

**DRIVING SERVICE IMPROVEMENT:  
WHY FINANCE MATTERS**  
A SERVICE MANAGER'S BRIEFING ON  
FINANCIAL MANAGEMENT



## The CIPFA FM Model: Improving Financial Management and Effectiveness in the Public Service



Financial management is no longer only about accounting for money and sound stewardship – it is also about giving the right decision support and enabling the right choices.

Do you know how effective your organisation's financial management is? Finding out is where *The CIPFA Financial Management Model* can help. The Model is designed as a self-assessment tool to help you to evaluate the contribution financial management makes at all levels of your organisation.

An optional, significantly discounted, half-day's implementation support is also available to purchasers.

For more details, including the option of an online demo of *The CIPFA FM Model*, visit [www.cipfa-fm-model.org.uk](http://www.cipfa-fm-model.org.uk)

*'We strongly endorse the self-assessment yardsticks set out in CIPFA's excellent Financial Management Model'*

*'First class financial management is vital to improving the delivery of public services. The Audit Commission welcomes the new CIPFA FM Model as it sets out clearly what constitutes good professional practice, and encourages local government and NHS bodies to assess themselves against this standard'*

**Audit Commission**

Doug Rayner, HM Treasury's Senior Financial Management Specialist, says the Treasury has used the CIPFA FM Model extensively in drawing up its framework for financial management reviews and encourages departments to refer to the Model when carrying out their own self-assessments.

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# DRIVING SERVICE IMPROVEMENT: WHY FINANCE MATTERS

## A SERVICE MANAGER'S BRIEFING ON FINANCIAL MANAGEMENT

As managers, you and your staff deliver vital public services, often to vulnerable and disadvantaged clients. Delivering quality public services to those who need them is important. How much does the best way of financing these services figure in your management plans? Does finance matter to you?

Managers' focus on the delivery of services and policy targets can promote a culture where finance is about bidding for resources and demonstrating spend. Finances may be seen as a barrier to service improvement. But all services come at a cost. By understanding what drives costs and how to allocate resources to meet priorities, well-used financial resources support the drive for service improvements. Service managers responsible for delivery are best placed to understand the relationships between costs and service outcomes. So finance matters. It is not just about people and processes. Well-delivered public services can only become a reality if you, as a service manager,

manage the people, finances and other physical assets wisely.

Successful and well-run organisations put finance at the heart of service improvement. Service managers have a key role to play in financial management, in partnership with financial professionals, within a clear strategic direction set by the organisation's leadership. Financial literacy and awareness across the whole organisation need to be developed and maintained.

This briefing is about helping you assess your understanding of financial matters and your role in managing finances to support service delivery. Your responsibilities and competencies for financial matters will be set out in your job description. It should be clear what you are accountable for financially and how this accountability is tested by performance appraisal processes. Your answers to the questions posed in this briefing will indicate where you should seek advice and training to develop your own financial literacy.

Recent years have seen a catch-up period of investment in public services. The public services as a whole have benefited from high investment and an emphasis on modernisation and transforming services to place customer needs at the centre. Delivery modes and procurement methods are no longer sacrosanct, so long as clients receive the services they need. This investment has brought about improvements in service quality and outcomes. Now, funding settlements are placing an increased emphasis on value for money and the recycling of efficiency gains into investment priorities. Efficiencies and better value for money can only be

driven by people who intimately know the service, its customers and the people and facilities used to deliver the service. What drives the cost of the service? Can you predict how costs will change if it is delivered differently or if demand rises or falls?

The next three sections of this briefing examine a range of financial matters and present a series of good practice statements and related questions which you are invited to answer. Where any of your answers raise issues you wish to explore, then the first step will be to discuss these with the financial advisor for your service area. You may have devolved financial support or centrally located finance services. You may wish to consider improving your competencies and undertaking further training on offer within your organisation. Human Resources can advise on training and issues around performance appraisals.

Each section examines financial matters at three progressive levels:

- **Securing stewardship** – control and accountability for the spending of public money.
- **Supporting performance** – responding to customers and improving delivery; efficient and effective.
- **Enabling transformation** – focusing on outcomes; customer-led and proactive change.

References (eg L1, L2, etc) are to statement numbers used in *The CIPFA FM Model: Improving Financial Management and Effectiveness in the Public Service*. The CIPFA FM Model is a web-based self-assessment tool that allows organisations to assess their own financial management

arrangements against best practice and to identify areas for improvement. It aims to present a holistic view of financial management across the whole organisation. Service managers' views can be captured as part of the model's e-survey tool. For more information about the CIPFA FM Model, visit its website: [www.cipfa-fm-model.org.uk](http://www.cipfa-fm-model.org.uk)

## SECURING STEWARDSHIP

### There is a clear framework of financial accountability L1

- Is your role in financial matters clearly set out for you?
- Do you understand the financial regulations and standing orders as they apply to your role?
- Can you explain how you comply with the financial rules?

