The Chartered Institute of Public Finance & Accountancy

finance competencies for public services

Shaping the finance function to meet new and future challenges

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 finance and support better public services.

Foreword

Now is the opportunity for the finance function to show that it understands and can illuminate the dilemmas of today's public services, that it can offer leadership and solutions. Across all societies, the public sector is going through a period of dramatic change. For it to emerge successfully, finance needs to be at the centre, actively involved in and bringing influence to bear on all major business decisions. Of course, the finance function itself, like all areas of the public services, is being scrutinised on its cost and performance, and has to prove its worth. So this discussion paper is timely: does your finance function have the vision and capabilities for the challenges of the future? And if not, what more is required?

Top performing organisations have top class finance functions: that is the consistent verdict of studies, in both the private and public sector.

This discussion paper focuses on four core roles for the finance function: innovator, business partner, steward and provider/commissioner. Its purpose is to

- promote debate amongst public sector leaders and finance professionals about the contribution the finance function makes to realising their organisation's strategic goals, helping it to function efficiently and to deserve public trust in its use of public money, and
- identify key challenges in creating a modern finance function that is outward looking and fit for the future, together with the key steps finance departments can take to fulfil their role effectively, given the constraints on other resources over the short, medium and potentially longer terms.

We recognise the many dilemmas and difficulties in driving forward a progressive agenda against a turbulent financial headwind. But CIPFA believes the finance function should focus on enabling its parent organisation, and itself, to emerge stronger and more resilient to deliver the leadership and value-added activities that it will need to assure future success.

Finally, this paper owes its origins to research commissioned in the UK by the Audit Commission. We are very grateful for their generosity in sharing its findings with CIPFA. We also wish to acknowledge the outstanding work of the researcher, Sue Beauchamp. Few have thought more deeply about and, over the course of a highly distinguished career, contributed more to the development of the finance function in public sector organisations.

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Introduction

Finance is not just the concern of the finance function. It is an individual and collective responsibility across the whole organisation, including public sector bodies' board members. There needs to be a greater recognition of this collective responsibility and the finance function has a role in making sure financial awareness and appropriate competencies run right through the organisation. This approach is fundamental to the CIPFA Financial Management Model.

This paper is about the finance function, whether centralised or distributed across the organisation, or delivered in collaboration with other agencies. It covers the whole range of financial processes, from strategic advice on resource allocation to routine activities like processing invoices, although in the interests of brevity, it avoids excessive detail. It includes financial administration carried out by staff working throughout the organisation as well as those directly managed by the Chief Finance Officer (CFO).

CFOs often have other responsibilities: for resource functions such as IT, procurement, and property; for leading service transformation programmes; and even for managing other mainstream services. These are not part of this paper, but CIPFA's Statement on the Role of the CFO in Public Service Organisations makes it clear that in such circumstances CFOs must ensure they have sufficient time and resources to execute their core finance responsibilities effectively.

There is now a range of professional literature about the finance function, covering both private and public sectors, from which a broad consensus has emerged about finance roles, and about how organisations strike a balance between them. This is considered in detail in Appendix 1. In the main sections of this paper we consider the forces for change in the finance function and perspectives on the roles it plays. We examine each of these roles in turn, setting out views on the critical areas falling within each theme and the features of a top performing finance function, and we provide some practice suggestions for moving forward successfully. These are not prescriptive or comprehensive - and are certainly not a 'how to' list. They are intended to suggest to finance leaders some potential building blocks for a future-facing agenda. A separate section then pulls together key issues for the capabilities - the leadership, skills and competencies - of the finance function.

Forces for change in the finance function

Following the Sovereign Debt Crisis in all of its manifestations around the world, public services everywhere now face a prolonged period of financial retrenchment and must adjust their priorities, culture and behaviours for a new climate. External forces are therefore stimulating changes in public sector organisations and conditioning their responses, while at the same time the internal environment for public services is also changing. All of these forces for change will impact on the finance function.

External forces

- Economic and fiscal retrenchment – means doing the best that can be done with less money, tougher prioritisation, requiring greater efficiency and a commitment to long term fiscal discipline. Improvements must be funded by working differently rather than through additional resources. Savings play a critical role in managing spending pressures. Some services/functions/priorities may therefore need to be cut, in part or whole. The pay bill is bound to reduce.
- Some previous 'fiscal consolidations', e.g. Canada in the 1990s, were floated on a tide of economic growth. If growth does not come to the aid of the 2010s the general public's tolerance of reduced spending will become a serious issue.
- Demographic trends will intensify the focus on demand management and addressing the causes and effects of poverty and inequality.
- Other public service cost pressures must also be addressed, e.g. inflation, employee pensions and legislative change.
- Structural turbulence and moves to reshape or disaggregate public services absorb energy in set-up and require a focus on establishing basic stewardship processes at the same time as developing new business models. This provides opportunities to design more efficient and standardised processes in the new organisation.
- Partnership working is increasingly central to public service operations, including bringing together different business models and exploring budgeting across a variety of public, private and non-for-profit agencies.
- An increasing focus on personalisation puts more control and choice in the hands of eligible service users, with consequences for service configuration and value monitoring.
- Working with customers and citizens, in resource allocation and service design, calls for more systematic use of customer insight to inform resource allocation, with opportunities for 'social marketing' for public benefit.
- Increased focus on providing greater transparency and accountability for public sector expenditure provides an ideal opportunity for the finance function as leaders in this area.

Internal environment changes

- Increased constraints on public expenditure mean less tolerance for overspending, budget transfers and carry forward.
- Restructuring to adapt to reduced resources requires rigorous financial analysis and sensitive implementation. Finance can support the business by providing management information in formats that address their needs. This should create the appetite for such data and enable engagement/influence in the senior management of the organisation.
- Organisations will need greater involvement from finance staff in programme and project management, in commercial negotiations and development of business models. Finance need to communicate the skills and value it can add to these functions.
- Managing costs not budgets: managers' focus will need to shift from spending an agreed budget effectively to delivering agreed service levels and quality at the lowest possible cost. Finance staff have a crucial role in ensuring that spending is delivering the required outcomes. This creates an opportunity for finance to demonstrate leadership and push for a cost conscious culture to be embedded throughout the organisation.
- Financial constraint offers a real opportunity to focus and prioritise what really matters. Financial managers can drive that transformation and encourage more radical thinking.

