Leading from the front

Finance in the public sector - from aspiration to action
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Foreword: Finance in the public sector

Introduction

There remains unprecedented pressure on public sector finances. The role and leadership of the finance function (“Finance”) in government and the public sector continues to be of critical importance.

The coalition government continues to pursue its challenging programme to cut public expenditure. And at the most recent Labour party conference, held in September 2013, both the Labour leader and the Shadow Chancellor indicated that the Coalition’s spending limits will be the “starting point” for the Labour party if it wins the 2015 general election. They confirmed to the party conference that the Labour party is committed to continuing the present government spending cuts.

So whilst political and fiscal priorities between the main political parties will be different in terms of areas of spend, Finance will remain firmly in the spotlight and has a leading role to play.

Scale of the challenge

The scale of challenge for Finance has never been greater. Finance has to lead from the front to ensure that its voice is heard and so that colleagues across government act in a fiscally responsible manner, within the agreed governance protocols, in support of the government of the day.

There have been numerous reports over recent years that have pinpointed the centrality of Finance to the delivery of efficient and effective public services. Earlier this summer the Chief Executive of the Institute of Chartered Accountants in England & Wales (ICAEW) joined the debate and stated that a key issue that has been highlighted by the financial crisis is the poor state of financial management in government. His pronouncement follows an ICAEW report of June 2013 which proposed inter alia that HM Treasury be turned into a proactive group finance function, with a group CFO appointed to operate across government.

1 'Spending Review 2010', HM Treasury, October 2010 and subsequent Budget announcements
2 ‘A CFO at the Cabinet Table? Strengthening UK government finances for the future’, ICAEW, June 2013
In early 2011 HM Treasury published a high level statement of intent designed to form the foundation for a finance transformation across central government. This report recognised that the public sector needs a fundamental shift in culture to become more fully commercial, adaptable and innovative. Finance must work in partnership with senior management and be integral to board decisions. Decisions need to be evidence based with clear financial consequences and public servants need to actively manage their financial performance.

The National Audit Office reported in 2011 that good financial management is at the heart of an effective, well-run organisation. In the same year HM Treasury and the Cabinet Office issued the corporate governance code for central government departments, which is underpinned by the need for sound financial management. And CIPFA’s March 2012 discussion paper, on shaping the finance function to meet new and future challenges, states clearly that top performing organisations must have top performing finance functions.

Most recently, in June 2013, the National Audit Office has examined how far Finance is at the heart of decision-making in government. It has also considered the important role of financial management and “the pressing need for improvement across central government”.

So the pressure is intense for the public sector to respond and ensure that it has a quality professional finance capability, to enable the government and the public sector to deliver its programme and do its day job effectively.

Today, Finance Directors and finance functions face a constant stream of challenges. New risks and conflicting demands from a wide range of internal and external stakeholders continue to increase the pressure on financial leadership. The necessity for Finance to play a fully active part in the business at the board and strategic level is of paramount importance.

Successful organisations need their finance functions to look beyond the traditional core functions of Finance and use their financial acumen and insight to drive new value and higher levels of business transformation and performance. And they also have a critical input into effective public sector corporate governance at all levels.

3  ‘Managing taxpayers’ money wisely: commitment to action’, HM Treasury, January 2011
6  ‘Emerging Stronger: shaping the finance function to meet new and future challenges’, Chartered Institute of Public Finance and Accountancy (CIPFA) discussion paper, March 2012
7  ‘Financial management in government’, report of the Comptroller and Auditor General, June 2013
Scope of our research

Against this background we carried out our research this year over an eight week period from early July to the end of August 2013, to examine the trends, issues and the changing environment faced by Finance Directors across the public sector. We explored the same range of issues this year as in the last four years, so as to understand current reactions to those issues and assess expected future developments in Finance.

Looking at trends allows us consistency in our reporting and facilitates benchmarking performance and comparative analysis, such as to the private sector. An additional benefit of asking the same questions, and assessing the same issues, over an extended period, is to build a track record and understand trends and improvements over time. Transforming and changing a finance function is unlikely to be a short term process. But over an extended period clear trends can be discerned and that has been one of our objectives in this research.

Our report identifies how the finance function manages itself in the public sector, both viewed in aggregate and across each of the three sectors of central government, local government and health. We comment on our findings for each of these sectors in Sections 6 to 8 of this report. We have included in Section 9 our analysis of the performance of Finance in the private sector, which we have researched recently. In that Section we assess the role and challenges of the finance function in the private sector and look at comparisons and the hallmarks of best in class finance organisations.

The themes that we explored in our research are shown in the table below.

<table>
<thead>
<tr>
<th>We assessed how Finance:</th>
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<tbody>
<tr>
<td>• balances the competing demands of insight, efficiency and</td>
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<tr>
<td>compliance &amp; control</td>
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<tr>
<td>• is equipped to handle the financial challenges facing the</td>
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<td>economy</td>
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<td>• derives value from investments in technology and shared</td>
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<tr>
<td>• is perceived to add value</td>
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<tr>
<td>• is responding to change</td>
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<tr>
<td>• should be structured to best support the business</td>
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<tr>
<td>• seeks external best practice</td>
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<td>• ensures that it has the right people with the right skills</td>
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We focused on certain issues specific to each of central government, local government and health this year, as last. In central government we assessed the extent of progress on aspects of the finance transformation agenda. In local government we assessed the impact of the localism agenda, and of new initiatives and transformation programmes. In the health sector we assessed the challenges facing a sector that has experienced significant change and increasing demand as the population ages.

Achieving a high performing finance function necessitates clarity on the role and mandate of Finance and the desired balance between the three critical roles, as we see them, of providing insight, driving efficiency and maintaining compliance & control. Such a function often requires changes in the areas of people, process and systems.

The triangle below is our means of representing the three dimensions of the finance function which need to be balanced by financial management. This enables us to view how organisations manage the challenges of balance today and how they may wish to position themselves in the future. Not all organisations will strive to achieve top performance in all areas. Balancing these demands to deliver optimal value to the wider organisation is a fundamental challenge facing finance teams today.

Efficiency in Finance means performing tasks in a timely and cost effective manner. This is typically achieved through simplified and standardised processes that leverage technology and make improvements to the efficient delivery of transactional processing through shared services or outsourcing.

Compliance & control is about the need to optimise financial risk management, compliance and control to establish a sustainable cost effective control environment which meets today’s requirements as well as being flexible for future changes.

Insight is increasingly important in effective finance function delivery. It is about Finance adding value to the organisation and supporting the strategic and operational decision-making process.

9 Our research was supported by PwC’s Belfast-based International Survey Unit (ISU) which administers a wide range of financial and leadership research internationally
Methodology

The research for our first report, issued in 2009, covered just over 30 respondents. This year we covered double that number and over the five years of our research we have covered some 300 respondents in aggregate. This year our research totals just over 60 respondents from central government, a wide variety of local authorities and health bodies, including commissioning groups and foundation trusts. We appreciate and value the time of all those respondents who contributed.

Just over eight in ten respondents to our research were Finance Directors or equivalent status and the balance of respondents were direct reports to the Finance Director. The demographics of the respondents to our research, by public sector activity and geographical region, are shown opposite.

This report is our fifth annual contribution to the ongoing and increasingly relevant debate of the critical role of Finance in government and the public sector. We hope very much that our findings will resonate and that Finance will take action to address a number of important matters that we have raised. We hope that non-finance executives will also find this report of help. The time for talking is in the past and the time for action is now.

John Berriman
PwC’s Government and Public Sector Finance Leader
Executive summary and a call to action

Introduction

Public sector finance issues have occupied centre stage in recent years, with fiscal austerity the order of the day in many countries after the onset of the financial crisis. Pressure on country credit ratings, protecting sovereign debt holders and demonstrating a government’s ability to repay its debts have become key concerns for investor confidence.

Internationally, these concerns have found expression in the G20 call for transparent, comparable public sector financial reporting to assess better the risks related to public sector debt sustainability. Public bodies and their stakeholders need to understand the full, long term economic impact of their decisions in terms of their financial performance and cash flows. In this way, better accounting leads to better reporting and decision making, which in turn leads to a better use of public resources.

But public sector organisations are also facing a tough balancing act. They need to achieve the right balance between a necessary internal focus on efficiency and effectiveness with a mission to enable growth that is economically, socially and environmentally sustainable10. Achieving this internal-external balance is not easy but it is necessary as further job creation and the associated tax revenues will be critical both to paying down debts as well as funding sustainable public services.

Our annual research over the last five years into the status of the finance function in the public sector recognises that securing change is rarely easy or quick. So we have been keen to understand how respondents to our research have achieved change in their organisations and their plans for the future.

Finance has come on a positive journey of change and enhancement in many public sector organisations in the recent years. But it has to keep fighting on the front line as there is a significant agenda to tackle and continuous improvement is needed. Yet at the same time Finance needs a place at the top table of the organisation it supports so that it has a proper voice of influence across the organisation. This report sets out the findings of this year’s research and our observations on the issues that are raised.

10 ‘Good Growth: a Demos and PwC report on economic wellbeing’ Demos/PwC, 2011
Vision and Strategy of Finance

Respondents to our research over the last two years reported that primarily they were seeking to be an integrated business partner, a first class finance function and influence the strategic direction of the organisation they support.

Finance seems now to have set its sights higher than in the recent past and this is encouraging in terms of instilling stronger financial management at the top table as the norm rather than the exception. This is to be welcomed but it seems curious to us that over a quarter of respondents still do not have a written vision and strategy. Surely this must be a prerequisite for a modern effective finance function. Board colleagues and finance teams need to be clear about how the finance function will operate and improve.

Nearly a quarter of respondents reported that, in terms of the vision and strategy of their finance function, their strategic involvement has changed to a great extent over the past year, compared to a third of respondents reporting this last year. The greatest extent of change has unsurprisingly been an enhanced focus on operational and service change, such as cost reductions and efficiency transformation. This is a direct and logical consequence of fiscal austerity.

Challenges for Finance

Our research confirms that Finance still has some big challenges.

The main ones that were reported to us were: managing change; organisational change; financial uncertainty; resourcing issues; and increased involvement in strategy and planning. Each of these challenges was also reported in both of the last two years.

Two years ago reduced funding and cost efficiency savings were reported to be significant challenges for Finance. It is interesting to see those challenges having reduced in magnitude in the last two years compared to prior years.

We have said it before but we are genuinely surprised that relatively few Finance Directors reported that they see high value in seeking best practice from other organisations. We encourage Finance Directors and their teams to take a closer look at other finance functions in both the public and private sectors and use the insights learned from leading innovators to refine the development of the public sector Finance operating model. There is compelling evidence of best in class performers enjoying significant benefits in terms of cost, quality of people and acting as business partner to the organisation in the private sector.
The role of Finance

The largest number of respondents this year (33%) reported that they were viewed internally as business partners, working closely with the organisation, influencing, designing and executing strategy. Only 13% of respondents described themselves as more routine scorekeepers. That said, there still remain important gaps in business partnership capabilities, in particular around cost and performance management and procurement and a deep understanding of the delivery aspects of the business.

Five years ago one in five respondents to our research reported that Finance was viewed internally and by key stakeholders as a scorekeeper and one in five reported that they were perceived as a business partner. The shift over the intervening years is encouraging. However the rate of progress is slower than Finance itself reported that it wanted to achieve. For example, three years ago virtually all the respondents to our research reported that they wanted to be viewed as a business partner by now, whereas only a third of respondents have achieved that goal. This emphasises the importance of clear and actionable plans if goals are to be met.

The reported barriers that would prevent the perception of Finance changing in the future were reported to be primarily people-related matters, including lack of resources, the challenges of managing change, cultural issues and lack of skilled staff. However one in five respondents reported that there are no significant barriers. So by no means does every respondent feel that they cannot reach their destination.

Finance needs to recognise that change will take time and probably longer than respondents currently anticipate. However that makes it all the more important for Finance to keep a strong focus on delivering the change needed so that stakeholder perceptions also shift.

Balancing the competing demands of efficiency, compliance & control and insight

Every finance function has a wide range of responsibilities and priorities to juggle. Finance needs to run efficiently and demonstrate value for money, to establish and maintain effective controls in order to manage risk and to deliver real insight into the business. It was against these three dimensions that our annual research has measured the performance of Finance.
Respondents reported that overall they spend 30% of their time on efficiency, 40% on compliance & control and 30% on insight. Their aspiration for three years’ time is to hold time on efficiency constant at 30% and reduce compliance & control time to 25%. The time released is to be invested in insight, so increasing that to 45% of time spent. This overall reported position is consistent with last year.

The move to 45% of time spent on insight is a significant aspiration and may be overly ambitious in the light of experience of both our research and the benchmark analysis for the private sector. But the aspiration to increase the time spent is to be welcomed and encouraged. Indeed it must be a prerequisite to be an effective business partner. In our view it will still take a continuing change of culture and mindset for Finance to spend further time on insight activities, both within Finance and the senior leadership teams across the whole public sector.

**Efficiency**

Efficiency in Finance means performing tasks in a timely and cost effective manner. Just a very small minority of respondents (3%) self assessed their finance function in terms of efficiency matters as high performing today, in the context of the organisation’s priorities. Half of the research respondents aspire to be high performing in three years’ time. Bridging this gap looks to us to be highly ambitious in the light of our research in recent years. However, on the positive side our research suggests that public sector organisations have become more efficient at the effective processing of transactions through greater use of technology and that plans for shared services are more widespread. Progress needs to continue and be accelerated on this important agenda. This will free up time to tackle compliance & control issues and enable Finance to focus on the provision of high quality insight.

**Compliance & control**

Compliance & control is about establishing a sustainable, cost effective control environment which both meets today’s needs and is flexible for the future. More than half the respondents to our research believe they have a comprehensive controls framework. Over 80% of respondents aspire to reach controls optimisation in three years’ time.