### Resource allocation is planned and spending is monitored L2

- Are you clear about the planned resources available to your service area?
- Is the budget realistic?
- Do you know the tolerated level for over-/under-spending?
- Do you know how to seek a budget adjustment in-year?

### Financial competencies are identified P1

- Does your job specification identify the financial competencies required?
- Does your personal appraisal cover financial competencies?
- Does your appraisal inform financial training needs?
- Is training for these needs made available?
- Is the financial training provided relevant and delivered within a reasonable period?

### Financial internal control arrangements are in place PR1

- Do you know about, understand and comply with the financial internal control procedures?  
Eg procurement rules – quotations and tendering; financial regulations – ordering and payment authorisation.

### Key business risks are identified and managed PR2

- Do you identify the key business risks?
- Do you plan responses to them?
- Do you consider insurance against these risks?
- Do you identify early warning signs for risks to determine if they are now events?

### Arrangements are in place to detect fraud and corruption PR3

- Do you know of and understand the code of conduct for staff?
- If you suspect fraud and corruption, do you know who to speak to?
- Do you know if there is a whistle-blowing process?
- Are you confident in this process?

### Budgets are soundly based PR5

- Do you understand how your budget is constructed?
- Are you clear about what inflation assumptions are built into budgets?
- Do you forecast service and activity levels and use these forecasts to underpin the budget?

- Do you reflect expenditure commitments from previous periods in future budgets?
- Do you take into account any over-/under-spend from the past when budgets are set?
- Do you identify efficiencies for recycling as part of the budget process?
- Do you anticipate known developments in the budget?
- Do you review any fees and charges annually?
- Can you link service plans and strategy with the budget?
- Is the level of budget detail helpful to your management of the service?
- Do you know the budget timetable and plan accordingly?

**Managers are accountable for managing their budgets** **PR6**

- Do you know the budget you are accountable for?
- Does this correspond with your management responsibilities?
- Are you involved in setting this budget?
- Do you know the budget for the year before the year starts?
- Do you understand how your budget fits into the overall corporate budget?
- Do you actively manage your budget?
- Are you held to account for variations against budget?
- Does your performance assessment include budget targets?

**Budget monitoring and forecasting reports inform active budget monitoring** **PR7**

- Do you receive reports and monitor budgets at least monthly?
- Do your reports include accrued commitments as well as spend to date?
- Do reports relate capital and revenue budgets?
- Does capital investment monitoring identify delays or cost overruns?
- Can you rely on reported data?
- Can you access accurate information when needed to manage your service budget?
- Does monitoring information predict the future position?
- Do you act on reported variances?
- Are financial and operational information linked to give a performance picture?

**Proper partnership working arrangements are in place** **PR8**

- Are you clear about the distinction between a contractual arrangement and a partnership?
- Do partnership agreements within your business area include clear funding arrangements and accountability for any pooled budgets?

**Financial information systems meet users' needs** **PR9**

- Can you access the financial information you need?
- Do you have the IT tools and skills to use the financial systems effectively?
- Are your information needs regularly reviewed?

- Are you consulted about developments?
- Is online access available for monitoring and transaction processing?

**Financial year reporting meets regulatory standards** **PR10**

- Are you informed about the timescales for year-end reporting?
- Do you understand what is needed?
- Are you clear about your final financial position and what will be reported?

**Service users are given clear information about financial services and are treated consistently** **S2**

- Are you clear about the standards of service for financial services?
- Do you monitor financial services standards?
- Do you feed back your comments about financial services standards?

## **SUPPORTING PERFORMANCE**

### **The corporate business plan integrates finance and service delivery plans** **L4**

- Do your service plans integrate into the corporate business plan?
- Are improvements in services tracked and linked to spending decisions?
- Is resource allocation to services based on the corporate business plan?
- Are changes in resource allocations linked to policy?
- Are the outcomes of service reviews reflected in the corporate business plan?

### **Strategic decision making and performance management are supported by financial management** **L5**

- Do you involve Finance in service planning at a strategic level?
- Do you brief Finance about service issues and priorities?
- Do service needs, eg demand, underpin spending decisions?
- Does Finance help you understand the cost of new policies?
- Do trends in cost drivers inform business risk assessments?
- Does Finance help you set the expected performance that will be monitored?
- Does finance reporting help you track the cost of activities and outputs?