The roles of the public service finance function

This paper focuses on four core roles of the finance function in public sector organisations. These are:

- **Innovator:** exploring ways to make the taxpayers' money stretch further, often in collaboration with other organisations.
- **Business partner:** influencing strategy and business outcomes, collaborating with managers to further policy goals, offering expert analysis and interpretation, presenting options to resolve problems and exploit opportunities; developing financial understanding and informed decision making.
- **Steward:** safeguarding resources from loss, waste, abuse or corruption; giving a reliable account of how resources have been used.
- **Provider/commissioner:** maintaining the financial operation infrastructure and core financial administration processes, including specialist services, both directly and through commissioning external providers.

We have selected these terms because they describe familiar concepts to many finance staff in the public services, and are often relevant to how the function organises its activities.

The path of improvement laid out by the profession over recent years has generally been to improve value added capability. In times of austerity this no longer seems adequate, especially when many transformational opportunities sit within process activities. For the new context, a more relevant vision might be to lead innovation, add value, manage risk and cut cost.

Vision: Lead innovation, add value, manage risk, cut cost

The table below highlights some critical areas where finance functions could consider an agenda for change, to respond to economic and other external pressures, to take advantage of opportunities or to expand public benefit. These high level areas are then explored in following sections. The agenda focuses on development areas, and takes as read a 'good' standard in the use of resources, that has previously been examined in depth[1], for example through the CIPFA Financial Management Model.

Role	Innovator	Business partner	Steward	Provider / Commissioner
Critical area	Convenor	Managing demand	Risk management	Lean transactions
	Cross public service opportunities	Funding futures	Financial standing and resilience	Delivery vehicles
	Analysis of public vale	Future oriented decision support	Internal Control	Experts and specialists
	Supporting transformation	Strategy and resource planning	Monitoring	Procurement
	Stakeholder relationships	Commercialism	Assurance	Data management
		Value for money		
Capabilities	Technical, professional and relationship skills; leadership and vision; talent management.			

1 For example the CIPFA Financial Management Model; the Audit Commission's Use of Resources assessment framework; the UK National Audit Office's Financial Management Maturity Model.

Innovator

Strategic insight

In tough times the public sector needs to focus on what it should provide, and whether services should be free or charges should be made to cover costs in part or in full. The innovator role should offer some intriguing insights into the purpose of financing public services, touching on the relationship between the taxpayer and public services. Finance professionals can offer key inputs/ insight to organisational strategy and the development of business models, by reappraising the rationale for funding services, the balance between taxpayer and private funding, the equity and distributional effects of policy, and the relevance of democratic accountability[2].

Local landscape

A major challenge in a rapidly changing world for governments is how to ensure mechanisms are in place to enable the delivery of public services in a new and different way, fundamentally looking at not just how public services are delivered but what public service will be delivered.

Public service outcomes are often not determined by one agency acting alone. Rather they result from a nexus of conditions and interventions that lie behind the 'partnership' approach to public services. Cross-agency working adds complexity, since perfect alignment of interests and objectives is unlikely. However, the innovator seeks to build the infrastructure that can support cooperation.

It is a truism of the public services that value can get lost down the cracks between agencies. Poor information flows, duplication of processes and systems, distrust and depreciation of other workers can all be features of fragmented functions. The last decade has seen increasing efforts to integrate strategies, systems and processes across agencies. These are often based around place, most notably around high risk client groups such as 'problem' families where ineffective cross-agency working causes significant harm.

The finance function has deep roots in understanding processes. It is therefore well placed to help improve the efficiency and effectiveness of integrated working: by analysing the greatest points of leverage over outcomes, by identifying where costs are ineffectually locked up and by designing the system architecture that facilitates collective activity. It has a particular role in marshalling evidence to reveal opportunities and in creating the story line that compels change.

2 2020 Public Services Trust: 2020 Vision: A far-sighted approach to transforming public service 2010: This report raises specific financial issues with a recommendation to "reconnect financing with the purposes of public services". It identifies a set of questions:

Does wider society benefit from my using this public service paid for by the taxpayer? If not, should a partnership funding model be considered?

Does government need to play a role in funding, delivering or regulating this service for equality or efficiency reasons?

Does private benefit confer wider social benefit; if not there could be a case for co-payment; if there is both private and public benefit from individual consumption there could be a minimum baseline funded by taxation with a privately funded top up.

Policy – consider public interest and distributional effects.

Accountability and openness enable citizens to participate in choices about public policy priorities based on evaluating their value.

Size matters

Some leading practices outlined in this paper are actually functions of a large and complex organisation. For example, the 'value integrator'[3] seeks to present an organisation wide perspective on disparate business activities and data sources. Other practices are endemic to the public sector irrespective of size, such as a basic set of financial rules, proportionate risk management and strong ethical standards.

One direction of travel in the public services favours smaller, more autonomous, directly accountable 'local' business units. This may reduce public sector overheads in some areas (e.g. spreadsheet accounting may be sufficient), but in others it may result in a loss of performance for the sector as a whole. It is therefore necessary to find ways of countering the adverse financial impacts of fragmentation and retaining the benefits of size where this is relevant. For example

- shared services for commodity functions and for technical and expert services (aimed at low unit costs, professionalism, resilience)
- shared procurement for commodity goods and services
- pooled risk (insurance, reserves)
- joint recruitment to offer career prospects to good quality staff.

Priorities

- Supporting a changing relationship with citizens and service users.
- Being an advocate with funders for the organisation's financial interests, for the benefit of its service users and affected members of the public.
- Looking proactively for opportunities to use public resources more productively and to provide evidence that is both robust and 'telling'.