Respondents estimated that they currently spend 40% of their time on compliance & control activities, in line with last year. Respondents said that they are looking to reduce the time commitment in this area to 25% in three years’ time, again in line with last year. The reported move in the public sector is a trend in the same direction as the private sector. But the challenge to reduce the time spent in this area should not be underestimated.
Similar to Efficiency, just a very small minority of respondents (2%) self assessed their finance function in terms of compliance & control matters as high performing today, in the context of the organisation’s priorities. There are two issues we consider here; procurement and the management of risk.

**Procurement**

Specifically on procurement, 8% of respondents still assess themselves as performing poorly and only a very small minority (5%) rated themselves as high performing. This is significantly the weakest assessment of each of the eight compliance & control activities that we researched, both in terms of current and future anticipated performance. This must be a disappointment and needs urgent remediation and focus. Significant cost efficiencies can be gained through effective procurement so this is a prize well worth going after.

Only 45% of respondents are aspiring to be high performing or performing well on procurement in three years’ time. This may be a realistic assessment but it is concerning when external spend is such a significant proportion of public sector operational and infrastructure costs. It is however encouraging that over half of the respondents (56%) reported that they have change initiatives planned or in hand for procurement. This is significantly higher than two years ago when just 21% of respondents reported that they had improvement plans in hand. Those plans now need to be delivered.

Finance Directors need to procure with more confidence, so better procurement programmes will be necessary to generate cashable savings in both the short and medium term. Public sector bodies need efficient and effective procurement models. They need to reduce waste and enable good practice in commissioning with external business partners.

**Risk**

When it comes to risk, the public sector tends to be conservative and does not generally have effective and efficient mechanisms embedded within financial systems to provide control activities on a continuous basis.

Overall responsibility for risk management and control belongs in the hands of executive management who need to manage business and compliance risks. But Finance needs to lead from the front and embed a controls culture deep within the organisation that it supports. It needs to strip out non value-adding controls and processes and bring its risk and control consciousness to the top of the organisation.

Building control upon control simply serves to create complexity and increase cost. The key is the effective management rather than the elimination of risk. This means Finance equipping line management with the skills to design and operate efficiently controlled processes. And it means integrating risk and control processes, stewardship and accountability reporting and creating a joined up framework to assess and monitor organisational risks. Effective risk management is a key ingredient of good corporate governance but often in our experience little more than lip service is paid to it.
Insight

Insight is about Finance adding value to the organisation and supporting the strategic and operational decision making process. Respondents reported that they currently spend 30% of their time on insight (in line with last year) and they are looking to increase this to 45% in three years’ time (again in line with last year).

Strong insight and analysis capability is essential if Finance is to meet its own aspirations to step up across the board to become a business partner. Our research shows that the ambition is there for finance functions to provide quality insight and to act as a business partner. But history shows that the rate of progress is much slower than anticipated.

Again just 3% of the respondents to our research rated overall finance function insight activity as high performing today, in the context of the organisation’s priorities. There is an insufficient level of high performance in terms of a number of specific insight activities including business analysis, cost management and performance management skills.

Decision making is often about making choices and decisions need to be based on evidential facts. Hard tangible actions will need to be taken if future aspirations are to be met. The right level and capability of resourcing will also be crucial. A reported focus on training and staff development is a welcome action, with 70% of respondents indicating that they had initiatives planned or in hand in this area. Again plans need to be put into action.

The crucial importance of people and leadership

Our research confirmed that people-related issues continue to underpin many of the perceived barriers to future success for Finance. People management strategies are therefore essential ingredients of success and need to be in place to manage recruitment, deployment, performance, talent generation, career planning and succession.

Private sector companies report that they need people who are able to glean actionable insights from data, communicate well with business leaders and partners in the business, and engage others to support change management business-wide. Similar challenges and needs arise in the public sector, with transformational change programmes in hand across each of central government, local government and the health sectors. Sharing of lessons with a range of other organisations who have initiated culture change is likely to be of particular benefit to all parties.

Business partnering is still to fully live up to expectations in the private sector and is not yet the norm in the public sector. Progress is slower than aspiration and adopting a sense of realism of what can be achieved and in what timescale is important in order to manage expectations. But getting Finance to better understand how the business works can only be of benefit.
The approach to changing culture in the public sector needs to be driven right from the top of the organisation. Most importantly the whole leadership must embrace change and set the tone and outline the expected behaviours. By the top we mean the Permanent Secretary, or Chief Executive, with the support of the whole board, the non executive directors (who can bring invaluable external experience) and senior policy makers. Indeed, without this leadership, it is difficult to see how Finance can fulfil its goal of being an effective business partner.

**Issues arising in each of central government, local government and health**

In the last two years we researched some issues specific to each of central government, local government and health. In central government we assessed the extent of progress on aspects of the finance transformation agenda. In local government we assessed the impact of the localism agenda, and of new initiatives and transformation programmes. In the health sector we assessed the challenges facing a sector that has experienced significant change and increasing demand as the population ages. We comment briefly on the key issues arising in each sector below.

**Central government**

The Finance Transformation Programme in central government has now been in train for over two years. Like any large scale change programme it will take a lot of work and active leadership to keep the programme fresh and the momentum headed in the right direction.

Disappointingly we found little evidence of noticeable progress this year in embedding a cost conscious culture in central government departments. More needs to be done to fully embed the principle across central government. The large majority of respondents have made it clear that stronger leadership of this agenda is required. Leadership really does make a difference and that also means leadership from the top down and the non financial leaders in departments.

Respondents have cited the need to undertake improvement programmes to enhance the effectiveness of their functions. They also need to upskill the capability of central government finance teams, through staff development and recruitment, and to enhance the commercial and business skills, as well as leadership and people management skills. This requires a clear plan of action and execution against that plan.

We are concerned that not all respondents were committed to full transparency of internal reporting. Every department should demand clear transparent data to enable the best decisions to be made. And every finance function should make it a priority to provide that information in as transparent a fashion as possible.
Local government

The Finance agenda in local government is reaching a tipping point. Four out of five local authority respondents said that in order to meet their authority’s organisational outcomes in the next three years they will need to do things differently. Significant change is on the way. But knowing what to do differently requires new skills and new insights, and local government needs a fresh approach to face an increasingly uncertain future.

The challenge for local government is to overcome a capacity and capability shortfall around commercial and business skills, essential to underpin any successful corporate strategy, along with customer insight and how best to manage demand. Indeed, over two thirds of the respondents to our research (67%) stated that their finance teams lacked the necessary commercial and business knowledge with only 17% stating that they were fully confident that the appropriate level of skills currently exists in their teams. However when asked what their local authority would be doing differently to meet organisational outcomes, two thirds (65%) of respondents said that they expected to be focusing on changing systems and processes.

Our analysis therefore suggests that local authorities need to go beyond administrative procedures and learn how to understand and manage better relationships with their customers, in the same way that sectors such as retail invest to really understand consumer needs. Indeed, respondents felt that managing demand and understanding customers were the two most important characteristics of an agile council, yet they also indicated that they have been least involved in these areas themselves.

Local government has also been given some freedoms and flexibilities around business rates, city deals and integration. But with only 15% of respondents feeling very confident that they will meet their cost savings targets in three years’ time, authorities have to innovate further to avoid ‘tipping the wrong way’. This means authorities focusing on their purpose (achieving outcomes), what they do (working with others to facilitate improvement) and how they better understand and relate to their communities.

Local government must therefore transform itself, working with others to facilitate change and achieve outcomes, and establishing a deep insight and understanding of what matters to the consumer. Finance has always been at the heart of the change agenda and it is no different now. If Finance can enable the necessary changes its investments would pay real dividends.
Health

The restructuring of the past two years within the health system has meant a lack of clarity of role and lack of confidence for finance staff, which has been evident in our previous research. There has also been a notable lack of confidence in the ability of finance teams to deal with financial pressures within the system.

However, we note that this year, with some greater certainty over appointments into new roles within Clinical Commissioning Groups and Commissioning Support Units in particular, and a couple of months of operating within those new organisations, confidence in dealing with current challenges has grown. Indeed, all respondents reported that they were at least ‘somewhat confident’ in achieving the necessary cost savings this year. But that falls away when respondents look out three years to only 59%, as the “cliff edge” of financial pressure, as described by Sir David Nicolson, approaches.

The scale of the financial challenge within the sector, coupled with the recent change within the system, has also prompted a reassessment of the skills and capabilities needed by finance professionals within health. As in the private sector, the emphasis of our respondents on technical skills is waning, as the need to change and adapt has risen in importance. As a result, 82% of respondents in health cited the need for additional commercial and business skills within their teams, to deal with new partner organisations and arrangements and different business models. They also highlight the need for greater communication skills (55%) and leadership skills (50%) to be able to influence other decision makers, increasingly from outside the boundaries of their own organisation, to ensure better health outcomes are achieved.

However, accessing these different skills and building the confidence in tackling such financial challenges is difficult to do solely from within existing finance resources. For instance, levels of investment within the health sector for professional development have fallen in recent years. So the opportunity to reskill existing teams remains limited and, as evidence from the private sector shows, is often unsuccessful, with up to 60% of existing finance staff being unsuitable for the roles that are evolving.

The health sector therefore faces the additional challenge of finding and attracting new players into Finance to lead on the changes required to sustain the health system.

More commercial and business skills are needed in health finance teams
Finance in the private sector

Our annual benchmark study research in the private sector has been helpful in enabling comparisons with the public sector, whilst of course recognising the obvious differences between the two sectors. The challenges for Finance in the private sector echo those of the public sector. Finance is expected to provide more for less, streamlining and reducing transactional costs, providing effective control and governance frameworks, and helping the business make the right decisions to improve business performance. The challenge is in execution - a familiar refrain.

The opportunities for Finance in private sector organisations to assume a more central role in corporate business strategy and planning are almost limitless, but the barriers to full partnership are many. Companies saddled with outdated technology and poor data quality still struggle to fulfil traditional core finance functions in an efficient way, leaving little time for insight generation. Many also have difficulty defining the skills needed for higher-value activities. Finding qualified professionals to step into these changing roles, or re-training existing personnel, remains a real challenge.

The rapid evolution of data-gathering and advanced analysis presents the finance professional with overwhelming amounts of data that needs to be rationalised and turned into useful information for customers, both internal and external to the organisation.

There are many paths to success, but there are also common themes. The most successful private sector finance organisations incur lower running costs but have more people involved in business partnering. They provide more effective business intelligence and so generate more valued insight to the business.

They are changing their operating models to be streamlined and efficient. They have automated substantially more key controls. They spend less time gathering data and much more time understanding what it means. They help to break down departmental data silos and are changing their operating models to be streamlined and efficient and are using technology in innovative ways.

All of these traits make the leading private sector finance organisations attractive for the public sector to understand as there will be many similar challenges to address and lessons to be learned.
Conclusions and a call to action

Successful organisations need their finance functions to look beyond the traditional core functions of Finance and use their financial acumen and insight to drive new value and higher levels of business transformation and performance.

We have found over the five years of our research that respondents have become more ambitious in terms of their aspirations, in particular, to spend more time on insight activities. But we have also found that action has not kept up with aspiration. For instance, while half or more of our research respondents have the aspiration to be high performing in all three dimensions, of efficiency, compliance & control and insight less than 5% of respondents say that they have a high performing function today.

Why the large gap between aspiration and achievement? People-related issues underpin many of the perceived barriers to future success, particularly a lack of resources and skills, coupled with the challenges of managing significant change. Culture also gets in the way of an effective, efficient and insightful finance capability.

To translate the ambition for Finance to be an insightful business partner into reality requires three critical issues to be addressed. First, there must be clarity on the role and mandate of Finance and the desired balance between providing insight, driving efficiency and maintaining compliance & control. Secondly, there is a need to strengthen further human capital, organisational processes and financial systems particularly in critical functions such as procurement. And finally the culture of finance needs to be changed to an outward looking one that seeks out and learns from the best wherever it can be found.
Introduction

We sought through our research to understand Finance respondents’ visions and strategies for their finance functions, the key issues facing the functions today and the likely key issues in three years’ time. This Section of our report explores the findings and in particular assesses how Finance balances its competing demands.

Vision and strategy

The table below illustrates the range of responses on vision and strategy. One third (33%) of respondents reported that their vision and strategy was to be an integrated business partner, in line with last year. Slightly over a fifth (22%) of respondents reported that their vision and strategy for Finance is to be a first class Finance function to the business, down from 33% of respondents last year. Some 20% of respondents in each of the last two years reported that they wanted to influence the strategy of the organisation they support.

<table>
<thead>
<tr>
<th>Vision and strategy for Finance</th>
<th>% of respondents</th>
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<tbody>
<tr>
<td>Be an integrated business partner</td>
<td>33</td>
</tr>
<tr>
<td>Be a first class finance function</td>
<td>22</td>
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<tr>
<td>Influence the strategy of the organisation</td>
<td>20</td>
</tr>
<tr>
<td>Provide a support function to the business</td>
<td>20</td>
</tr>
<tr>
<td>Provide value for money</td>
<td>2</td>
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<tr>
<td>Other</td>
<td>3</td>
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We expressed surprise that three years ago only 15% of respondents desired to be an integrated partner to the business. The increase to 33% of respondents in each of the last two years is more in keeping with the ambition that we would expect of forward-looking Finance Directors. Overall Finance appears to have set its sights higher than historically and this can only help to see strong financial management becoming the norm across the public sector, rather than being the exception.

Similar to last year, two thirds of respondents reported that they had a written vision and strategy that aligns to the business strategy of the organisation, with a further 6% (12% last year) having a vision and strategy that covers Finance only. A clear vision and strategy for Finance enables it to align to the priorities of the organisation and we believe that this should be a bare minimum requirement for a well-managed finance function.

We remain surprised that over a quarter of respondents (a fifth last year) do not have a written strategy. Surely today this must be a prerequisite for a modern effective finance function so that it can contribute to the organisation it supports on a broad canvas. Finance should take the lead and document its strategy and other senior members of the organisation should demand to see it. In this way other board colleagues and finance teams will be clear on where the Finance Director is taking the finance function and the improvements they can expect to see.

