yes/ No/ Partly/ Not known</b>
4.	Are budget holders involved in setting their budget and do they take ownership?	<b>Yes/ No/ Partly/ Not known</b>
5.	Are all budgets notified to managers before the start of the financial year?	<b>Yes/ No/ Partly/ Not known</b>
6.	Are the responsibilities of budget holders clearly documented?	<b>Yes/ No/ Partly/ Not known</b>
7.	Is there guidance for budget holders (for example a budget manual or budget timetable)?	<b>Yes/ No/ Partly/ Not known</b>
8.	Are budget holders aware of their responsibilities?	<b>Yes/ No/ Partly/ Not known</b>
9.	Are budget holders aware of the impact of their decisions within the overall budgetary position?	<b>Yes/ No/ Partly/ Not known</b>
10.	Are budget holders able to explain how they manage their budgets?	<b>Yes/ No/ Partly/ Not known</b>
11.	Are budget holders held accountable for any deviations from the budget?	<b>Yes/ No/ Partly/ Not known</b>
12.	Is this included as part of their performance assessment?	<b>Yes/ No/ Partly/ Not known</b>

#### Record your observations and evidence

**Scoring: How far does this statement apply? Hardly = 0.5/1 Somewhat = 1.5/2 Mostly = 3.5/4**

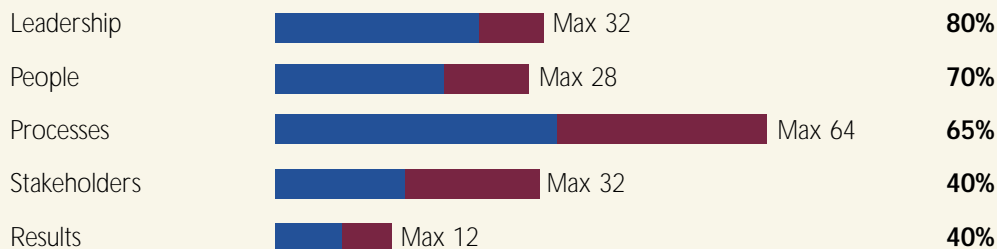
Notes: Questions in italics are fundamental; “no” answers will mean a 0 score. Questions in bold are the hardest tests. Unless they are all answered “yes,” a score of 4 should not be awarded.

### Exhibit 3: Profile Display

#### Organization Profile 1



#### Organization Profile 2



An example is shown in Exhibit 3 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 Web site database.

### 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 that can be mined for information. The key is to use the data to hold a mirror to the organization’s financial management prac-

tics and ensure that they serve the organization’s purposes. This will call for selectivity, judgment, 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. |

#### Note:

1. CIPFA is one of the leading professional accountancy bodies in the UK and the only one that specializes in the public services. It is responsible for the education and training of professional accountants and for their regulation through the setting and monitoring of professional standards. CIPFA also offers training courses, conferences and publications, and a range of advisory, information, training, and consultancy services. Increasingly CIPFA’s interests are expanding to the international stage.

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