Vision: Lead Innovation

Convenor	**Resource allocation is orchestrated at 'place' level**
Practice suggestions	Be prepared to lead on joint initiatives. Deploy techniques to release value through joint working, e.g. pooled budgeting, partnership protocols, common assessment/ eligibility standards, identifying and designing out duplication. Regulate cost shunting between agencies. Share assets with other bodies. Use collaborative procurement muscle. Develop structures/business operating models to embed and deliver local public services as determined by local priorities.
Cross public service opportunities	**Value that goes beyond the ability of an organisation acting alone is achieved**
Practice suggestions	Collaborate and integrate across agencies where it reduces cost or improves service affordably. Tell the story, using insightful costing, about opportunities for savings/benefits. Develop benefits sharing mechanisms.

3 IBM: *The New Value Integrator - Insights from the Global Chief Financial Officer Study 2010* at **ibm.com/cfostudy2010/uk**

Analysis of public value	**Concepts of public value inform strategy**
Practice suggestions	Challenge the rationale for existing public funding in terms of its value to society, the need for public accountability and equity, and the allocation between private and public benefit. Review previous policy initiatives and outcomes to assess value for money. This will lead to better costed policy development with a clear focus on outcomes achieved. Review experience across other sectors to assess how public services are delivered to draw out best practice.
Supporting transformation	**Major change programmes and projects are clear about the benefits they seek and realise them efficiently**
Practice suggestions	Look to peer network across other public sector organisations to see if there are lessons/experience to draw on. Explain financial perspectives clearly to stakeholders, including the public, service users and staff, in ways that are sensitive to their concerns. Ensure finance involvement in projects and programmes maintains the focus on value for money, rate of return and benefits realisation.
Stakeholder relationships	**Financial mechanisms are designed and delivered for a changed relationship with service users and/or citizens**
Practice suggestions	Incentivise behaviours that reduce costs/ secure value for money improvement (e.g. 'nudging', social marketing using customer segmentation). Coordinate financial assessments and passport entitlements where possible. Plan consequences of personalisation. Advise on frameworks for creating/ partnering social enterprises that deliver benefits. Advise on frameworks for citizen determination of services, e.g. devolving/ spinning off functions. Identify opportunities for co-payment. Ensure policy ideas that shift financial responsibilities between sectors and client groups are subject to equalities impact studies.

Business partner

The business partner supports sound financial decision making and promotes good financial management so that resources are stretched as far as possible to provide public services that people need and want.

Over the past decade studies of the role of the finance function have laid great emphasis on its potential to add value by providing business intelligence, powered by its unique position at the heart of the organisation's financial flows and its specialised professional expertise. Control and probity may be home territory for the finance function but the business partner collaborates in realising the organisation's wider business goals, and accepts joint responsibility for delivering policy priorities. In working alongside business units, while also maintaining an ethical stance and independent judgement, the finance professional develops and protects sustainable business strategy.

Finance managers should be at the heart of driving well informed decision making around the transformation agenda. This is assisted if there is a deep understanding of costs and cost drivers of the available options.

Finance has made a start towards this value added activity , and greater business insight is seen in highly performing finance functions[4]. Decision making also needs to be supported by the close integration of financial and performance information. Both these areas are heartland territory for finance managers.

This role directly involves the finance partner in core management processes, such as

- resource planning: strategic; long and short term; whole life; sustainable
- forecasting, modelling and scenario building
- charging and pricing strategy
- option appraisal
- monitoring resource use and managing budget execution in a disciplined way
- evidence based policy decisions and implementation
- measuring and challenging costs, value and performance, selecting relevant and illuminating information for decision makers
- commercial activities such as contract negotiation and trading
- supporting transformation programmes and projects. and helping their organisation moving to a changed target operating model
- leadership on efficiency techniques.

Managing demand

Matching resources to demand, within restricted resources, is a core problem for the public sector. Runaway demand-led spending seriously destabilises an organisation's finances and can squeeze out other services. But, while resources are not expanding, demand for services tends to increase, through demographic change, economic conditions, consumer expectation and policies promoting choice, technological advance (especially in the health service) or better and more accessible information. At the same time policy may deliberately restrict management's coping tactics, for example through limits on clients' maximum waiting times. Techniques of demand management, from productivity improvement to triage, are widely used across the public sector. But there is still an opportunity for the finance profession to collate that knowledge so that options can be more readily available to decision makers.

4 PWC: *Stepping up: the challenges for Finance in the public sector* 2011

Service collaborators

As trusted advisors finance staff need to understand their department/service partner's business goals. They need to be sensitive to organisational context and to general public service values such as equity, sustainability and social responsibility. They need both to support and to challenge decision makers. Finance therefore helps to translate corporate and service priorities into affordable activity that responds to the needs and wants of the public and to the priorities of funders, alongside its technical activities, such as compiling detailed budgets. Appendix 2 illustrates the pivotal processes of budget formation and execution, set in their social context, from this broad Public Financial Management (PFM) perspective.

Finance business partners are often located with business units, in order to develop understanding and empathy with business goals, while also representing the stewardship responsibilities owed to the wider organisation and so there is often a dotted line to the finance director. Common management reporting to the CFO facilitates the cohesiveness of the finance function, together with structural efficiencies and resilience in the face of cost cutting. The CFO needs to avoid the finance team becoming too lean to provide adequate support to service managers, or business units may recreate their own resource.

However tighter budgeting means finance support is likely to be pared back unless it demonstrably adds value to decision making or to resource management. Culture change is therefore required from finance staff. Finance professionals typically hope to shift resources within the finance function towards offering high value business intelligence. This requires different skills and may mean a smaller cadre of well paid professionals[5]. It also implies changing any handholding culture and educating managers to take responsibility for the financial implications of their decisions, to apply appropriate techniques of resource management and to call for expert help only when it is needed.

The finance function needs to be flexible to be able to continue to support the business and assist in the transformational change agenda.

Priorities

- Managing the issues for the financial public interest arising from personalisation of services.
- Explaining financial circumstances objectively, comprehensibly and sensitively to decision makers, service users, taxpayers and staff, in the context of likely resistance from all parties to reducing any existing services. The significance of this role will become more acute if spending cuts intensify.
- Ensuring performance measures track key business and cost drivers for the organisation and are used predictively. Develop adequate systems to deliver this information in a format that enables the organisation to make informed choices.
- Supporting the organisation fully in delivering the outcomes by becoming an integral part of the strategy and business planning. To be considered part of the senior team the finance professionals must acquire other "soft skills" to fully engage and lever support throughout the organisation.
- Ensuring financial control is operative in transformational change, without becoming a blockage.