Indeed, it is not only important that board colleagues and finance teams know the direction of Finance, but that this is also communicated throughout the non-financial and operational parts of the business, in particular to those people charged with delivery who have budgetary responsibilities. All teams need to understand how Finance has organised itself to engage with others, deliver the services required and progress its vision and strategy. Finally, working to promote a reasonable level of financial competency, particularly amongst those in senior management leadership, must be an important aim.

The table below indicates the extent to which the vision and strategy for Finance has changed in the past 12 months.

Nearly a quarter of respondents reported that, in terms of the vision and strategy of their finance function, their strategic involvement has changed to a great extent.
extent over the past year. This follows nearly a third of respondents making the same assertion the previous year. So there would appear to be a greater emerging strategic involvement for Finance. The greatest extent of change in each of the last two years has unsurprisingly been an enhanced focus on operational and service change, such as cost reductions and efficiency transformation.

**Challenges**

We comment below on the challenges facing Finance in the organisations that we researched. Finance reported that their main challenges were: managing change; organisational change; financial uncertainty; resourcing issues; and increased involvement in strategy and planning. Each of these challenges was also reported last year.

Two years ago enforced efficiency savings were reported to be a significant challenge for Finance. It is interesting to see this challenge having reduced in magnitude in each of the last two years as organisations take it upon themselves to create savings in a ‘business as usual’ mode.

Managing change has been the main challenge reported to us in each of the last four years. Change for Finance is likely to remain an ever-present feature of doing business. This is true for any organisation, be it in the public or private sectors. Indeed the pace of change is likely to continue to accelerate. Finance leaders must be adaptable to change and continually ask what contribution they need to make to change Finance into a customer-focused, outward-looking value adding function.

The impact of resourcing issues and an increased involvement in strategy and planning is felt most strongly by central government respondents. By contrast local government respondents reported the impact of financial uncertainty followed by the management of change as their most significant challenges. Change – both organisational change and the general management of change - were unsurprisingly cited as the main challenges for health respondents.

As shown in the table on page 20, the issue of highest importance for Finance this year at 84% (last year 78%) is the extent to which Finance supports the organisation in delivering cashable savings. This is closely followed by the influence Finance has on the organisation (81% in each of the last two years).

Other highly important issues include: how Finance is perceived to add value; responding to change; and the people and skills challenge. We discuss the importance of people and skills in Section 5. Balancing the competing demands of the three dimensions of efficiency, compliance & control and insight continues to be an important issue for Finance and we assess this further in Section 4.
Other challenges, such as how to best structure Finance to support the business; the extent to which Finance delivers savings in its own running costs; and seeking external best practice; were generally seen by respondents as medium rather than high priority.

A fifth of respondents in each of the last three years reported that they consider that seeking external best practice is of high importance. By contrast, a sixth of respondents (a fifth in each of the last two years) view it of low importance. We appreciate that many public sector Finance Directors are under great pressure but given the scale of the ongoing financial challenges they face, we struggle to understand why relatively few see high value in seeking best practice from other organisations.

We again call on Finance Directors and their teams to take a closer look at other finance functions in both the public and private sectors and use the insights learned from leading innovators to refine the development of the Finance operating model. There will never be a monopoly of great ideas in just one organisation. It will be helpful to learn from other organisations and cross-sector experiences and we believe that Finance will find it liberating and rewarding to explore and understand how other Finance teams tackle similar issues.

In Section 9 we highlight what sets Finance top performers apart in the private sector. There is some compelling research evidence that shows top performers in that sector enjoy significant...
cost and operational benefits over average performers. We believe that it is clearly worth the effort of public sector finance teams to explore and understand the reasons for this and translate the lessons learned for their finance businesses.

**The role of Finance**

We asked respondents to assess how they felt Finance was perceived by internal customers and other stakeholders, along a continuum from scorekeeper at one end, through commentator, diligent caretaker to business partner. This assessment can be considered a measure of the maturity of Finance. Over the last five years we have seen an increasing sophistication of the finance function, with a clear shift along the continuum towards business partnering and away from routine scorekeeping.

As the table below shows, the highest proportion of respondents (33% compared to 36% last year and just 19% five years ago) see their role in Finance as business partners. There are varying business partner models but we define it that in this role Finance works closely with the organisation, influencing, designing and executing strategy. Here high performing finance teams are well developed and fully enabled with supporting tools, resources and skills, which are made available to contribute to business projects with the capability to model, analyse and support change programmes.

A further 31% of respondents (32% last year and 28% compared to five years ago) described themselves as diligent caretakers. This is where Finance roles are significantly enabled and resourced to cope with a select number of priority projects. The diligent caretaker role can be seen as a given or hurdle requirement for Finance as the protector of taxpayers’ monies.

A further 23% of respondents (23% last year and 33% five years ago) describe themselves as commentators. Here Finance recognises the need to support the organisation, helps drive performance and supports major change and decisions. It is where Finance has made some limited change in terms of roles and responsibilities to support the organisation. Our research in each of the last two years suggests that the position in central government is more pronounced in this regard with many respondents here reporting that Finance is currently perceived as a commentator by their internal customers and key stakeholders.

---

**Perceived role of Finance by internal customers and other key stakeholders (%)**

<table>
<thead>
<tr>
<th>Role</th>
<th>Current responses</th>
<th>Five years ago</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Partner</td>
<td>33</td>
<td>36</td>
</tr>
<tr>
<td>Diligent Caretaker</td>
<td>31</td>
<td>28</td>
</tr>
<tr>
<td>Commentator</td>
<td>23</td>
<td>33</td>
</tr>
<tr>
<td>Scorekeeper</td>
<td>13</td>
<td>20</td>
</tr>
</tbody>
</table>

Current responses compared to five years ago
Just a small minority of respondents (13%, compared to 9% last year and 20% five years ago) describe themselves as scorekeepers, which might be seen as the most basic form of Finance support to the organisation.

In the last two years virtually every respondent to our research reported that in three years’ time they would like Finance to be perceived by internal customers and other key stakeholders as a genuine business partner. The barriers that would prevent the perception of Finance changing continue to be cited as being primarily people-related matters, including lack of resources, the challenges of managing change, cultural issues and a lack of skilled staff. Nearly 20% of respondents reported that there are no barriers that prevent the change of perception of Finance in the organisation.

**Conclusions on challenges for Finance**

Our research confirms that Finance still has some significant challenges in terms of managing change, supporting the delivery of organisational savings, and influencing more broadly and transforming the organisation it supports. These important issues are largely consistent with the challenges reported by Finance regularly over recent years.

We are surprised that over a quarter of respondents do not have a written vision and strategy. Surely today this must be a prerequisite for a modern effective finance function, so that it can contribute to the organisation it supports on a broad canvas. Similarly we are concerned that only a fifth of respondents consider that seeking external best practice is of high importance, given the scale of the financial challenges facing the public sector. Learning from others is a key source for improvement and we encourage Finance in the public sector to do this more.

It is encouraging that Finance appears to have moved along the maturity continuum. Finance appears to be becoming more sophisticated with the routine scorekeeping role now being relatively unusual. Finance reports that it is increasingly perceived to be acting as a business partner and is working closely and being integrated with the organisations it supports.
Balancing competing demands

Introduction

We asked respondents to our research to self evaluate their performance in terms of managing the competing demands of efficiency, compliance & control and insight. This Section of our report explores the results of this self evaluation.

In each of the last three years respondents reported that overall they were spending 30% of their time on efficiency activities, 40% on compliance & control and 30% on insight. Looking to the future, the reported overall aspiration for Finance (which is unchanged from last year) is to maintain the time spent on efficiency activities at 30%, reduce time spent on compliance & control to 25% and use the time freed up to invest in insight, so increasing that to 45% of time spent.

Our research now spans five years and this provides a clear understanding of changes in actual experience and aspiration over an extended time frame. The table below and on page 24 show both the time spent balancing competing demands in each of the last five years and also the reported
three year aspiration, year by year, for balancing those demands.

Over the last five years respondents have been driven by the needs of the business and become more ambitious in terms of their aspirations for spending time on insight activities. In the two years prior to 2011 Finance succeeded in increasing the time it spent on insight activities and moved towards a position of greater influence in the organisations it supports.

However, our research provides no evidence to suggest that Finance has been able to achieve its broader aspirations in terms of balancing competing demands in the last three years. Indeed during that time the gap between the actual experience of time spent by Finance on insight activities and the three year aspiration has increased. The public sector may be setting its sights rather too high in absolute terms, although directionally it must be right. It will take a continued effort to turn aspiration into action and a change of culture, mindset and skills for Finance to spend further time on insight activities to drive the development of policy and financial decision making, both within Finance and the senior leadership teams across the whole public sector. We examine the detail behind this below.
The efficiency agenda

Efficiency in Finance means performing tasks economically in a timely and cost effective manner, having regard to regularity and propriety. Cost effectiveness is required to deliver desired outcomes more quickly and efficiently and fundamental change is needed to deliver real sustainable savings. Typically this change is achieved through simplified and standardised processes that leverage technology and improvements to the efficient delivery of transactional processing through shared services or outsourcing. This facilitates the collection, analysis and presentation of financial information in a meaningful way. Quality information is required that links financial and performance data.

Our research reveals that respondents estimated overall they are spending 30% of their time on the efficiency agenda, the same as in the last three years. Just 3% (4% last year) of the respondents to our research rated Finance efficiency as high performing today, in the context of the organisation’s priorities. But, in the medium term, 50% (59% last year) of all respondents aspire to be high performing. For those that do not aim to be high performing, they are all aiming to be performing well.

There was a wide range of planned change initiatives reported by respondents, in the context of even more being expected for even less. The main areas of focus were in training and staff development, technology investment, finance restructuring and integration and efficiency and cost improvement programmes. Other main planned initiatives include the use of shared services and increased reviews.

Over half of the respondents to our research (56%) reported plans for technology investment. It is the main change initiative planned by local government respondents. By contrast, health respondents were less focussed on technology investment and were focussed on training and staff development as their main change initiative.

Approximately half of the respondents in each of the last two years reported that they have plans to enter into new or revised shared service arrangements. There was a relatively low level of interest expressed in developing internal shared services; the main shared service proposals include developing cross departmental/local authority shared services.

We have commented previously that “the widespread and effective implementation of finance shared services and enabling technology, to improve efficiency, generate significant cost savings and let Finance focus its time on higher value insight activities, is crucial”. So it is encouraging to see from our research over recent years that there continues to be a real intent in government and the public sector to deliver on that agenda.
Finance will be increasingly required to work with other support functions such as HR and IT for example to leverage tools and methodologies in a co-ordinated manner for the benefit of the organisation as a whole. Becoming more efficient at the fundamental back office processes should be a core skill for Finance.

Respondents reported that for them the main barriers to success were people-related matters such as a lack of resources and skills, the challenges of managing change and cultural resistance to change.

It is encouraging that 63% (59% last year) of respondents reported that they have plans for training and staff development in order to secure change in this area, as the primary obstacles are people-related. We continue to hold the view that the implementation of appropriate strategies for learning and development for future finance leaders and their teams will be a critical ingredient for success.

Communication and influencing skills, not often historically a key part of the accountant’s development plans, have emerged as fundamental to Finance operating at the top table.

We evaluated efficiency performance in general and specifically for external financial reporting, general accounting, accounts payable and receivable and management accounting. The tables below show how respondents assess the efficiency performance of their organisations in terms of the specific processes listed, now and in three years’ time.

Some three quarters of respondents in the last three years have reported that for external financial reporting they believe they are performing well or are high performing. The self-assessed level of performance is encouraging.

We reported two years ago that high or well performing activity for each component of efficiency was self assessed as being anywhere between 9 (general accounting) and 20 (accounts payable and accounts receivable) percentage points better than three years ago. These increases suggested that transactions were being processed more efficiently. Change last year by contrast was small and again this year change has been small, other than in the area of accounts

<table>
<thead>
<tr>
<th>Current transactional performance (%)</th>
<th>General accounting</th>
<th>External financial reporting</th>
<th>Accounts payable</th>
<th>Management accounting</th>
<th>Accounts receivable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unacceptable performance</td>
<td>2</td>
<td>24</td>
<td>3</td>
<td>8</td>
<td>3</td>
</tr>
<tr>
<td>Performing poorly</td>
<td>16</td>
<td>54</td>
<td>50</td>
<td>31</td>
<td>47</td>
</tr>
<tr>
<td>Performing adequately</td>
<td>69</td>
<td>54</td>
<td>50</td>
<td>53</td>
<td>42</td>
</tr>
<tr>
<td>Performing well</td>
<td>13</td>
<td>22</td>
<td>17</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>High performing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

![Graph showing current transactional performance](image)

Unacceptable performance | Performing poorly | Performing adequately | Performing well | High performing
receivable, where there has been a significant 17 percentage point drop in performance.

The ambition expressed by virtually all respondents is for all the above transactional activities to be performed well or to be high performing in three years’ time. The biggest challenge will be to turn the current rate of 8% high performance for management accounting in the last two years into a 55% rate of high performance in three years’ time (down from 65% last year). The ambitions are to be welcomed and the key to success will be delivery and a relentless focus on continuous improvement.

Efficiency conclusions

Our research over the last five years suggests that public sector organisations have become more efficient at the effective processing of transactions and that widespread plans for shared services continue to evolve. That is all very positive but there remains an important gap to bridge for Finance to reach its ambitions in particular around the quality of management accounting. A relentless focus needs to be placed on this agenda if Finance is to meet its own objectives.

Finance will wish for the regular efficiency activities that it needs to undertake to be a ‘turn the handle’ operation, so that it will have more time to devote to its broader more complex agenda. In particular, with efficiency operating smoothly Finance will be free to really tackle compliance & control issues and focus time and resource as a business partner on the provision of high quality insight.
The compliance & control agenda

Compliance & control continues to be the area that takes the most time within the overall agenda of Finance in government and the public sector. This is in marked contrast to the private sector. It is about the need to optimise financial risk management, compliance & control to establish a sustainable, cost effective control environment which meets today’s requirements, as well as being flexible for future changes. It is not about eliminating risk but about managing it appropriately. The continued demands of public sector scrutiny and the fear of failure have a direct bearing on the proportion of time spent on compliance & control.

