

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

AT THE HEART OF
PUBLIC SERVICES



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INTRODUCTION

In the Government's Spending Review and publication of the Gershon Review there is very much a continuing emphasis on the improvement agenda. And with the current financial management review process under Mary Keegan, the new head of the government accountancy service, in the arena of central government finance, the emphasis is on continuous improvement in financial management and better performance. Good strategic management is vitally important for the new efficiency and performance agenda. CIPFA's new Financial Management Model can help.

This CIPFA briefing, one of a series of topical briefing notes, is intended to provide an overview of how one department is using the model, how the model works, and the kind of benefits it can bring to organisations across the public sector.

USING THE MODEL IN A CENTRAL GOVERNMENT DEPARTMENT: THE INLAND REVENUE

The Inland Revenue provides a very clear example of just how useful CIPFA's financial management model can be in today's context of the Gershon report and the need for continuous improvement. In fact, to a large extent the financial management model arose out of work which CIPFA undertook with the Inland Revenue. The Inland Revenue had previously commissioned CIPFA to determine how the department could improve the effectiveness of its financial management. A CIPFA review team assessed the department's current arrangements against good practice and – in summary – found that the department's financial management processes had many strengths, particularly in stewardship, but that there were some gaps holding the department back from achieving excellence in terms of performance and business transformation. The CIPFA team therefore made some 20 recommendations for improvement and following a short feasibility study the Inland Revenue's Departmental Finance Committee decided that all 20 recommendations should be put into effect across the whole department from April 2005.

The Inland Revenue sees the CIPFA recommendations and the resultant financial management model as

important to successfully meeting two significant challenges: financial management under the merger with Customs and Excise and formulating and delivering their Spending Review 2004 proposals.

The Revenue has also decided to run three business prototypes now during 2004/05 to help inform wider implementation of the whole CIPFA review recommendations across the Department from April 2005.

The aim behind the 20 recommendations from the CIPFA panel to Inland Revenue can be summarised simply as *"to improve business performance by better financial management"*.

So what are the main elements of the Inland Revenue project? They are:

- Drawing a clearer connection between strategic direction, Public Service Agreement targets, business objectives and finance
- Giving management at all levels absolute clarity about their budgets and the outputs and outcomes to be delivered with the funding, with appropriate rewards and recognition for successful delivery
- Ensuring managers set and track progress against a manageable, but stretching, number of key performance indicators (including unit costs) that enable them to identify and evaluate the cost of their outputs and be motivated to achieve continuous improvement
- Creating a business environment in which managers are committed at all levels to improve their cost performance and take account of finance when taking decisions. The department wants managers to be assisted in this task by a unified finance community that provides a highly competent, professional service.

The desired end result of these changes is a fully integrated departmental planning, budgeting, performance management system, with a clear line of sight between the money, the plans and the delivery of operational and strategic priorities throughout the business.

FINANCIAL MANAGEMENT – THE CENTRAL GOVERNMENT CONTEXT

The current environment for financial management is a complex one:

- financial management responsibility is often dispersed
- many financial constraints
- trade-offs and rationing
- many stakeholders claiming rights of influence
- cost reduction pressures
- IT to drive down transaction cost and streamline back office functions
- increasingly there are political risks as well as business risks.

Nevertheless, a number of financial management objectives common to all organisations in Central Government can be identified:

- collaborating in change
- enabling the organisation to look ahead
- analysing/interpreting costs and trends
- supporting good decision-making
- managing risk
- achieving value for money
- demonstrating probity, accountability, compliance
- a reliable account of money.

WHAT IS THE CIPFA FINANCIAL MANAGEMENT MODEL?

The CIPFA financial management model is a generic, self-assessment diagnostic tool. It will help an organisation determine how it is doing, where it wants to be and its organisational fit. It will assist with improvement planning and tracking change.

The model is made up of 42 good practice statements in a matrix across three progressive styles and five management directions.

The progressive styles begin with *securing stewardship* and move through *supporting performance* towards *enabling transformation*. With *securing stewardship*, the emphasis is on control, probity, accountability, compliance. *Supporting performance* is more about responsiveness to customers, efficiency, effectiveness, and commitment to performance. And *enabling transformation* points to an organisation that is strategic, future oriented, proactively managing change and risk, outcome focussed, and receptive to new ideas.