5 PWC: *Stepping up: the challenges for Finance in the public sector* 2011

Vision: Add Value

Managing demand	Response to demand pressures, short of service closure, is planned and systematic
Practice suggestions	Ensure robust monitoring and forecasting triggers prompt responsive action. Assess early intervention/ invest to save proposals (with benefits realisation plan) in a hard headed way. Focus productivity improvement on areas exposed to risk. Advise on impact and implementation of techniques such as: triage, rationing, queuing, tightening eligibility, shifting gate keeping closer to control point; diverting demand to more appropriate agencies, incentives (e.g. charging or incentivising channel shift); reviews of high cost areas; elimination of waste (e.g. missed appointments); a focus on how people transition out of service not just on how they access it; matching resources to demand efficiently across time, e.g. rostering.
Funding futures	**Finance gives competent advice on how to finance investment and service operations**
Practice suggestions	Be rigorous in appraising investment options: prudential borrowing, public sector comparators (PFI) etc. come back to bite if treated as formalistic. Understand the principles, advantages, disadvantages, risks, opportunities and uses of non-traditional finance, e.g. – social enterprise vehicles, e.g. trusts, mutuals, community interest companies – other special purpose vehicles and joint ventures – capital funding - special purpose vehicles with the private sector, bonds, tax increment financing (TIF), asset backed partnerships, securities based borrowing – alternatives to revenue funding e.g. social impact bonds – renewable/green energy resale.
Future oriented decision support	**Finance contributes business intelligence that enables managers to take soundly based policy and operational decisions, understanding their financial consequences and navigating through uncertainty**
Practice suggestions	Analyse principal cost drivers and ensure these are what are measured and managed, especially where they do not match organisational structures. Ensure that it is routine to report full financial implications, validated by the finance function, in decision-making, with sensitivity levels if material. Analyse costs in relation to performance to reveal opportunities for policy/process change. Forecast key performance and cost indicators in year and on a rolling projection to provide predictive information for management. Check information is relevant and clear so that it is not disregarded. Be involved in business case development for major policy change, to ensure rationale, evidence, options and impact are realistically addressed. Develop financial capabilities of decision makers. Manage partnership governance, setting measurable objectives to secure benefits or savings, with the means of evaluating success. Review the impact of previous policy decisions to learn lessons/assess relative cost benefits.
Strategy and resource planning	**Resources are allocated to planned outcomes, based on an understanding of business and cost drivers**
Practice suggestions	Ensure resource planning and prioritisation techniques (strategic, long term, whole life, sustainable) give a view of the future that can be acted upon. Build collection and application of service user and taxpayer perspectives into resource planning. Develop option appraisal, scenario building and sensitivity testing, for both revenue and capital, across periods that reflect commitments. Support managers to manage costs rather than spend budgets and to understand how spending is linked to results. Examine asset utilisation levels and scope to make the funds tied up in assets work harder.

Commercialism	**Finance offers informed insight and shrewd judgement on commercial opportunities**
Practice suggestions	Assess opportunities for trading to generate income within acceptable risk. Help design charging and concession structures. Promote business case and business plan skills. Ensure consultancy expertise on major contract design and negotiation is transferred into the organisation.
Value for money	**The finance function leads on efficiency and value for money for the organisation**
Practice suggestions	Combine cost and performance data to identify areas of underperformance and to improve productivity. Lead on efficiency techniques, e.g. benchmarking as business intelligence, and copying the best; Business Process Redesign; procurement; asset rationalisation; channel management. Assess the manoeuvrability of organisational finances, e.g., inflexible staffing arrangements, debt and financial commitments (e.g. PFI), money tied up in fixed costs, non-current assets.

Steward

The public interest

In its stewardship role Finance is the guardian of taxpayers' money, ensuring that it is directed to proper purposes and spent in ways that conform to legislation and professional standards. This defensive role extends to safeguarding the public interest, the longer term financial sustainability of public service organisations, and their standing and reputation in the public's eye.

Accountability for the use of public money cannot be delegated, even though its management can, so the finance function has both an independent role as guardian of good practice , a role in supporting accountable officers who deliver services and ensuring the mechanisms are in place to provide the assurance over accountability. These roles look inward to the organisation, but the finance function is also an advocate to funders for the amount and stability or predictability of their external finance sources.

Governance and scrutiny

In recent years a series of financial scandals and shocks, in both the private and public sector, has generally led to a stronger emphasis on compliance, disclosure and ethics. A traditional stress on financial control has converged with a wider concern for corporate governance. This reinforces the need to maintain effective oversight of the organisation's business activities and for senior management to build sightlines across the organisation's whole performance, control and risk management systems.

The demand for oversight also highlights scrutiny functions that examine performance and push for allocative and operational efficiency. Formal scrutiny arrangements review evidence, seek ideas and make recommendations to executive management. Scrutiny functions are a key part of the checks and balances in the public financial management system and are therefore a core client of the finance function. Similarly the finance function has an obligation to be open and accountable and to provide appropriate and usable information to the public and to civil society representatives.

Risk Management

The public sector, more than the private sector, has tended to be risk adverse. Risk management permeates the activities of the finance function, including assessing and mitigating the risks to financial sustainability. Across the wider organisation Finance is a watchdog, ensuring risk management is embedded in key management activities such as budget planning and change processes.

Finance has an overview of design of the overall control environment, and its validation through audit. Controls need to be responsive to changes in risk, and accept that not all risks can be eliminated. Whilst the appetite for risk in the public sector is not high, organisations need to ensure that adequate controls are in place but the control framework itself needs to deliver value for money, with a mind-set that controls should add value, providing better audit trails or enhanced management information.

Priorities

- Leading the attack on the costs locked up in demand, supply, staff, assets, the control environment, waste and fraud, dealing with other agencies, inspectors and government and transacting with service users.
- Building internal relationships with managers: ending any residual culture of handholding, developing enhanced financial literacy, self-service, and embed a culture of cost management
- Integrating data requirements for risk management, monitoring and control systems.
- Generating management information, such as business performance measures and user profile data, for the organisation not just for the financial function.
- Developing finance function capabilities to deliver low cost processes and provide high value advice.