We asked respondents how far they were along the continuum from: a basic controls framework; through controls focussed in finance; to a comprehensive controls framework; and to controls optimisation. The results of our research, showing the position five years ago, the current position and the aspiration for three years’ time, are shown in the table below.

Our research reveals little change over the five years of our research. Just under 60% (55% five years ago) of the respondents to our research believe they have a comprehensive controls framework. This means that key finance, operational and compliance controls have been determined, but that the number may be excessive when compared to relative risk, and/or the controls have not been subject to any review for design or operating effectiveness.

By contrast, hardly any respondents in each of the last five years report they have a basic controls framework. This is where there has been little or no assessment undertaken as to which controls are key to the financial, operational and compliance needs of the business.

<table>
<thead>
<tr>
<th>Compliance &amp; control maturity (%)</th>
<th>Five years ago</th>
<th>Current time</th>
<th>In three years time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic controls framework</td>
<td>3</td>
<td>27</td>
<td>17</td>
</tr>
<tr>
<td>Controls focused in finance</td>
<td>30</td>
<td>59</td>
<td>83</td>
</tr>
<tr>
<td>Comprehensive controls framework</td>
<td>55</td>
<td>14</td>
<td>17</td>
</tr>
<tr>
<td>Controls optimisation</td>
<td>12</td>
<td>27</td>
<td>83</td>
</tr>
</tbody>
</table>
Looking ahead three years, over eight in ten respondents aspire to controls optimisation and just over 17% (12% last year) aim to have a comprehensive controls framework in place. Controls optimisation is where the number of key controls have been critically reviewed for effectiveness and tailored for risk and the assurance they provide. These controls are monitored through an established testing programme. This aspiration to controls optimisation looks to be very ambitious; indeed it may be considered unrealistic in the light of relatively little change over the last five years. There will have to be a significant shift of gear if things are to change in line with the stated aspiration, but it is a tough ask.

Respondents estimated that they currently spend 40% of their time on compliance & control activities, which is consistent with the reported level of the last two years. In previous years the levels reported have varied from 45% to 50%. So this area has seen a consistently high level of time spent on it, albeit with a degree of fluctuation, as priorities for Finance have changed. It now seems relatively settled at 40%.

As last year, respondents said that they are looking to reduce the time commitment in this area to 25% in three years’ time. The reported move in the public sector is a trend in the same direction as the private sector. However the challenge will be to actually get there, develop skills and expertise whilst balancing all the competing demands on Finance.

The public sector continues to retain the conservatism and aversion to risk on which we and others have commented before. In previous years we have raised a number of possible reasons for this, ranging from the impact of public scrutiny and accountability, the consequence of the regime of targets and the fear of failure and public castigation.

Finance may be regarded by some as a back office function, maintaining the black box, focussed on compliance & control, rather than being used to provide strategic insight. Finance needs to help the organisation focus on the management rather than the elimination of risk.
As shown in the table below, there was a wide range of compliance & control change initiatives reported by respondents to be in place or planned. Activities include a focus on training and staff development, improved planning and controls, improved procurement, increased reviews, the use of shared services and finance restructuring and integration. Only 5% of respondents had no change initiatives planned or already in hand.

The current and planned change initiatives are encouraging, in particular for training and staff development, with nearly 60% of respondents reporting in each of the last two years that they have initiatives planned or in hand. The key now will be for Finance to deliver the training and look to colleagues for support to help drive through the cultural change that is needed.

Two thirds of respondents reported that the main obstacle that may prevent them from achieving their aspirations for compliance & control was competing priorities. This was followed by organisational and cultural resistance to change, a lack of skills and resources, the challenges of managing change and dealing with financial constraints. In each of the local government and health sectors the main response this year was the impact of competing priorities. Finance Directors are challenged in terms of how best to use their valuable time and they have to select carefully where to devote their attention and where not. By contrast, the main response from central government respondents, both this year and last, was organisational and cultural resistance. It appears that this is a more deep seated issue in central government than elsewhere in the public sector.

We asked respondents about their compliance & control performance in general and for a range of specific activity and functional controls and compliance, including internal audit, and the risk function. The following tables show how respondents assess the compliance &

<table>
<thead>
<tr>
<th>Compliance &amp; control change initiatives in place or planned</th>
<th>% of respondents (multiple answers were permitted)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training and staff development</td>
<td>56</td>
</tr>
<tr>
<td>Improved planning and controls</td>
<td>56</td>
</tr>
<tr>
<td>Improved procurement</td>
<td>56</td>
</tr>
<tr>
<td>Increased reviews</td>
<td>50</td>
</tr>
<tr>
<td>Use of shared services</td>
<td>45</td>
</tr>
<tr>
<td>Finance restructuring and integration</td>
<td>42</td>
</tr>
<tr>
<td>No change initiatives</td>
<td>5</td>
</tr>
</tbody>
</table>
control performance of their organisations in terms of the specific processes listed, now and in three years’ time.

Just 2% (4% last year) of the respondents to our research rated overall finance function compliance & control as high performing today, in the context of the organisation’s priorities. But nearly half of those same respondents aspire to be high performing in three years’ time. For those that do not aim to be high performing, they are all aiming to be performing well.

In terms of specific process control and compliance matters, generally respondents assessed their performance at adequate or above, with 6% (10% last year) self-assessed as high performing. There is a clear aspiration of respondents to perform better, with nearly half (a third last year) of organisations seeking to be high performing in three years’ time.

**Internal Audit** is similarly self-assessed at adequate or above, with just one in seven respondents who self-assessed their organisations as high performing today. Nearly half (a third last year) of the respondents are seeking to be high performing in three years’ time. There is still a very small handful of respondents (2%, compared to 5% last year) who reported that internal audit is currently performing poorly and 1% who report performance as unacceptable. A high performing Internal Audit function can play a critical assurance role, within the organisational governance frameworks, support the achievement of value for money and help the organisation improve its core policy and business drivers. It can also identify opportunities for process improvement, cost savings and resource management.

As last year, just under a third of respondents assess **treasury management** as high performing. Respondents report an aspiration to improve this to over 50% in three years’ time. It remains essential in our view to see improvements in this area, given funding concerns, tight cost pressures and public worry over the security of monies. The effective management of cash, and not just income and expenditure, is critical for survival in a tight fiscal environment.

### Current compliance & control process activities (%)

<table>
<thead>
<tr>
<th>Process</th>
<th>Unacceptable performance</th>
<th>Performing poorly</th>
<th>Performing adequately</th>
<th>Performing well</th>
<th>High performing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance policies and practices</td>
<td>2</td>
<td>20</td>
<td>69</td>
<td>30</td>
<td>9</td>
</tr>
<tr>
<td>Treasury management</td>
<td>3</td>
<td>20</td>
<td>47</td>
<td>30</td>
<td>13</td>
</tr>
<tr>
<td>Corporate governance</td>
<td>3</td>
<td>22</td>
<td>65</td>
<td>52</td>
<td>6</td>
</tr>
<tr>
<td>Process controls and compliance</td>
<td>3</td>
<td>39</td>
<td>52</td>
<td>53</td>
<td>14</td>
</tr>
<tr>
<td>Internal audit</td>
<td>12</td>
<td>30</td>
<td>53</td>
<td>58</td>
<td>14</td>
</tr>
<tr>
<td>The risk function, including risk management</td>
<td>2</td>
<td>31</td>
<td>58</td>
<td>38</td>
<td>9</td>
</tr>
<tr>
<td>Policies and practices over procurement</td>
<td>8</td>
<td>49</td>
<td>38</td>
<td>46</td>
<td>11</td>
</tr>
<tr>
<td>Tax accounting and compliance</td>
<td>43</td>
<td>46</td>
<td>11</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The area that continues to score lowest over the recent years is the state of policies and practices over procurement. This is a continuing concern. Some one in ten respondents this year and last assess themselves as performing poorly in this area and only 5% (7% last year) rate themselves as high performing.

There is a clear aspiration to improve and it is encouraging that in each of the last two years half of the respondents reported that they have change initiatives planned or in hand for procurement. This is significantly higher than the previous year when just one in five respondents reported that they had improvement plans in hand.

External spend is a significant proportion of operational and infrastructure costs and Finance Directors need to procure with more confidence; better procurement programmes will be necessary to generate cashable savings in both the short and medium term. Public sector bodies need efficient and effective procurement models. They need to reduce waste and enable good practice in commissioning with external business partners. They must become more commercial in their outlook whilst at the same time protecting public funds.

We have reported before that it is not only value for money during procurement that is important. Finance also needs to ensure that continuing contract management and monitoring processes are effective. There is a need to improve the success and delivery of major projects and assure their continued quality during their life cycle. In our experience, managing change control, contract creep and invoice approvals can all contribute to identifying cashable savings. Improvements in contract performance monitoring can also provide better value for money.

**Compliance & control process activity in three years time (%)**

<table>
<thead>
<tr>
<th>Process Area</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance policies and practices</td>
<td>39</td>
<td>59</td>
<td>2</td>
</tr>
<tr>
<td>Treasury management</td>
<td>46</td>
<td>52</td>
<td>2</td>
</tr>
<tr>
<td>Corporate governance</td>
<td>48</td>
<td>52</td>
<td>2</td>
</tr>
<tr>
<td>Process controls and compliance</td>
<td>51</td>
<td>47</td>
<td>2</td>
</tr>
<tr>
<td>Internal audit</td>
<td>48</td>
<td>47</td>
<td>2</td>
</tr>
<tr>
<td>The risk function, including risk management</td>
<td>52</td>
<td>45</td>
<td>2</td>
</tr>
<tr>
<td>Policies and practices over procurement</td>
<td>49</td>
<td>45</td>
<td>2</td>
</tr>
<tr>
<td>Tax accounting and compliance</td>
<td>69</td>
<td>25</td>
<td>2</td>
</tr>
</tbody>
</table>
Balancing competing demands

**Compliance & control conclusions**

We believe that control is not just a Finance activity. Overall responsibility for risk management and control belongs in the hands of executive management who need to manage business and compliance risks. But Finance needs to lead from the front and embed a controls culture deep within the organisation that it supports. It needs to strip out non value-adding controls and processes and bring its risk and control consciousness to the top of the organisation.

Building control upon control simply serves to create complexity and increase cost. The key is the effective management rather than the elimination of risk. This means Finance equipping line management with the skills to design and operate efficiently controlled processes. And it means integrating risk and control processes, stewardship and accountability reporting and creating a joined up framework to assess and monitor organisational risks.

The need to focus on improving procurement processes is essential. The way in which procurement compliance & control processes are applied can itself slow down the procurement process and so fail to deliver an optimum and timely result. Finding the right balance is the key and the public sector continues to struggle with this.

Only when Finance has established an effective compliance & control environment will it be able to get out of the trenches and secure the time that it needs to focus strategically and provide more and deeper added value insight to the organisation.
The insight agenda

Insight is increasingly important in effective finance function delivery. It is about Finance adding value to the organisation and supporting the strategic and operational decision making process as a true business partner. This needs Finance to be proactive and help the organisation think about different ways of achieving its goals rather than waiting to support a decision.

For the public sector insight is also about contributing to the organisation’s performance management and the translation of policy into outcomes. Finance needs to become more than just a safe pair of hands. In this period of continued austerity the provision of good insight will enhance strategic financial leadership and strengthen the decision making process at all levels.

We asked respondents about insight processes in general and specifically for strategy and planning, budgeting and forecasting, management reporting, business analysis, performance management and cost management.

Respondents reported that they currently spend 30% of their time on the insight agenda, in line with the last two years and well up on the reported 20% for each of the two years before that. They reported that they are looking to increase this commitment to an ambitious and, in light of the challenges of making the transition, a probably unrealistic 45% in three years’ time.

The aspiration to spend more time on insight mirrors what we have seen in the private sector, although few companies spend this much time on insight in that sector. We recognise that some private sector solutions will not always fit well with the public sector. However, there does indeed appear to be a premium for reaching a leading position and not remaining ‘one of the pack’ in the private sector. It is hard to believe that the same would not apply in the public sector, despite the particular challenges of managing public monies.

Just 3% (2% last year) of the respondents to our research rated overall finance function insight activity as high performing today, in the context of the organisation’s priorities. Over six in ten respondents aim to be high performing in

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**Current insight activity performance (%)**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Unacceptable performance</th>
<th>Performing poorly</th>
<th>Performing adequately</th>
<th>Performing well</th>
<th>High performing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy and planning</td>
<td>2</td>
<td>32</td>
<td>44</td>
<td>22</td>
<td>22</td>
</tr>
<tr>
<td>Budgeting and forecasting</td>
<td>3</td>
<td>22</td>
<td>50</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Business analysis</td>
<td>13</td>
<td>36</td>
<td>45</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Management reporting</td>
<td>8</td>
<td>49</td>
<td>38</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Performance management</td>
<td>8</td>
<td>45</td>
<td>39</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Cost management</td>
<td>8</td>
<td>45</td>
<td>39</td>
<td>8</td>
<td>8</td>
</tr>
</tbody>
</table>

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0 20 40 60 80 100
three years’ time. For those that do not aim to be high performing, they are virtually all aiming to be performing well.

We reported last year that there is a need to take a reality check and consider whether or not this is a grounded ambition. Our first report into the future of finance, Finance at the Crossroads, was researched and published in 2009 and at that time over two thirds of respondents expressed an aspiration to be high performing in three years’ time (by 2012). Yet in 2013, virtually no respondent claims to be high performing and just under half of the respondents report that they are performing either adequately at best or poorly. So there is a huge amount of work needed to translate ambition and aspiration for insight into plans, actions and change.

The first table below shows how respondents assessed their current performance for the individual insight processes listed. The results show how few respondents currently rate their individual insight activities as high performing, other than for strategy and planning and budgeting and forecasting.

The aggregate levels of ‘high performing’/‘performing well’ responses show indicative improvements in each of the performance management, cost management and business analysis activities. These improvements are, however, from a relatively low base. When compared to last year all other activities (management reporting and strategy and planning) are reported to be at similar levels. Budgeting and forecasting is, however, down seven percentage points.