- Are unit costs, activity costs, benchmarks and other financial performance measures available to inform decisions about service levels?
- Do you prepare project appraisals, business plans and affordability tests for new policy or capital developments?
- Do post-completion reviews take place?
- Do you combine financial measures with operational measures to draw a performance picture?
- Is this performance picture monitored and is corrective action taken if necessary?
- Do you have an agreed tolerance for performance measures that matches the risk management assessment?

### **Managers know when and how to access financial advice** **P3**

- Do you know how to access financial guidance?
- Do you know when to seek financial advice?
- Do you know who to consult?
- Are all your reports with financial content written or approved by the financial advisor?
- Do you understand how the finance function can support you to develop and implement policy?

### **There are active efforts to build financial management competencies** **P4**

- Have the financial management skills you require in your role been assessed?
- Are these skills reviewed and tested as part of your performance appraisal?

- Do you use your performance appraisal to identify personal development needs in financial awareness?
- Did your induction to the job cover financial responsibilities?
- Is there a tailored training programme on financial responsibilities that you can access?
- Is there a formally defined level of generic financial competency for managers?
- Is the financial training on offer well regarded and useful?

**A medium-term financial planning process sustains business and financial performance** **PR12**

- Do you understand the business and financial planning process?
- Do operational budgets link with the financial plan?
- Does consultation with customers inform business planning?
- Do you formally consult with Finance on new developments and record their views for decision makers?

**Value for money is the responsibility of all managers and finance staff** **PR13**

- Do periodic fundamental service reviews take place?
- Do these identify service improvements?
- Are efficiency and cost-effectiveness gains part of the objectives for service reviews?
- Do you set targets to measure performance?

- Do you pool resources and encourage cross-boundary working to achieve improvements?
- Is efficiency and cost reduction recognised?
- Is efficiency and cost reduction rewarded?
- Do you invite Finance to management meetings to help them connect with service developments?

**Internal financial services give their customers a value-added service** **S5**

- Are you supported by financial services?
- Do they understand your business?
- Do Finance help devise solutions?
- Do Finance present relevant, and comprehensible, financial information for you as a non-financial reader?
- Do they consult you?
- Are you satisfied that finance staff give you the advice and support you require?

## ENABLING TRANSFORMATION

### Future financial scenarios encourage wide-ranging input L6

- Are customers' views encouraged?
- Are forums in place with partners to consider common resource issues?
- Are there forums for partners to cover strategic financial issues for new developments, including sharing financial risk and rewards?

### The financial strategy reflects present and future business needs L7

- Do you understand how corporate financial behaviours are encouraged?
- Do you challenge existing expenditure levels to create savings?
- Do you have adequate freedom to respond flexibly within your area to switch resources?
- Do you match emerging service trends with their financial consequences?
- Do you manage demand?
- Can you access funds to facilitate innovation in service delivery?
- Can you access funds to invest to make efficiency savings?
- Do your objectives for service reviews include identifying the potential for cost savings?
- Do you actively investigate new funding streams for new policy options?

### There is ambition in the strategic goals and realism in delivery goals L8

- Do you own your improvement targets?
- Are services looked at from the customer viewpoint?
- Are services tested as to whether they are joined up for customers?
- Do you learn from the 'best' in your field?
- Do you define financial and service benefits before embarking on major developments?
- Do you seek financial advice at the outset of new developments?
- Are affordability, value for money and risk calculations an integral part of business plans and project appraisals?
- Do you stop projects if planned benefits for planned resources do not emerge?

### Financial literacy and awareness is diffused throughout the organisation P6

- Does the organisational culture promote the careful use of resources?
- Were your financial accountabilities and performance included at the time of recruitment and in subsequent job appraisals?
- Are your financial competencies important for career progression?
- Do you think about the financial consequences of your decisions?
- Do you work closely with finance staff?
- Are you aware in a general sense of the overall financial position and the financial challenges the organisation faces?

## **GLOSSARY**

**Budget:** The plan of an organisation expressed in financial terms.

**Capital:** Financial resources for long-term investment developments which are spread over time using an annual charge.

**Corporate business plan:** The overarching plan setting out the organisation's strategy and how this will be realised.

**Financial control procedures:** The arrangements in place to ensure monies are properly accounted for.

**Financial regulations and standing orders:** The document setting down the rules to be followed for ordering goods and services and payments for them.

**Revenue:** Expenditure and income charged to a financial year.

**Pooled budgets:** Budgets set aside for a common purpose from more than one organisation to be used as agreed.



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