Vision: Manage risk

Risk management	**Risk is cost-effectively mitigated, safeguarding the organisation's reputation for integrity and competence**
Practice suggestions	Implement structured systems for assessing, monitoring and mitigating risks and opportunities in all key planning processes and change projects, determining and explaining risk appetite. However the system should not be the end product. Ensure risk management actions are cost effective and proportionate. Ensure all risks to be managed have an identified owner. Understand financial risks e.g. from demand, funding sources.
Financial standing and resilience	**The organisation has capacity to meet forward liabilities, funding volatility and financial shocks**
Practice suggestions	Have complete up to date financial data to enable active monitoring and control over spend and identification of future committed spend. Be an advocate for the value, stability and predictability of the organisation's funding sources. Understand source and application of funds, cash flow and working capital. Demonstrate a prudential approach to liabilities; maintain adequate risk based reserves, provisions and contingencies; insurance, catastrophe and emergency planning.
Internal Control	**The control environment is adequately maintained without inhibiting the pace of change**
Practice suggestions	Oversee a system that is risk proportionate and efficient: maximising automated checks and automatic audit trails. Scan for risk change and adapt quickly to changes. Use technology e.g. data matching, to reduce fraud. Ensure well defined roles, accountabilities and reporting lines across the organisation, designed to facilitate sightlines across operations. Review fitness of financial rules, e.g. effectiveness of virement and carry-forward rules in directing resources to organisational priorities. Avoid excessive cuts to the finance function that weaken controls. Control financial processes in merger, set up, devolution and shut down of functions and organisations.
Monitoring	**Public money is transparently reported and accounted for**
Practice suggestions	Help to design board reporting that integrates risk, control and performance, based on key business drivers. Facilitate formal scrutiny e.g. by using helpful presentation of information and consistent definitions. Facilitate accountability to civil society through appropriate and accessible open information. Project manage, standardise and automate accounting and reporting processes. Manage compliance with more stringent professional standards. Develop financial accountability frameworks and competencies for partnerships and newly empowered or autonomous units taking on devolved or de-concentrated functions.
Assurance	**Standards of compliance and control are independently verified**
Practice suggestions	Ensure risk management practice is endemic across organisational systems. Validate change as you go (e.g. internal audit on project teams or project audits to pick up issues). Enable an authoritative audit committee to drive performance. Develop relationship with the external auditor through a period of change.

Provider/commissioner

Core financial processes

The finance function is responsible, directly or indirectly, for providing an organisation's financial infrastructure and for its efficiency, integrity and smooth running. Financial operations include transactional services, such as payments and revenue collection, together with specialist functions like treasury management or finance IT. Fundamental financial operations can be fruitful areas to attack costs, particularly by examining the scope for process standardisation and automation across business functions.

However, Finance must also look at its own scope for cost reduction through systems change, by risk/impact assessing routine activities to see where they can most safely be stopped or reduced (discretionary activity) and by reviewing the structure of the finance team to reduce the pay bill.

The mechanics of budget execution are also a key financial operation, relying on processes to track commitments and manage resources, managing staff budgets and also buying at good prices. The finance function has a clear stake in the resource implications of procurement and contract management and needs to be involved throughout this process to optimise cost savings to the organisation.

Sharing operational costs

Shared services are, in many cases a recent development, so it is right to ask whether we are witnessing a fad that will soon pass. There are formidable obstacles to implementing shared services, not least in harmonising systems and practices, in determining partners' relative inputs and benefits, in maintaining change momentum across all partners and in business continuity during cut-over. Other approaches to sharing fixed costs and reducing unit costs may therefore be preferred, including outsourcing, forms of management buy-out or 'mutual' provider and joint ventures. More tentative approaches to collaboration include shared facilities or individual shared functions such as training. More radical models may involve progressively joining up operations between organisations based on business case and/or opportunity.

One approach to switching Finance effort from routine to value added activity may be to transfer commodity operations to specialist arm-length providers. However, both shared services and outsourcing have stories of mixed success. Outsourcing's history shows the need to bring commercial expertise to contract negotiations, to maintain a competent client that can actively manage contract performance, to avoid excessive dependency on contractors for business critical activities and to manage improvement, flexibility and ultimately exit. The need to focus on cost reduction and elimination requires finance to leverage greater value from outsourcing – an area for improvement for the public sector.

Shared services reduce local control and can result in extra, and more visible, overheads if the value case is not strong. There is also a conundrum at the heart of joining up organisations with different starting points. For example, an organisation with a highly developed payments process and IT system that joins a consortium can provide expertise and experience that could greatly benefit the collective. However, that organisation itself may derive very little benefit – its efficiency is already high – and in fact the new arrangement imports new risks. Added to that there are likely to be information gaps, different measurement practices and assumptions about the future state that prevent precise evaluation.

Competency gaps also loom in setting up shared services business units. Not least the finance function must advise on distinct roles, including:

- as 'venture capitalist', agreeing each organisation's inputs to the new delivery structure and how they are to be recognised through cost and benefit sharing;
- as part owner of the new delivery body: collaborating on design and set up of the new service, agreeing its business plan and pricing policies and setting its financial and other performance targets;
- as client for the service to be provided, specifying measurable standards, agreeing service prices and monitoring 'contract' performance.

Impact of Technology

Both economic and technological drivers support the trend to scaling up, whether this means amalgamating functions that have been dispersed across a large organisation or joining with other agencies. Firstly there is the short term economic imperative to take costs out of the finance function without disabling it, where sharing provider offers management economies and avoids duplicated IT and improvement planning. Secondly customer drivers and technology come together. Customers now expect to be able to conclude transactions efficiently in one session, and that goes for internal customers submitting an expenses claim as well as debtors making a payment.