No respondent rated business analysis as high performing in the last two years and nearly a quarter of respondents (14% last year) rated it as performing poorly or at an unacceptable level. Given the challenges facing public sector organisations this area needs a really strong focus with the right quality of skills and resource deployed onto it and other insight activities. It will require a concerted effort to substantially increase the performance of business analysis activities. Business analysis is a fundamental skill of the finance professional and Finance really does need to raise its game in this area if it is to genuinely act as a business partner.

The second table below shows the insight activity aspiration in three years’ time.

### Insight activity aspiration in three years time (%)

<table>
<thead>
<tr>
<th>Insight activity</th>
<th>Performing adequately</th>
<th>Performing well</th>
<th>High performing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy and planning</td>
<td>30</td>
<td>70</td>
<td></td>
</tr>
<tr>
<td>Budgeting and forecasting</td>
<td>32</td>
<td>68</td>
<td></td>
</tr>
<tr>
<td>Business analysis</td>
<td>3</td>
<td>64</td>
<td></td>
</tr>
<tr>
<td>Management reporting</td>
<td>43</td>
<td>57</td>
<td></td>
</tr>
<tr>
<td>Performance management</td>
<td>46</td>
<td>51</td>
<td></td>
</tr>
<tr>
<td>Cost management</td>
<td>48</td>
<td>49</td>
<td></td>
</tr>
</tbody>
</table>

- Performing adequately
- Performing well
- High performing
The reported three year aspiration is to eliminate poor performance in all the activity streams noted and to see a much higher level of performance, with a substantial level of high performance, particularly for strategy and planning, budgeting and forecasting and business analysis. The aspirations of respondents are relatively consistent with last year, which themselves were generally up on the previous year.

There was a wide range of insight change initiatives reported by respondents to be in place or planned. These include change management, training and staff development, technology investment, strategic planning, finance restructuring and integration and increased reviews and shared services. In total, 70% of respondents (over 60% last year) reported that they had training and staff development plans in hand or in place.

The main obstacles which may prevent aspirations being achieved were reported as people-related issues pertaining to the challenges of managing change, organisational and cultural resistance to change, lack of resources or skills and financial constraints. Nearly half the respondents in the last two years reported that lack of resources is a key barrier to achieving their insight aspirations. Just 6% of respondents reported that there are no obstacles to prevent them achieving their aspirations.

**Insight conclusions**

Strong insight and analysis capability is a prerequisite for Finance to act effectively as a business partner. Public sector finance professionals must be on the front line in supporting decision-making. Our research shows that the ambition is there for finance functions to provide quality insight and to act as a business partner. But our research shows that the rate of progress is slow.

There is an insufficient level of high performance and hard tangible actions will need to be taken if future aspirations are to be met. Resourcing and the right level and capability of resourcing is crucial. Tackling the organisational resistance to change and deep seated cultural issues is also essential. Here Finance needs the leadership of the whole organisation to play a supportive role.
The importance of people

The crucial importance of the related issues of people management and organisational culture continues to be raised by research respondents every year. Benchmark analysis research in the private sector (see Section 9) suggests that upgrading the skills and competencies of finance professionals is one key to improving the effectiveness of Finance.

A fundamental underpinning to effective people management is strong leadership. We believe that developing the right skills and capabilities within Finance to meet the future needs of the business is vital, as is promulgating financial awareness across the organisation as a whole. The finance transformation programme work, led by the Government Finance Profession, was launched in January 2011 and was designed to strengthen financial capability and raise skills levels across government. We comment further on this programme in Section 6.

Culture, learning and development and skills

In this Section we consider the people implications of Finance seeking to position itself as a business partner in terms of skill sets, training, development and reward. Our research reconfirmed that people-related issues underpin many of the perceived barriers to future success for Finance. Respondents reported that the barriers that would prevent the perception of Finance changing to the role of business partner included a lack of resources and skills, culture and the challenges of managing (and resistance to) change.

Culture has been regularly instanced over the last five years as something that impedes the development of Finance in the public sector. The term culture is probably understood intuitively but can mean different things to different people. Consequently it is often described as a problem without subsequent investigation into what that actually means.

Organisations or functions should define what they mean by the term culture, within the context of their own organisation, measure it and understand the levers to changing the culture. Often these are a variety of people management processes (such as performance management and remuneration for example) but culture can also encompass working environment and leadership style.
Learning and development - it is encouraging that more than six in ten respondents reported this year and last that they have plans for training and staff development in order to secure change. There is no doubt in our minds that the implementation of appropriate strategies for learning and development for future finance leaders and their teams will be a critical ingredient for success.

Learning and development supports the development of business critical skills by looking beyond narrow technical competencies at how to develop leadership, communication and organisational collaboration.

Skills needs - we have set out in the table below an illustration of the range of skills needs that were highlighted by respondents to our research, together with some specific quotes from respondents that illustrate some of the people challenges. It is quite clear that many of these are key skills for acting as a business partner and go well beyond the core technical skills needed to do the day to day job.

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**The people implications of Finance seeking to position itself as a Business Partner**

A third of the respondents to our research see their role in Finance as business partners. And virtually every respondent reported that in three years’ time they would like Finance to be perceived by internal customers and other key stakeholders as a business partner. In the role of business partner Finance works closely with the organisation, influencing, designing and executing strategy. Business partners gain a deep understanding of the organisation, provide insight analysis and advice to support business planning, most effective use of resources and other key strategic and investment decisions.

While financial analysis is still a key element of the decision support provided by finance professionals, the cross-organisational ‘bird’s eye’ view of Finance also allows it to play a crucial role in broader areas of insight and analysis, including risk and performance management.

The role of business partner is a more mature and well recognised one in the private sector than the public sector, where it has had limited success, and we have a greater body of evidence from our private sector research on which to draw when considering the attributes and issues connected with a successful business partner.

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### Reported skills gaps that need to be filled across the public sector and illustrative quotes from respondents

<table>
<thead>
<tr>
<th>Business skills</th>
<th>Procurement skills</th>
<th>Political skills</th>
<th>Commercial skills</th>
</tr>
</thead>
<tbody>
<tr>
<td>‘We need to build organisational skill sets in line management to deliver best in class operational delivery’</td>
<td>'It remains difficult to remove staff who do not demonstrate the optimal behaviours and attitudes’</td>
<td>'We have made major progress in appointing first rate professionals to key leadership posts. This has helped talented staff to flourish’</td>
<td>'We need more experience under the belt within finance teams’</td>
</tr>
<tr>
<td>‘We generate significant volumes of intellectual property which we are not exploiting’</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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The importance of people

Our observations below are largely drawn from our experiences of the private sector. It is important to remember that there is just one single talent pool for Finance and so the issues arising in the private sector should be a relevant template for consideration for the public sector.

Talent in Finance

Private sector companies report that they need experienced, creative and highly skilled finance professionals to build on reliable data and reporting and turn that in to real insight. So does the public sector. Yet companies continue to struggle to find and maintain the right mix of personnel for the finance function as it evolves. Salaries in the private sector finance function continue to grow, at least partially due to finance departments having an increasing number of people in higher impact positions.

The right people - the increased investment in high-level roles in the private sector underscores the importance of ensuring that the right individuals fill these positions. Finance practitioners, with a strong commercial background, who can glean insights from volumes of data and communicate effectively across a wide range of audiences are rare. Significant effort is needed to identify and train the right people.

Over half of private sector finance professionals in our benchmark analysis believe that upgrading the skills and competencies of people involved in the finance function is a primary vehicle for making finance processes more effective, second only to improving technology. In a parallel survey of over 2,700 consumers of finance department services, respondents rated highly the importance of Finance having the right capabilities. However Finance came bottom of the league in terms of its performance against that goal.

The capability gap - while there is a skills capability gap in private sector finance departments, the commitment to bridging this gap is not evident. Only one in three of our benchmark analysis organisations indicated that employee development plans are standardised and manager-linked. Developing internal talent to meet the challenges of more sophisticated analysis is daunting in itself, but without a carefully designed roadmap, it is a nearly impossible goal. Organisations need to assess the skill sets required, and look beyond the traditional model of a finance employee, not for specific accounting skills and backgrounds, but for individuals who are strong analysts, intellectually curious, have commercial acumen and are good at building relationships.

Finance Training Academies and cross-pollination - some private sector organisations with a particular focus on better practices are creating Finance Training Academies which help those in traditional finance roles develop abilities in the areas of business collaboration and insight generation. Another technique for enhancing the breadth of understanding and abilities among key private sector finance professionals is the cross-pollination of individuals within the firm. Companies that think more about the strengths of each employee, and less about their specific role, have the opportunity to effectively identify and grow talent internally.

Re-training accountants - while the development of internal talent can be a major factor in addressing staffing issues, many companies have found that re-training accountants as analysts can be challenging and potentially counterproductive. Organisations are recognising that many traditional accountants are not naturally gifted as financial and planning analysts, as they are typically trained to follow rules and...
structure rather than think laterally. Our experience of finance transformation assessments suggests that as many as 60% of people in private sector finance organisations are not suited to the evolving roles that Finance is being asked to fill.

Finance professional skills - the current shortage of financial professionals who match the changing needs of private sector organisations for greater insight generation has left many Finance Directors with a sub-optimal mix of people. They see finance practitioners who are focused on governance and compliance rather than business performance. Their staff have strong technical skills but often lack insight. The current private sector market requires the identification and development of a cadre of finance professionals who are more heavily biased toward learners and doers as opposed to strategists and advisors. The ideal qualifications for a private sector Finance Director have also shifted radically over the recent years and some of the best Finance Directors do not have traditional finance backgrounds.

Shared services - the outsourcing of basic finance functions to shared services and lower cost offshore environments continues apace in the private sector, as organisations look for ways to fund their increased need for insight generation and management. The pursuit of a shared service model is also a priority in the public sector although it has had varying degrees of success. The need for lowering costs has never been more apparent. The average cost for a Finance insight professional in the private sector is some 40% higher than the average cost of a Finance Full Time Equivalent (FTE). While a movement towards shared services has provided some enhanced efficiencies, this evolution has not addressed the need for more efficient work flows to free up resources. In many instances, the long-term culture of the organisation is getting in the way of this evolution.

Often, shared services and outsourcing can partially offset the finance talent gap. As time is freed up to focus on insight, existing staff can be moved into these roles. Sometimes, lacklustre performers are just in the wrong positions and excel in a new role. That said, the difficult reality for many private sector companies today is that a large number of existing team members are not able to function in the new finance environment that the company needs to build. Many just do not have the fundamental abilities needed for their evolving roles. This issue is prevalent as well in the public sector and as one respondent said in our research ‘it remains difficult to remove staff who do not demonstrate the optimal behaviours and attitudes’.

Human capital analytics - some forward thinking private sector organisations are applying human capital analytics to forecast internal talent needs and identify skill sets not currently in the organisation. Some successful finance organisations are making investments in individuals with backgrounds in operations research, data analytics and even traditional IT. These professionals often have greater proficiency in the identification of hidden opportunities in both financial spreadsheets and other organisational datasets which can lead to true forward progress for the organisation.
Adaptive rather than technical challenges

As the finance function evolves, finance professionals are increasingly presented with adaptive, rather than technical, challenges. Traditionally, finance professionals are trained to acquire analytic skills which, along with contextual knowledge, allow them to make key decisions for their organisations. These challenges, which are solved by the application of knowledge and analysis of data, are known as technical challenges.

However, more and more, especially among the higher levels of private sector finance organisations, professionals are required to make decisions about situations for which the data does not exist, is contradictory, or is simply overwhelming. They must extrapolate beyond their data, sometimes making large strategic decisions, relying on their experience and intuition to choose an optimal solution among a series of possible solutions, some slightly better and some worse. They must learn to face these adaptive challenges, to manage this uncertainty and find a comfort level in decision making in the absence of firm data.

Today’s Finance Directors require different skills to handle adaptive challenges. It is a paradox that we have more and better organised data than ever, but the nature of big decisions requires Finance Directors to move beyond using data to provide answers. Of course data is fundamental in supporting judgment, but this judgment often seeks to reconcile conflicting or incomplete data. The role of the private sector Finance Director is to have the best-informed hunch around the executive table and to make explicit the decision making process of the whole team.
Finding and nurturing talent

Finding the right people - as the finance function evolves, private sector organisations have come under increasing pressure to attract, retain, and motivate top talent. Today, it is not enough for finance personnel to have strong accounting and transactional skills. They must be able to glean actionable insights from data, communicate well with business leaders and partners in the business units, and engage others to support change management company-wide.

Finance Directors must learn how to find the right people and motivate them for the demands they will face in the finance function as it evolves. They must also work to find the right talent for the roles that need to be filled. They need to reinforce a sense of mission throughout their finance teams. Successful Finance Directors provide a vision that excites people about coming to work. A sense of purpose and clear direction and trust in those who lead them often motivates people more than money. This is a view that will resonate with the public sector where the sense of public service is highly developed.

Mix of personnel - finance teams in the private sector have particular difficulty finding the right mix of personnel due to the incredibly complex demands placed upon them. Rapid growth, acquisitions, and changing regulations all cause difficulties for finance professionals. Additionally finance teams become bogged down with the finance essentials of transaction processing, compliance and control. They are caught up trying to support often overly complex business, management and legal reporting structures that may need to be simplified. The private sector finance department is expected to spend more and more time outside Finance, lending their expertise to company-wide strategy and growth.

Staff development - with talent shortages an ongoing concern for Finance, focusing on staff development is imperative. Human resource experts often refer to a rule of thumb: 70% of learning transpires in the course of day-to-day work; 20% through informal learning and coaching; and 10% through formal classroom-based instruction. There are a number of approaches to learning that can be tailored to a Finance Director’s team. Practical on-the-job coaching, for instance, can be provided through team-based learning, such as having junior staff shadow senior managers. Other techniques, such as self paced e-learning and “lunch and learn” sessions, are proving popular.