The five management dimensions encompass:

Leadership, People, Processes, Stakeholders, and Results.

AN EXAMPLE: HOW ACCOUNTABLE ARE MANAGERS FOR MANAGING THEIR BUDGETS?

To take an example from the good practice matrix, questions that the model would ask in order to ascertain the extent to which managers are accountable for managing their budgets would be:

- 1 *Are revenue and capital budgets assigned to individual managers?*
- 2 *Are financial and managerial responsibilities aligned?*
- 3 *Is there a formal scheme of budget delegation?*
- 4 *Are budget holders involved in setting their budget and do they take ownership?*
- 5 *Are all budgets notified to managers before the start of the financial year?*
- 6 *Are the responsibilities of budget holders clearly documented?*
- 7 *Is there guidance for budget holders (eg a budget manual, budget timetable)?*
- 8 *Are budget holders aware of their responsibilities?*
- 9 *Are budget holders aware of the impact of their decisions within the overall budgetary position?*
- 10 *Are budget holders able to explain how they manage their budgets?*
- 11 *Are budget holders held accountable for any deviations from budget?*
- 12 *Is this included as part of their performance assessment?*

The model would then lead on to scoring the answers on a scale of 0 to 4. The scores should be evidenced by the addition of comments and observations. The scoring process is undertaken easily, by mouse-clicking the relevant box. At all stages the model displays a line which tells the user what percentage of the model's questionnaire has been completed. The scores can be changed before submission for analysis.

The next stage involves the model generating a strategic profile of financial management in the organisation. It is possible to drill down to the detail and to identify strengths and areas for improvement.

REALITY CHECK

A particular strength of this model is that it undertakes a reality check in which the overall average is compared with the results. The model does this in the form of bar charts, numbers and a summary statement – for example, "The improvement focus is on leadership and people."

The model will also highlight anomalies and outliers for doublechecking, for example, "Practice statement six has a '0' score".

COMPARE AND ACT

The model allows an organisation to:

- compare the financial management profile with where the organisation wants to be
- design the organisational financial management style
- plan the action to bring about change
- prioritise.

SECURITY

The CIPFA financial management model is hosted on a secure website: www.cipfa-fm-model.org.uk

FEATURES

The model has the ability to evolve. Current features include the ability to tailor the language within the model. Key terms within the model can be changed and organisation specific terminology used. Key phrases can also be changed, such as the name of the organisation's management team.

There is also the facility to use the organisation's own results data, by downloading a document containing the organisation's own local results and linking it to the model. Such a document might include for example the financial performance indicators, trends data and statutory financial results.

SURVEY TOOL

Scoring a statement should take into account the many perspectives from across the organisation. Interviews, workshops and the model's own website survey tool facilities can be used to this end. The way the model's survey tool works is to allow specific statements and questions to be selected from the model and sent to the relevant people in the organisation. Named survey groups can be set up, questions selected for each and each group can be notified automatically and electronically (by e-mail) and requested to complete the survey.

Those being surveyed access the Web via a separate log-in screen which gives them their tailored questionnaire. They have access to a printable version of the model and to help screens. For those using the model to ask the questions, there is an evidence zone giving access to the survey results. Individual returns can be browsed and mined for detail. The model will generate reports of the average scores returned by the surveys.

Obviously views may vary across the organisation, and use of the survey tool can assist decisions on how to score particular practice statements taking into account the different perspectives and views across the whole organisation. The survey results are then stored as evidence linked to the results.

USING THE RESULTS

Once the model has been fully run and the process is complete, the final scores can be downloaded to obtain a family comparison. Year-on-year comparisons within the same organisation are also easily obtained once the model has been re-run for a subsequent or previous year or years.

For those wishing to sample the financial management model, an online demonstration is available on the CIPFA website at: www.cipfa.org.uk

Further information on the model from:
www.cipfa.org.uk/panels/financial_management/

www.cipfa.org.uk

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