Technology enables this to happen, and brings benefits of speed, accuracy, automated controls, audit trail and management information. Some sophisticated IT systems allow rules based scripts to operate in highly complex areas like benefits assessments and insurance fraud. Increased scale supports greater specialisation. But the switch from people intensive to capital intensive operations demands volume to keep unit costs down, as well as standardised procedures and common taxonomies. Shared services and outsourcing are a structural response to these drivers. At the same time remote access to systems removes some of the locational barriers to aggregating service provision. At a time of turbulence in the organisational arrangements for public services, with agencies being dissolved, rescaled or newly created, there are benefits in exchanging fixed costs of local infrastructure for potentially more variable costs of purchased services And this is even before considering other potential changes to not only how public services are delivered but more fundamentally what we deliver

Priorities

- Delivering transactional public financial services differently: more automated, lower cost, with easy customer access.
- Standardising functional processes across the organisation, reducing variations between departments thereby reducing diversionary activity and ultimately drive down cost.
- Learning to specify a shared service and help to set its business plan and returns and/or how to outsource with continuous improvement.
- Reviewing the value, competitiveness and structure of the finance function.
- Examining end to end processes, linking the originator of a transaction with the final outcome. Processes, e.g. from purchase order to payment, may then be automated through IT facilities such as document imaging, workflow and standardised reporting tools.
- Shortening process chains, targeting low value added steps and reducing handovers between people or systems.
- Scrutinising the resource implications of procurement systems, for example in alternative procurement strategies, transparent systems to ensure probity and propriety, value for money arrangements before and after contract, the governance of strategic contractual relationships, maximising purchasing power and efficient administration.
- Integrating customers and suppliers into the process chain in volume transactions, for example, in purchasing care or routing reported faults direct to contractors responsible for effecting a response.
- Making access to systems simple and attractive, e.g. by transactional websites designed around the customer, to promote self-service.
- Minimising tailoring of generic systems, such as income collection and recovery, so that standard processes, and any contracted support, can be managed across functions.
- Review of diversionary activity.– the cost of rework to ensure it is fit for purpose. This will demonstrate a training need that, once addressed, will result in resources being freed up.

Vision: Cut cost

Lean transactions	**Very low unit cost is achieved for transactions of consistent specified quality**
Practice suggestions	Analyse and manage activity costs. Refresh approach to benchmarking as business intelligence. Streamline end to end processes and integrate business data requirements; appoint change agents and process owners with authority. Promote channel management and self-service. Progressively commoditise and cut cost out of front line support. Stop or reduce low impact/risk activities. Rationalise IT systems architecture for generic functions, e.g. fault reporting, booking. Keep abreast of new technology opportunities, e.g. mobile phone payments, social networking communications. Cut costs of Finance, by rationalising structure, tasks, variability of process (small examples: review management span and structure, ban data manipulation via spreadsheets, limit numbers of codes, reports and small payments).
Delivery vehicles	**Financial processes are delivered from the most cost effective vehicle**
Practice suggestions	Centralise commodity activities to simplify and standardise, where savings justify weakening local control. Examine shared systems, shared service, outsourcing and improvement, joint ventures. Develop competencies in governing, setting up, specifying and managing shared services.
Experts and specialists	**Access to technical advice ensures efficient compliance and helps to identify opportunities for better performance**
Practice suggestions	Review the competitiveness and structure of the Finance team. Extend rules-based decision making and inquiry, moving customers to self-service to reduce specialist resource. Collaborate within and across organisations to ensure technical depth, career paths, service resilience. Keep accounting and treasury skills up to scratch.
Procurement	**Goods and services meet the organisation's needs at competitive prices**
Practice suggestions	Strategic procurement: appraising procurement strategies, ensuring value for money through competition and contestability, category management; high contract coverage, collaborative commissioning and procurement, channel shift, market development. Operational procurement: e-tendering, purchase to pay systems for internal and external transactions, credit checking of contractors, monitoring off-contract expenditure, ensuring value of assets to be disposed of is captured.
Data management	**Reliable, secure, timely, relevant and comprehensible data underpins reporting and decision making**
Practice suggestions	Review data governance, security, integrity controls, integration and presentation, and systematise its production, to reduce the effort of validating, extracting, manipulating and explaining data. (Stop discretionary activity and seek to eliminate diversionary activity) Select data that meets business needs efficiently or stop producing it.

Building capability – learning and growing

Responding to a changing financial environment means stretching the finance function's own capabilities, and raising those of the wider organisation. Training and development based on analysis of need is a generally well accepted concept in public services and there is always room for improvement, however this paper does not intend to deal with the full range of financial competencies or with techniques of management. We highlight only some issues arising from the forces for change that are affecting finance staff.

Vision and leadership

It is many years since organisations like the US General Accounting Office and CIPFA set vision and leadership at the forefront of effective financial management. This remains a core theme. Finance functions now increasingly declare their vision: a 2011 survey by PWC shows two thirds of public services organisations have a documented vision statement aligned to the business strategy of their organisation[6]. But PWC are also clear that a vision is not enough unless it is relevant and communicated to the wider organisation and is advanced through concrete plans and firm leadership. It finds that there is a general lack of such plans and that this hampers progress in Finance's shift from routine to insight activity.

It is evident that a vision, in the sense of expressing a general direction, can secure gradualist and opportunistic improvement but accelerated change needs focused leadership and a firm action plan. The obstacles are pretty well understood, including concerns about a rigid and ageing workforce, the difficulty of orchestrating the wide organisational change necessary to lever benefits from transactional processes, the lack of operational and investment resources for back office functions and/or an entrenched control based culture. One can speculate why gradualist change appears to be tolerated when the organisational gains of more insightful support to business objectives seem to be so widely repeated amongst finance professionals. Are finance staff prioritising their transformation capacity for big corporate projects? Are they focusing on business continuity ahead of business outcomes in turbulent times? Are they hoping to protect core staff skills and morale? This is unlikely to be a black and white picture.

The finance function has a clear leadership role in embedding financial understanding and skills across the organisation.

Interpersonal skills

Alongside such professional capabilities the finance function must also carry weight through its relationship skills, such as communication, negotiation, influencing and emotional intelligence. Finance needs these attributes to exercise its voice in corporate and service policy and to pursue improvements that cross line-management boundaries.