Diversity of employees - Finance Directors also need to meet the needs of a diverse pool of employees. Many hires will come from the millennial generation and have career aspirations, attitudes about work, and knowledge of new technologies that are quite different than those of older generations. The private sector finance organisations that are, and will be, the most attractive to this generation of workers are able to provide a new mix of financial and non-financial compensation, including flexible working hours, quick career progression and rotational job assignments, even outside Finance.
People conclusions

Our research confirmed that people-related issues continue to underpin many of the perceived barriers to future success for Finance. People management strategies are therefore essential ingredients of success and need to be in place to manage recruitment, deployment, performance, talent generation, career planning and succession.

Private sector companies report that they need people who are able to glean actionable insights from data, communicate well with business leaders and partners in the business units, and engage others to support change management business-wide. Similar challenges and needs arise in the public sector, with transformational change programmes in hand across each of central government, local government and the health sectors. Sharing of lessons with a range of other organisations who have initiated culture change is likely to be of particular benefit to all parties.

Business partnering is still to fully live up to expectations in the private sector and is not yet the norm in the public sector. Progress is slower than aspiration and adopting a sense of realism of what can be achieved and in what timescale is important to manage expectations.

The approach to changing culture in the public sector needs to be driven right from the top of the organisation. Most importantly the whole leadership must embrace change and set the tone from the top. By the top we mean the Permanent Secretary, or Chief Executive, with the support of the whole board, the non executive directors (who can bring invaluable external experience) and senior policy makers. Indeed, without this leadership, it is difficult to see how Finance can fulfil its goal of being an effective business partner.
Central government - transforming Finance

**Author: John Berriman**

**The Finance Transformation Programme**

The Finance Transformation Programme for central government was launched in January 2011 with the publication of the foundation document *Managing taxpayers’ money wisely*. The Finance Transformation Programme aims to strengthen financial discipline and achieve a fundamental shift in public sector culture so it becomes more commercial, adaptable and innovative – putting finance at the centre of decision making.

*Managing taxpayers’ money wisely* makes it clear that financial skills are essential for all strategic decisions. Every public service function has a financial aspect which deserves proper assessment and resolution. Financial management should be at the heart of every business decision. It is not enough for central government departments to work through finance professionals. All senior civil servants must demonstrate a minimum level of capability with financial information and concepts so that they can make responsible corporate decisions in their organisations. Finance is as much about forward looking decisions as it is about accounting for current and past performance.

The Finance Leadership Group, which leads the Government Finance Profession, oversees the implementation of the Finance Transformation Programme. The Finance Leadership Group is developing five initiatives, each one led by a departmental Finance Director General, covering value for money, finance profession talent management, financial and commercial awareness for non-finance professionals, shared services to deliver efficient, high-quality corporate service functions, and management information and financial reporting.

The core goals of the programme are set out in the Government Finance Profession 2011 Finance Transformation Programme vision statement, shown opposite.

The NAO in its recent report on *Financial management in government* acknowledges that government has made progress on financial management and the Finance Leadership Group has brought greater oversight and support to the finance profession, and has developed financial management presence, capability and processes.

We note that the Finance Transformation Programme has now been running for over two and a half years. In our...
Vision for the Finance Transformation Programme - putting finance at the centre of decision making

<table>
<thead>
<tr>
<th>Effective leadership</th>
<th>Cost conscious culture</th>
<th>Professionalism</th>
<th>Expert Central Functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>People</td>
<td>All staff understand they are responsible for cost-effective delivery and are appropriately trained and incentivised</td>
<td>Finance professionals have the range of skills and experience needed to support the business</td>
<td>The centre aligns with finance departments to provide consistent and coherent messaging</td>
</tr>
<tr>
<td>Process</td>
<td>Processes promote a VFM and continuous improvement culture</td>
<td>Finance processes are economic, efficient and effective</td>
<td>Central processes support and incentivise good financial management</td>
</tr>
<tr>
<td>Information &amp; Technology</td>
<td>Systems provide relevant and timely information that staff need to exercise their responsibilities</td>
<td>Systems provide access to clear, consistent and well understood information</td>
<td>The centre draws on information that is used by and useful to departments</td>
</tr>
<tr>
<td>Structures</td>
<td>Departments’ internal structures and governance support to incentivise a cost-conscious and risk-aware culture</td>
<td>The finance department is structured and resourced to provide the business with the support it needs</td>
<td>There is clarity between the respective roles and responsibilities of the centre and departments</td>
</tr>
</tbody>
</table>

17% (13% last year) of respondents reported that a cost conscious culture is embedded in their department to a large extent. The remaining 83% (87% last year) of respondents reported that such a culture was embedded only to some extent. This suggests that there has not been significant progress made yet to fully embed the principle of cost consciousness across central government. More needs to be done and this situation is surprising in the light of the focus by government on the deficit reduction.

**Embedding a cost conscious culture**

One of the strands of the Finance Transformation Programme is the embedding of a cost conscious culture within central government departments. We have explored progress in this specific area in our research in each of the last two years.

17% (13% last year) of respondents reported that a cost conscious culture is embedded in their department to a large extent. The remaining 83% (87% last year) of respondents reported that such a culture was embedded only to some extent. This suggests that there has not been significant progress made yet to fully embed the principle of cost consciousness across central government. More needs to be done and this situation is surprising in the light of the focus by government on the deficit reduction.

Only 17% of respondents reported that a cost conscious culture is embedded in their department to a large extent.

Just over two thirds (67%) of respondents (compared to 58% last year) reported that stronger leadership was the single most important action that would help them fully embed a cost conscious culture in their department. A further 17% of respondents in each of the last two years reported that improved cost information is needed to help embed the necessary culture. Achieving value for money was instanced by 17% of respondents (8% last year).
So strong leadership is overwhelmingly the main issue identified by respondents to help embed the necessary culture in the department. This reinforces the importance of tone from the top and support from non financial leaders for the cost agenda, as well as from non executive directors. Leadership really does make a difference to peoples’ behaviours.

Perhaps surprisingly, only 50% of respondents reported that their finance function had been involved to a large extent in identifying and delivering cost saving targets. The remaining 50% of respondents reported some involvement. Every respondent reported that the main barrier to them achieving their cost savings targets are increased demands placed on Finance. If those demands are for further insight then this should be viewed positively as a sign of an increasing opportunity for Finance to develop a business partnering role.

Central government finance function effectiveness

A variety of actions are proposed to be taken by respondents to enhance the effectiveness of their finance functions, with improvement programmes noted as the single most important action. This was followed by staff development and recruitment.

On staffing, 17% of respondents (33% last year) are not at all confident that the appropriate commercial and business skills currently exist in their finance teams. All respondents (39% last year) reported the need for enhanced commercial and business skills in their finance teams. The other main skills needs reported were leadership skills and people management skills, followed by better communication and technical skills and a need to have a strong understanding of the finance function.

We asked respondents to indicate the single most important action that the centre (HM Treasury/Cabinet Office) could take to assist finance functions in central government departments. A third of respondents (just under two thirds of respondents last year) indicated that they wanted to see simplification of processes. A further third asked for greater flexibility, an issue that was not raised last year. Other respondents wanted the centre to stop ad hoc requests that were impeding the ability of the functions to do their day jobs.

Transparency of financial reporting

This year we asked respondents about their aims in terms of transparency of reporting to both internal and external audiences. The table opposite summarises the responses received. While respondents appear to be mainly willing to be fully transparent in reporting data externally, it is surprising that only 50% of respondents reported that they aim for full transparency in their internal reporting (with 33% of respondents aiming for partial transparency). Surely each and every finance function should have at its core a mission to deliver transparent data to enable management to make the necessary decisions to guide the business. And there must be an enhanced duty for those responsible for the financial stewardship of public monies.
Central government conclusions

The Finance Transformation Programme in central government lays out a clear endgame in terms of people, process, IT and structure for each of the four enablers of success. The programme has been in train for over two years. Like any large scale change programme it will take a lot of work and active leadership to keep the programme fresh and the momentum headed in the right direction.

In assessing the enabler of “embedding a cost conscious culture” there is little evidence of noticeable progress this year. More needs to be done to fully embed the principle across central government. The large majority of respondents have made it clear that stronger leadership of this agenda is required across their government departments. Leadership really does make a difference and that means leadership from the top down and also the non financial leaders in departments.

There is again a plea this year to the centre to simplify processes as well as providing flexibility and minimising the level of ad hoc requests made on individual departments.

Respondents have cited the need to undertake improvement programmes to enhance the effectiveness of their functions. They also need to upskill the capability of central government finance teams, through staff development and recruitment, and to enhance the commercial and business skills, as well as leadership and people management skills.

Finally there was a concerning response over transparency of reporting. The leadership of every department from Minister down through to the Permanent Secretary and their teams, and non executive directors, should be demanding clear transparent data to enable the best decisions to be made for the public good. And every finance function should make it a priority to provide that information in as transparent a fashion as possible.

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Transparency of reported data in central government
% of respondents

<table>
<thead>
<tr>
<th></th>
<th>% of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full Transparency</td>
<td></td>
</tr>
<tr>
<td>Partial Transparency</td>
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</tbody>
</table>

* 17% of respondents did not indicate the level of transparency of internal financial reporting

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Central government - transforming Finance 6
Local government -
localism and
transformation

Author: Michael Kitts

Reaching the tipping point

The finance agenda in local government is reaching a tipping point where it is no longer possible to undertake the same activities as before. Four out of five local authority respondents indicated that in order to meet their authority’s organisational outcomes in the next three years they will need to do things differently. So we can anticipate that significant change is on the way.

In terms of local authorities’ own estimates of their ability to meet their financial challenges, the picture is stark. In the short term most local authorities report that they can manage, with 92% of respondents reporting that their authority will be able to overcome its financial challenges in the current financial year. But this drops dramatically to just 6% of respondents when measured over the period of the next three years.

Our sense is that many authorities have driven hard to secure economies and efficiencies, by doing similar things in different ways, buying better and operating more efficiently. The challenge now is about the effectiveness of spend, which means doing different things to achieve the outcomes to which the local authority, its partners and its citizens aspire.

As shown in the table opposite, local authorities predict that they will reach a tipping point soon. And they further predict an inability to deal with their challenges in the second half of this decade. This position is clearly unsustainable. With only 15% of local authority respondents feeling very confident that they will meet their cost savings targets in three years’ time, authorities have to innovate further to avoid ‘tipping the wrong way’. This means authorities focusing on their purpose, by achieving outcomes; what they do, by working with others to facilitate improvement; and how they relate to their communities.

Barriers to making changes

Nearly half the local authority respondents (47%) cited increased demand as the main barrier to them achieving cost savings. This makes for a significant challenge because, at a time when local authority budgets are being cut like never before, public expectations are increasing, and factors such as demography mean a greater need for what local authorities do, especially in the areas of old age and social care.
The other major barrier, cited by 22% of local authority respondents, is culture, by which is meant the ability of councils and their people to think differently about their role and what they should be doing differently. But knowing what to do differently requires a new mind-set, new skills and new insights, and local government needs a fresh approach to face an increasingly uncertain future.

** Freedoms and flexibilities **

Local government has long argued that if it had more freedom then it could manage much more effectively. Some freedoms and flexibilities have been provided around business rates, city deals, community budget (pilots) and health and social care integration (recently supported by the Integration Transformation Fund). As shown in the table on page 50, our research suggests that these new approaches are seen as having an impact, with NNDR (business rate) retention and City Deal being the two most significant positive impacts. However, welfare benefit changes, including the localisation of housing benefit are seen as having had a very negative impact on local government.

One of the biggest challenges facing local authorities is the dichotomy of having to reduce budgets while doing more to stimulate the economy. With the abolition of PFI, building schools for the future and the NHS LIFT schemes, local authorities and local enterprise partnerships (LEPs) are having to explore new ways to secure investment.
Some funding is available to LEPs, through the Regional Growth Fund, and the Department for Communities and Local Government is making more finance available to stimulate the housing market, such as through initiatives like Help to Buy. But as our research shows, initiatives such as tax incremental financing are yet to make their mark; only 12% of respondents reported them as having a somewhat positive impact. We are, however, seeing more local authorities looking at how they can better exploit their asset bases and we believe that these approaches, working with LEPs and City Deal, will begin to gain traction.

**Demand, customer insight and service delivery**

If local authorities and partner public sector organisations are to avoid ‘tipping the wrong way’ then there is a need for change. Respondents reported that the three main issues that they rated as being very important were demand management (75%), customer insight (72%) and service delivery models (67%). Demand needs to be managed to avoid costs being driven up and/or falls in satisfaction with service quality. Customer insight needs to be used to better understand and anticipate demand and deliver in a way that will secure required outcomes, as well as predicting customer needs. This may mean earlier interventions to avoid cost escalation. Thinking through different delivery models is also important. Local authorities need to focus attention on securing or delivering outcomes, rather than simply lifting and shifting service delivery models into new structures.

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**How new initiatives and policy changes are estimated to have impacted on local authorities (%)**

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Significant negative impact</th>
<th>Somewhat negative impact</th>
<th>Somewhat positive impact</th>
<th>Significant positive impact</th>
<th>Neither/Nor</th>
</tr>
</thead>
<tbody>
<tr>
<td>NNDR retention</td>
<td>13</td>
<td>9</td>
<td>44</td>
<td>6</td>
<td>28</td>
</tr>
<tr>
<td>City deal</td>
<td>5</td>
<td>29</td>
<td>14</td>
<td>52</td>
<td></td>
</tr>
<tr>
<td>Community budgets</td>
<td>4</td>
<td>26</td>
<td>85</td>
<td>70</td>
<td></td>
</tr>
<tr>
<td>Innovative capital financing like TIFs</td>
<td>6</td>
<td>12</td>
<td>28</td>
<td>85</td>
<td></td>
</tr>
<tr>
<td>Welfare benefit changes</td>
<td>50</td>
<td>43</td>
<td>2</td>
<td>5</td>
<td>100</td>
</tr>
</tbody>
</table>

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12 ‘The Local State We’re In; PwC’s annual local government survey 2013’, PwC 2013
Additionally, more than four in ten respondents rated the need to secure economies and efficiencies in operating models (47%) and in back office support arrangements (44%) as being very important. Furthermore, nearly two thirds (65%) of respondents said that they expected to be focusing on changing systems and processes in order to meet organisational outcomes. We do not consider that taking these actions alone will go far enough to avoid tipping the wrong way. There is a need for more fundamental change.

Whilst demand management and customer insight were seen by respondents as being very important issues, only 28% and 22% of respondents respectively were fully involved in progressing these areas. This reveals a real gap between what participants and local authorities see as being very important for the future and where time and effort is actually focused. The reasons for this will vary and may include different priorities, areas for future focus, skills and capacity. What is clear however is that change is needed.

Our analysis therefore suggests that local authorities need to go beyond administrative procedures and learn how to understand and manage better relationships with their customers, in the same way that sectors such as retail invest to really understand consumer needs. Indeed, our research respondents felt that managing demand and understanding customers were the two most important characteristics of an agile council, yet they also indicated that they have been least involved in these areas themselves.

In order to re-imagine local government we have drawn upon a variety of research and experience, including research conducted earlier this year and summarised in our report *The Local State We’re In*. The table below summarises some of the areas of change we believe are needed within local authorities to cope with the financial and operating demands of the future.

<table>
<thead>
<tr>
<th>Re-imagining local government</th>
<th>Strong place leadership</th>
<th>Strategic planning framework</th>
<th>Portfolio management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data analytics &amp; business intelligence</td>
<td>Embracing digital</td>
<td>Efficient operating models</td>
<td></td>
</tr>
</tbody>
</table>

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*The Local State We’re In*.
**Strong place leadership - a changing relationship between citizen and state and smarter interventions**

Local authorities of the future will need to focus primarily on securing the right outcomes for people and places. A number of authorities are already moving in that direction. Smarter interventions will use new insights and understanding, to change what is done and focus scarce resources more effectively. The relationship between the citizen and the State has to change. The universality of ‘everything to all’ is no longer affordable.

Councils may become the provider of last, or later, resort rather than the first call; to focus on the most vulnerable citizens and on safeguarding duties; and to secure other outcomes by applying different approaches rather than focusing on traditional service delivery. An example might be providing support to families that are heading for crisis rather than incurring the costs of expensive social care post crisis. Finance can play a key role here in comparing the costs and benefits of traditional and alternative approaches.

**Strategic planning framework - to translate priorities to smarter choices**

Councils need to be clear about their strategic intentions. The focus here is likely to again move away from being a pure provider of services to that of commissioning outcomes for people and place. Making smarter choices is about combining the insight and understanding that local authorities need to have with those strategic intentions to prioritise what is done in a way that has greatest impact.

Some of this might be service delivery, say in the case of safeguarding, but in other areas this may involve working with citizens themselves, third sector agencies and other public bodies, to devise and commission interventions, in order to have a greater impact and be more cost effective. The key issue is making informed decisions. Finance has always had a critical role to play in supporting decision making and prioritisation around choices and in measuring impacts.

**Portfolio management – robust management of risks and benefits**

Understanding risks and benefits has always been critical but as delivery moves away from traditional services to more innovative interventions, managing these risks and benefits will become more demanding.

New approaches will be required and this will require new management information and new skills and systems. This is a core skill area for Finance and it needs to extend its reach beyond financial data and measurement.
Data analytics and business intelligence – new skills and capacity to provide insight

The need for the right skills to be deployed in the public sector is commented on in Section 5. One key challenge for local government is to overcome a capacity and capability shortfall around commercial and business skills, essential to underpin any successful corporate strategy. Over two thirds (67%) of the respondents to our research stated that their finance teams lacked the necessary commercial and business knowledge, with only 17% stating that they were fully confident that the appropriate level of skills currently exists in their teams. We also see capacity around data and analytics as being essential. This is currently an area that is less well developed than in some parts of the private sector (such as retail) and other aspects of the public sector such as in health.

Finance can play multiple roles, including providing a better understanding of people and places and where the priorities are; better modelling capability to understand and maximise the potential impacts from interventions; and better measurement of outcomes and understanding of their cause. Finance can thereby help interpret whether the new interventions work and what proposals need to be refined.

Commercialisation of local government will expand. There is learning to be had here from private sector digitally orientated companies and local authorities should explore whether more innovative business models can be developed. Finance will need to help local government explore new commercial models and provide insights into how to reduce reliance on traditional funding regimes.

Efficient operating models

Reducing operating model costs is an ongoing issue and all organisations continue to have to do more. Highly efficient operating models are going to be essential in the quest to deliver a ‘re-imagined’ local government.

It is likely that local authorities will do less service delivery in the future, but what they undertake must be fulfilled well and at the lowest possible cost. Finance has a critical role in supporting this agenda and will always be at the heart of cost reduction and efficiency initiatives. A key challenge is then how to take this to the next level.

Embracing digital - being more commercial

The digital agenda is evolving fast and will impact right across the board. Local authorities need to use it as a tool to foster and drive innovation in their understanding of people and place, how they interact with citizens, and foster the interaction of citizens with each other, and in exploring how outcomes can be better secured.
Local government conclusions

The Finance agenda in local government is reaching a tipping point and significant change is on the way. In order to meet their authority’s organisational outcomes in the next three years Finance will need to do things differently. But knowing what to do differently requires new skills and new insights, and local government needs a fresh approach to face an increasingly uncertain future.

A re-imagined local government will place more reliance on an informed ability to take strategic intent into commissioning outcomes; and understanding and refining what’s done, what benefits are achieved and what needs to change. Traditional service delivery will remain important in some areas (and an ability to improve efficiency and reduce cost in these areas will be critical) but new skills will be needed around data, analytics and modelling to fully understand what new interventions could and do work and how these can be finessed. Finance can also bring modelling capability, commercial skills and approaches, including outcome based commissioning, to ensure these interventions are robust, evidence based, sustainable and deliverable.

Local authorities need to transform, focusing on their purpose of achieving outcomes, what they do, working with others to facilitate improvement and how they better understand and relate to their communities. Finance has always been at the heart of the change agenda and it is no different now. If Finance can enable the necessary changes its investments would pay real dividends.

One challenge for local government is to overcome a capacity and capability shortfall around commercial and business skills, essential to underpin any successful corporate strategy, along with customer insight and how best to manage demand. Local authorities will also need to go beyond administrative procedures and learn how to understand and manage better relationships with their customers, in the same way that sectors such as retail invest to really understand consumer needs.
Health - a period of change and challenges

Author: Janet Dawson

A period of change and challenges

The financial challenges in health have been well reported – the Department of Health estimates that by 2021, there will be a shortfall of £34 billion within the NHS in England, if current levels of demand continue but cost savings targets are met. The Nuffield Trust reports that the financial gap could be even more significant, at £50 billion, if current cost growth is extrapolated over that time period.

During 2013, there has been intense focus on quality of care within the NHS in England, with the publication of the Francis report on failings of care at Mid Staffordshire NHS Foundation Trust, the Keogh report on 14 trusts with indicators of high mortality rates and the Berwick report on nursing standards. Many organisations within the NHS have questioned whether or not the drive to improve standards of care in response to those reports can be managed within the financially challenged environment. Our view, which is widely shared across the health system, is that the scale of the looming financial challenge will require transformation of provision of services. The starting point for that transformation is with the commissioners, in determining where the budget should be spent, for which services, and for which outcomes.

What role for Finance in transforming provision?

The restructuring of the past two years within the health system has meant a lack of clarity of role and lack of confidence for finance staff, which has been evident in our previous research. There has also been a notable lack of confidence in the ability of finance teams to deal with financial pressures within the system. The introduction of Clinical Commissioning Groups and Commissioning Support Units from 1 April 2013 means that there has been a very short period of time in which those organisations have been responsible for the commissioning decisions amounting to £80 billion, having been in shadow form until that point.

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Therefore it is perhaps reassuring that respondents are feeling more confident about managing current cost pressures. Indeed, all health sector respondents reported that they were at least 'somewhat confident' of achieving the necessary cost savings this year. But confidence diminishes, as shown in the table below. Only 59% of respondents retain a level of confidence looking out three years as the “cliff edge” of financial pressure, as described by Sir David Nicolson, approaches.

**Commentator or integrated business partner?**

There has been a significant shift in the role that finance teams are playing within their organisations as described in Section 3. Five years ago, many of the finance teams and their customers responded that much of their function was taken up with commenting on the financial position of the organisation. The aspiration at that point was to move towards a partner role, by providing business insight and working with internal customers to help manage cost savings programmes. Now, our research indicates that 33% of teams are operating in that manner. This bodes well in the environment we have described as one that requires significant support to transform.

The change in focus of teams appears to have been achieved without a major change in the proportion of time spent between efficiency, compliance & control and insight over the past five years. Therefore there is more for finance teams within health to do to change their areas of focus and time inputs. Looking more closely at the area of compliance & control, the move to greater controls optimisation over that period has been from 12% to 14% of respondents. The aspiration to move to 83% over the next five years therefore looks ambitious. Give the recent changes in financial support services within the health sector we believe that this is unrealistic.

**Fit for the future?**

The scale of the financial challenge within the sector, coupled with the recent change within the system, has also prompted a reassessment of the skills and capabilities needed by finance professionals within health. As in the private sector, the emphasis of respondents on technical skills is
waning, as the need to change and adapt has risen in importance. As a result, and as shown in the table on page 58, 82% of respondents in health cited the need for additional commercial and business skills within their teams, to deal with new partner organisations and arrangements and different business models. They also highlight the need for greater communication skills (55%) and leadership skills (50%) to be able to influence other decision makers, increasingly from outside the boundaries of their own organisation, to ensure better health outcomes are achieved.

This issue will be the more acute if our findings from recent research NHS@75 become manifest. The NHS will be 75 years old in 2023 and by then will have faced its most challenging decade ever. Demographic and behavioural changes, severe financial pressures and the impact of new technologies will drive significant changes across the system, shaping the future of healthcare delivery. We sought to explore what the NHS might look like in ten years' time – the NHS@75 – and explore the implications for those involved in the wider health system. To do so, we spent six months bringing together stakeholders to identify and explore the key challenges and opportunities for the NHS, while also engaging with the public and listening to their views about what they want their health service to look like in ten years' time.

In this future, the system delivers outcomes which maximise the impact on the population's health. Services are uniformly high quality and efficient. Innovation (including technology and analytics) is paramount and plays a significant role in driving improvements in the outcomes that matter to patients. The consequences are that:

- Patients are empowered and supported to make choices about their care, with good access to information that enables these choices, including who provides it. Self-care is the norm, with services orientated toward those who take the greatest personal control possible of their own care.

- The public accesses the NHS responsibly, understanding that it is a finite resource and being 'provider agnostic', realising that it is not physically where a service is provided that is important (the 'bricks and mortar' of the system) but how the best outcomes can be achieved, wherever and whoever the provider happens to be.

- Commissioning creates an environment (contractual and financial) that means providers focus on improved population outcomes, orientated towards providing services focused on the outcomes that matter to the patient and in the places appropriate for delivery. There is real engagement with the public around their needs and expectations, with co-creation and co-design of services.

- Successful providers adapt and prosper, co-producing outcomes with their patients; others fail/exit the system within an appropriate regulatory structure. The closure of providers or health facilities is not seen as a failure or withdrawal of services, but a necessary part of the cycle of service improvement.

- Staff work flexibly across care settings in multidisciplinary teams and with multiple providers, on different terms and conditions that best suit the patient or population needs. Staff are supported by training to change their ways of working, with a particular
focus on delivering a great patient experience as part of the performance management process. The workforce is provided with incentives to become more entrepreneurial in the delivery of the best care within the resources available.

- Technology is used in innovative ways that benefit patients, who in turn are expected to take responsibility for their own care aided by intuitive and simple devices that support them. Data and analytics target treatments to individuals and predict needs in populations, based on the use of big data. Innovation and rapid prototyping of solutions become the norm, with the most effective innovations adopted and scaled up rapidly across the system, and the least effective stopped.

From our findings, steps that need to be taken now to ensure that the NHS can function well in ten years’ time that are of most importance to finance professionals and most likely to affect the way in which they need to operate, are the following:

- Working towards integration across the whole health economy – enabling organisations to work more closely together and empowering providers to take greater responsibility for care pathways.

- Outcome based commissioning – collaboration, implementation and spread of outcomes based commissioning.

- Annual report card – transparency and accountability in reporting on the health system, care quality standards and leadership rewards at a local level, and on an annual basis.

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Additional finance team skills-needs cited by health respondents
% of respondents (multiple answers were permitted)
Health conclusions

Whilst there has been significant structural change within health over the past three years, there is much still to do to deal with the financial challenges that have been well forecast by a number of commentators on the system. Finance needs to be at the heart of supporting the NHS and its organisations to understand the changes required to service provision, and the options available to make those changes succeed in providing quality care.

More needs to be done by finance teams to change the proportion of time spent on compliance & control, by furthering the controls optimisation agenda, towards efficiency and business insight.

Skills such as strategic financial planning and modelling are in short supply but will be essential to support the transformation agenda. Finance teams need to assess the current skill sets available and to develop and/or attract others into the health sector.

From the finance perspective each of these challenges will require greater business insight, strategic financial planning and modelling. These are all skills that are valued by respondents, but not in large supply currently within the health system.

However, accessing those different skills and building the confidence in tackling such financial challenges is difficult to do solely from within existing finance resources. For instance, levels of investment within the health sector for professional development have fallen in recent years, so the opportunity to reskill existing teams remains limited and, as evidence from the private sector shows, is often unsuccessful, with up to 60% of existing finance staff being unsuitable for the roles that are evolving. The health sector therefore faces the additional challenge of finding and attracting new players into finance to lead on the changes required to sustain the health system.
Finance in the private sector

Introduction

In October 2013 we published our fifth annual benchmark report of Finance in the private sector. This draws on detailed data from benchmark projects in more than 200 participating companies with operations around the world. The report looks at the leading practices that drive top performing finance functions and assesses how Finance is responding to the challenges and designing the finance operating models that are fit for the future.