Research in the key skills required as a senior finance leader today highlights that the finance professional needs not only professional expertise - indeed when engaging with the rest of the organisation this is a given, but to truly be recognised as part of the senior leadership team he or she need to demonstrate other "soft skills" such as communication and influencing too.[7]

In partnerships relationship skills are known to be important in developing trust, aligning goals and cultures interpersonal achieving jointly optimised results. For stakeholders, such as non-executives, special interest groups, customers and taxpayers, the right skills may alleviate a sense of disempowerment against an opaque and bewildering financial system. An ability to communicate with clarity to external stakeholders is especially important so that the organisations financial performance is clearly understood. These relationship qualities may not be the first associated with the accountant's personality profile but they are necessary skills. They are also highly relevant to the painful challenge of maintaining colleagues' morale and motivation during times of austerity.

6 Price WaterhouseCoopers *Stepping Up: the challenges for Finance in the public sector* 2011

7 CIPFA: Role of the Chief Financial Officer in Public Service Organisations (2009)

Professional expertise

As we have seen, the finance function needs strong technical skills, for example in IT systems, treasury management and more demanding accounting standards. The business environment also calls for proficiencies that enable Finance to raise the performance of the whole organisation, such as in governance and ethics, in costing and in analysing and interpreting data as the basis for options and action. In a world of bidding and special pleading finance staff can bring impartiality and harder edged commercial skills to business planning, investment appraisal, lean process design, procurement and contract management.

The finance function also needs to build the skills required of all senior managers in managing projects, programmes, change and performance. In the public sector this has often been a challenging area and the need for good skills in this area are heightened in a period of austerity. Managers may also need additional competencies in workforce planning, restructuring, downsizing and staff transfer to new providers.

At senior level the finance professional also operates in an environment where policy and technology are breeding grounds for complexity. He or she needs to be comfortable with grey areas, with exercising judgement on imperfect information and with resolving rather than solving problems. In the political environment the professional also contends with some fundamental tensions such as the tug between localist determination of service levels against the centre’s desire to offer universal equitable services to citizens.

Talent management

Nevertheless there are clear things that the finance function can do to develop a more agile workforce. The workforce plan starts with a picture of the skills needed in the affordable ‘future state’, combined with a profile of the existing workforce, the drivers for change and the hurdles to be overcome. As a result Finance may need to tackle performance, to rebalance skills, to consider succession planning and to undertake some restructuring.

Nurturing talent is especially important to finance departments who want to progress to a new level of organisational impact, especially where increasingly there will be limited resources. Developing potential can involve measures to enrich individual experience, such as stretch project leadership, mentoring or secondments. It can mean development programmes for high potential people, recruiting fast track new staff, filling in competency gaps (e.g. commercial expertise) and broadening experience of working in different sectors. Innovation and openness to outside ideas are actively encouraged. Aspiring to recruit and retain high flyers means being able to offer attractive remuneration and career progression, if necessary in partnership with other organisations. Crucially, talent management focuses on developing leadership potential, not just technical expertise, and on placing excellent staff in key positions, to raise the profile and impact of the whole finance function.

Appendix 1
Perspectives on the finance function

Over recent years the accountancy profession has sought to define a role for the finance function that goes beyond bookkeeping to creating value for the organisation. In successive studies finance leaders, in the private or public sector, say the finance function spends more time than they would like on routine (low value) activities rather than 'insight' activities like analysis, strategy and advice. Typically, they would like to shift resources from routine to more complex interactions.

The key dimensions of the finance function are well established. We build on this understanding to describe four core roles: innovator, business partner, steward and provider/commissioner. In succeeding sections we highlight critical areas for success in the changing environment, and improvement practices to consider.

In redefining its role the finance function has stressed its expertise in financial management as a lever to organisational performance[8], not just its accountancy skills. It has sought to balance its insistence on compliance and control with the aspiration to add value to business outcomes[9]. It has seen its traditional role in financial administration transformed by the possibilities of IT, and the competitive pressures of a market in external providers. 'Back office' and 'support service' have started to seem limiting terms for the finance function.

Balancing the finance function dimensions

This re-evaluation of Finance's role has generated common ground about the core dimensions of the function, and also about the desired trajectory for improvement. The examples below draw on both public and private sector studies.

Aspects of the finance function:

CIPFA[10]: Stewardship; Performance; Transformation

PAIB[11]: Creators of value; enablers of value; preservers of value; reporters of value

PWC[12]: Efficiency; Compliance and control; Insight, with roles through scorekeeper, commentator, diligent caretaker, to business partner

KPMG[13]: Efficiency; Trust; Insight

Head of government finance profession[14]: Deliver; Govern; Enable

DFID[15]: Efficiency; Fiscal discipline; Strategic resource allocation

Deloitte[16]: Steward; Operator; Strategist; Catalyst

McKinsey[17]: Bean Counters; Process Managers; Business Partners; Value Managers

IBM[18]: on a 2x2 matrix of Efficiency and Business Insight – Scorekeepers; Constrained Advisors; Disciplined Operators; Value Integrators

8 CIPFA's 2010 publication *Public Financial Management – a Whole System Approach* adopts the definition: '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.'

9 United States General Accounting Office (GAO): *Creating Value through world-class financial management* 2000.The Vision for the finance function proposed by the US General Accounting Office in 2000 is to be 'a value creating customer focussed partner in business results'.

10 CIPFA: *Financial Management Model:* 2004, 2007, 2010

11 IFAC Professional Accountants in Business *Competent and versatile: how professional accountants in business drive sustainable organisational success*

12 PriceWaterhouseCoopers (PWC): *Finance at the Crossroads: The changing role of Finance in Government and the Public Sector* May 2009

13 KPMG Canada: *Finance for the future* 2009

14 Jon Thompson, Head of the Government Finance Profession, quoted by PWC ibid

15 DFID – submission to CIPFA Whole System Approach

16 Deloittes: *Mastering Finance in Government – Transforming the Government Enterprise Through Better Financial Management* 2008

17 McKinsey Quarterly: *How finance departments are changing; global survey* Spring 2009

18 IBM: *The New Value Integrator - Insights from the Global Chief Financial Officer Study 2010* at **ibm.com/cfostudy2010/uk**

The imperatives of efficient operations, control and business value are all important, and must be held in balance. Nevertheless over the past decade surveys of the time spent on finance activities consistently suggest that the finance function aspires to transfer resource away from routine processing and towards value added business intelligence. There is also ample evidence to suggest there is a persistent shortfall against this ambition.

The profession has therefore sought to position itself as offering valuable insights that can enhance overall business performance, but the momentum and capacity for change appear to lag ambition.

Commodity and relationship services

Finance department activities can be characterised as commodity operations (like creditor payments) and relationship services (like supporting decision makers).

The two styles can be broadly characterised:

- 'commodity' service: highly standardised; of specifiable but uniform quality; impersonal; lending itself to rules based definition; vendor neutral for the end user (though customer loyalty may come into play).
- relationship service: requiring understanding of and empathy with the service user, likely to be tailored and based on mutual trust.

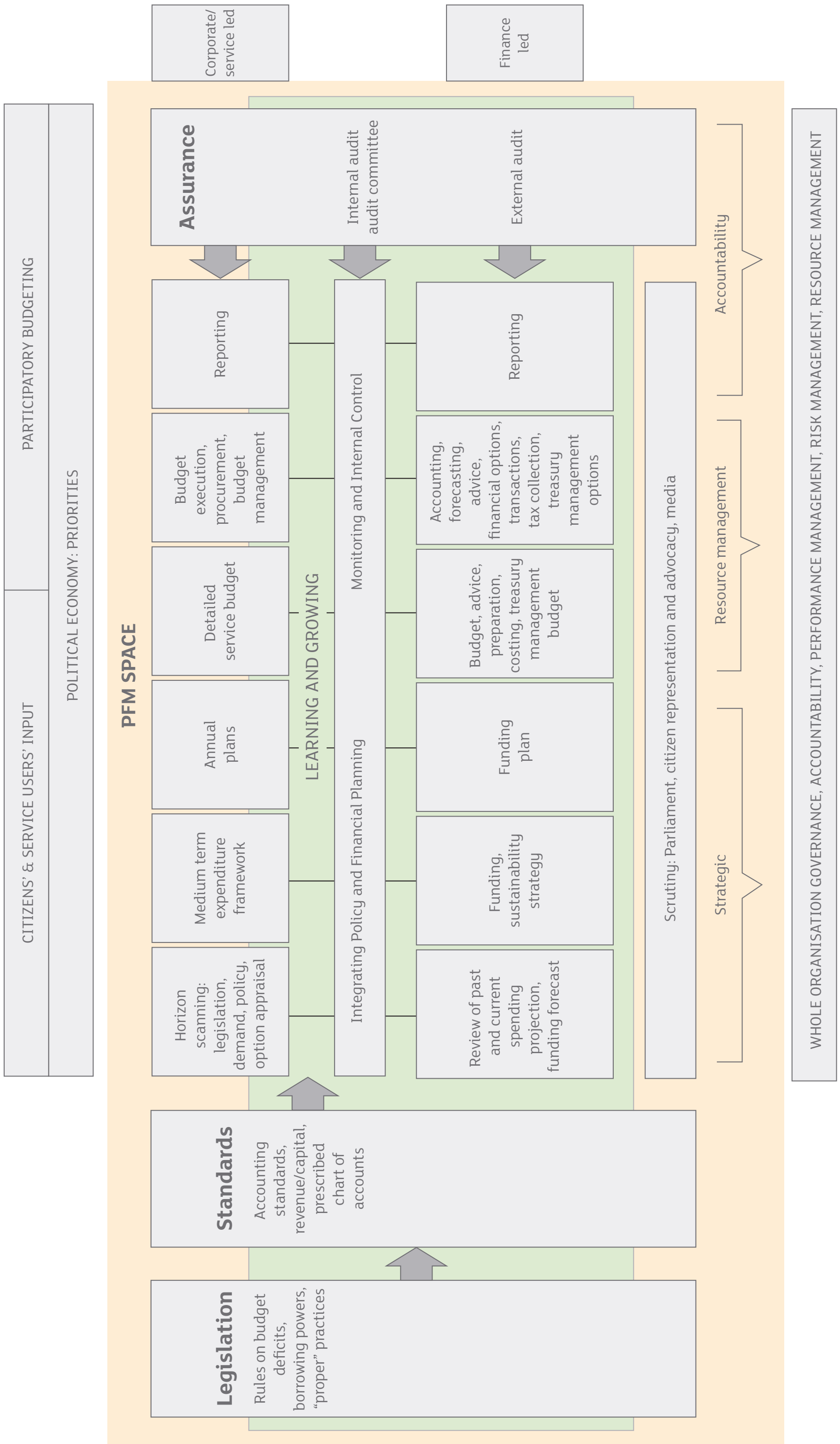
However, the boundaries between the two types are not fixed. Opportunities arise when categories are exchanged. For example, retail banking has transformed from a local, branch based, face to face service to one where many people are happy to conduct their banking entirely impersonally – and, by extension, very many of their other financial transactions, from paying taxes to renewing a parking permit. Similarly, elements of support for budget managers can be commoditised through a library of system based reports that eliminate local tailoring of information, manipulation of data and expensive handling time. Conversely there may be scope to enhance income and cross subsidise core public services by providing premium personalised services through trading vehicles, developing new forms of 'relationship' service.

The improvement trajectory described in professional literature, from bean counter to value officer, may imply all the glamour is in value added insight. However, transformational opportunities are equally available in process based activities, and equally challenging to achieve. Indeed it is important to ensure the bean counter role is established before we can move to the value officer.

The standard finance department survey implies that CFOs want to switch resources from routine to value activities. However, progress on reducing transactional costs may not result in proportionately more resources for insight and business partnering activities. Firstly, the cost of existing insight activities may fall as elements of the service are progressively commoditised. Secondly the freedom to claim savings for recycling within the finance function cannot be assumed – they may be transferred to other priorities. Also, the skills required to be an effective business partner will require an up-front investment - time to develop the relationships with the business and training for staff to undertake this role.

Appendix 2
Budgeting and the business partner: the roles of the finance function

The Budget Process



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