How we benchmark Finance

As private sector finance functions seek to keep pace with mounting business and regulatory demands, our benchmark analysis provides a baseline from which to measure progress, by assessing organisations’ strengths, weaknesses and areas for improvement. We do this by gathering detailed data to gain an accurate baseline of the efficiency and effectiveness of an organisation’s finance function. We have worked with organisations to understand how these results are achieved and spoken to finance leaders to explore what they are doing that makes a difference, what they have been able to achieve and their future plans.

The benchmark analysis combines a qualitative assessment of comparative metrics across each of the efficiency, compliance & control and insight dimensions. The resulting analysis not only compares these ratings against peer group organisations, but also seeks to assess whether they are operating in equilibrium and are meeting the overall objectives of the business.

Highlights of our benchmark analysis

Our benchmark analysis confirms that the leading finance functions in the private sector are different from the rest and are achieving results that are very different from the norm.

The challenge for Finance has not changed fundamentally over the years. Finance is expected to provide more for less, streamlining and reducing transactional costs, providing an effective control framework, and helping the business make the right decisions to improve business performance. The challenge is in execution.

The opportunities for Finance in private sector organisations to assume a more central role in corporate business strategy and planning are almost limitless, but the barriers to full partnership are many. Companies saddled with outdated technology and poor data quality still struggle to fulfil traditional core finance functions in an efficient way, leaving little time for insight generation. Many also have

Top private sector companies have automated more than twice the number of key controls compared to the average company
difficulty defining the skills needed for higher-value activities. Finding qualified professionals to step into these changing roles, or re-training existing personnel, remains a real challenge.

At the same time, the rapid evolution of data-gathering and advanced analysis presents the finance professional with overwhelming amounts of data that needs to be rationalised and turned into useful information for customers, both internal and external to the organisation. This complexity is compounded by the continued globalisation of organisations and new integration and risk management challenges.

There are many paths to success, but there are also common themes. The most successful finance organisations in the private sector are providing more effective business partnership and business intelligence. They are changing their operating models to be streamlined and efficient. And they are using technology in innovative ways to provide better data and to break down departmental data silos. All of these traits make the leading private sector finance organisations attractive for the public sector to understand as there will be many similar challenges to address and lessons to be learned.

**The costs of Finance**

The potential gains to be realised by the synergy between a fully evolved private sector finance department and the business at large are compelling. Unlocking this potential is a task that requires attention to a number of critical components. Organisations who are able to lead this evolution will realise cost efficiencies, more timely and accurate forecasting, truly informative management reports, and significant operational gains through improved decision making and a real partnership between Finance and the business units.

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**Leading finance functions (compared to the average):**

- provide more valued insight to the business
- act as the catalyst for breaking down cultural silos
- have many more people involved in business partnering
- have automated substantially more key controls
- manage talent more effectively
- have the right people in the right roles
- spend less time gathering data and much more time understanding what it means
- have running costs that are much lower
- are changing their operating models to be streamlined and efficient
- are using technology in innovative ways

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The cost of the private sector finance function is more than 60% lower in the top quartile compared to the average
Achieving this leading performance does not necessarily mean that finance costs need to rise. Finance cost as a percentage of revenue in the private sector has stabilised this year following several years of growth, but still remains a significant investment for companies. Typical performers are operating at 60% higher costs for finance than top quartile companies. Organisational efficiencies, such as outsourcing and shared services centres, are driving down the cost of finance, while opening the door for an increased focus on business partnership and insight generation.

Gains are also being made in the drive toward efficient and timely reporting. Median budget reporting times in the benchmarking organisations have dropped some 14%, while small improvements were also seen in the forecasting cycle. These gains are largely due to incremental improvements in technology and automation. The gap between median and top quartile private sector organisations, which typically have more advanced technology and ERP systems, is significant.

The challenges for Finance in supporting the business

Finance organisations today are generally succeeding in their traditional role of supporting the business in private sector organisations. Finance professionals, and the consumers of their services within companies, view finance departments as strong in their standard functions of general accounting (for example reconciling and consolidating corporate financial information) and external reporting (for example preparing consolidated financial information to meet external regulations). Three in four private sector companies also see business and finance strategies sharing the same objectives and being closely aligned.

However, private sector finance organisations report that they are struggling in two significant areas related to business insight, being the compilation and creation of management reports and the provision of analysis and support to managers. The public sector faces the same issues with business analysis in particular being an area of real challenge.

A parallel survey that we undertook of consumers of services provided by the finance function in private sector organisations finds similar gaps between importance and performance in these two areas. In addition, these internal consumers reported a significant need for Finance to play a higher level role in decision-making by formulating financial strategy, and developing the organisation’s strategic business plan, but again, see this as an unrealised goal.

Although gains have been made, particularly among top performing organisations in the private sector, the centralisation and distribution of financial and non-financial data is still not happening as effectively and efficiently as it might. In many organisations, whether due to deficiencies in technology or functional silos, information does not flow as freely or quickly through the business as is necessary. Further advances in this area will fuel Finance’s continuing evolution in support of overall business effectiveness.
**Finance’s evolution from support service to change agent**

Finance in the private sector has traditionally served as a corporate support function, reacting to an organisation’s tactical needs, rather than acting as the creative force behind insight and change. However, many companies have shown a significant movement toward Finance taking a more active role in the business partnership. Some four in ten private sector companies see Finance as a facilitator in the strategic planning process, rather than merely playing a supporting role. Meanwhile, just over half of the benchmark private sector organisations see Finance working closely with the CEO in developing the company’s business strategy.

Private sector finance teams are transitioning from a focus on accounting to advanced budgeting and planning. By successfully mastering the necessary closing tasks, and increasing both speed and accuracy, Finance has been invited to address broader questions, such as the best KPIs for measuring success and how the organisation can match the budgeting and planning process to client needs.

Additionally, private sector organisations are realising that they cannot effectively manage the business by finance metrics alone. There are greater pools of company data that contain information which drive the business. Finance functions are stepping in to analyse broader sources of corporate information, such as customer satisfaction and product information, to identify areas where company performance can be improved. Local government organisations may find it useful to explore this area, as we explain in Section 7.

**Business Insight activities**

In our view today’s Finance Director in the private sector must move beyond budgeting and control and assume the role of a Chief Performance Officer to act as a liaison between Finance and key internal and external stakeholders.

Our recent report titled *Finance Matters: Finance function of the future* noted that finance leaders need to create the conditions for effective navigation, which means that rather than acting as a support function, leading finance departments must actively drive the organisation to its chosen destination, while at the same time acting as mediators to a much broader set of stakeholders, with varied points of view and differing expectations.

Movement toward this ideal is occurring in the private sector, yet unrealised opportunities for increased coordination between Finance and the business at large clearly remain, with potential gains in the areas of high-level corporate strategy and leveraging additional efficiencies within the finance function itself. Over 40% of benchmark participants believe that improving collaboration related to internal finance processes would help make the current finance process in their organisations more efficient.

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*Top quartile private sector firms have some 30-40% more people involved in business partnering compared to the average*
However, intention is often well ahead of achievement for most private sector companies. The proportion of FTEs focused on business partnering is relatively unchanged over the past 5 years. What is apparent is that some high performing private sector companies are out ahead of this trend, with top quartile companies allotting 30%-40% more FTEs to business partnering than the typical company.

Despite recent gains, finance organisations in the private sector continue to get bogged down in standard tasks or crises of the moment, rather than focusing on the long-term factors that drive business performance. Analysts are still spending on average nearly two thirds of their time gathering data as opposed to analysing it. This figure has not changed much over the recent years despite the promise of “lights out” processing that has been an ongoing organisational goal. But there are some private sector organisations that have been able to be very efficient, taking positive action to reduce data gathering time to close to zero.

Fewer than one in five benchmarked private sector companies report that their organisation has a Performance Improvement Team. And where there is such a team, it was generally created for an ad hoc project rather than as a continuing role. Without specific focused efforts to oversee and drive organisational growth in efficiency and quality of analysis, efforts to move forward in these areas often stagnate.

Despite sluggish growth, some gains are being seen in the focus on insight as being within the purview of the financial analyst. Since 2009, the percentage of time allocated to insight-focused activities in the private sector has increased almost 40%. There is also a widening gap between those companies that are evolving toward a mature business partnership model and those that are stuck in traditional reporting.
Conclusions on lessons to be learned from Finance in the private sector

Today’s top tier finance functions in the private sector are increasingly called upon to fill diverse roles. In addition to their traditional accounting and reporting duties, they provide more thought leadership, generate insights from increasingly diverse data, spearhead finance-business partnerships and assume a more central role in corporate business strategy.

There remain significant issues for Finance generally in the private sector and forecasting and the quality of business analysis continue to be a challenge. Less than half of private sector finance professionals in our benchmark analysis believe their company’s forecasts are reliable. The public sector has a range of similar challenges in terms of the issues it is seeking to address and resolve.

The benefits that are accruing to top performers in the private sector are evident across each of the efficiency, compliance & control and insight dimensions of Finance. Those benefits include lower running costs, less time data gathering, more controls automation, greater levels of business partnering and more valued insight and intelligence.

We encourage finance professionals in the public sector to explore further just how the leading performers are making a difference, in both the private and public sectors, and see how those lessons learned can be translated into improved performance in their businesses. There really cannot be anything to lose and much to gain.
Five year data summary

We set out below five year summary trend information on the vision, strategy and role of Finance, the importance it places on seeking best practice and its insight, efficiency and compliance & control activity performance.

### Perceived role of Finance by internal customers and other key stakeholders (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Business Partner</th>
<th>Diligent Caretaker</th>
<th>Commentator</th>
<th>Scorekeeper</th>
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<td>31</td>
<td>23</td>
<td>13</td>
</tr>
<tr>
<td>2011/12</td>
<td>36</td>
<td>32</td>
<td>23</td>
<td>9</td>
</tr>
<tr>
<td>2010/11</td>
<td>31</td>
<td>35</td>
<td>30</td>
<td>4</td>
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<td>2009/10</td>
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<td>25</td>
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<td>9</td>
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<tr>
<td>2008/09</td>
<td>19</td>
<td>28</td>
<td>33</td>
<td>20</td>
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### Written vision and a strategy that aligns to organisational strategy (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>2012/13</td>
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<tr>
<td>2011/12</td>
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</tr>
<tr>
<td>2010/11</td>
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<tr>
<td>2009/10</td>
<td>57</td>
</tr>
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<td>2008/09*</td>
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*Not evaluated
High importance placed on seeking external best practice from other organisations (%)

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<th>2010/11</th>
<th>2009/10</th>
<th>2008/09</th>
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Time spent on efficiency, compliance & control and insight (%)

<table>
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<th>2010/11</th>
<th>2009/10</th>
<th>2008/09</th>
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<tr>
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<td>45</td>
<td>20</td>
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Medium term aspiration for time to be spent on efficiency, compliance & control and insight (%)

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<th>2009/10</th>
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<tr>
<td>2008/09</td>
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<td>30</td>
<td>40</td>
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### Compliance & control activities – “performing well” or “high performing” (%)

<table>
<thead>
<tr>
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<th>2010/11</th>
<th>2009/10</th>
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<tr>
<td>Process controls and compliance</td>
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<td>Internal audit</td>
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<tr>
<td>Tax accounting and compliance*</td>
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<td>48</td>
<td>44</td>
<td>44</td>
<td>43</td>
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<tr>
<td>Finance policies and practices*</td>
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<td>73</td>
<td>70</td>
<td>66</td>
<td>65</td>
</tr>
<tr>
<td>The risk function, including risk management*</td>
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<td>45</td>
<td>45</td>
<td>43</td>
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<tr>
<td>Policies and practices over procurement*</td>
<td>66</td>
<td>68</td>
<td>68</td>
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<td>68</td>
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<tr>
<td>Corporate governance**</td>
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<td>59</td>
<td>59</td>
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</tbody>
</table>

*Not evaluated in 2008/09
**Not evaluated in 2009/10
Contacts in PwC

About PwC

At PwC we focus on three things for government and the public sector: assurance, tax and advisory services. Working together with our clients across local government, health, education, transport, home affairs, housing, social care, defence and international development, we look for practical, workable solutions that make a difference in solving the pressing challenges that are being faced every day.

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The PwC Government & Public Sector Finance Leadership is the sponsor of this research. The Finance Leadership has a wide remit and this includes the monitoring of finance trends in the public sector, sponsoring of research into finance matters and developing market propositions.

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About the Authors

John Berriman leads our Finance practice. He also chairs our Education and Cyber Security practices and leads our relationship with the CBI. John was a member of the PwC Executive Board between 2000 and 2006 and his responsibilities, as Head of Finance and Operations, included finance, operations, governance and sustainability. He led a wide-ranging PwC transformation programme, encompassing cost reduction, automation, simplification, shared services and outsourcing. John was a member of a small independent HM Treasury panel who were appointed in August 2010 to advise government on strengthening financial discipline in the public sector.

Janet Dawson leads the delivery of services to the health market. She has worked with the NHS for over 20 years, providing services to both provider and commissioning organisations. As well as leading audit engagements, she has worked with Monitor on Foundation Trust application assessments, with PCTs on financial baseline reviews and provider organisation transactions due diligence. She was appointed in 2012 to support the National Commissioning Board Authority in the authorisation of 220 Clinical Commissioning Groups.

Michael Kitts leads our Government and Public Sector and consulting business across the Midlands. He is an accountant and worked in the public sector for 20 years, most recently as a local authority finance director, before joining PwC in 2000. Michael leads teams delivering support around new ways of working, cost reduction and transformation. Michael and his team focus on how best organisations can secure better customer and stakeholder outcomes - delivering more or better for less - a challenge facing both public and private sector organisations.
About the analysis and editorial team

The authors are grateful to the PwC editorial team who assisted and advised on the production of this report, including, Nick Jones, Sophie Hayball, David Thompson and Rachel Taylor. Special thanks are due to Frances McVeigh (who has provided invaluable guidance over the last four years) and Allison Neill-Rabaux in the PwC International Survey Unit team, who designed and ran the survey process and analysed and interpreted the data returns, and to Andy McCorkell and Gavin Hildreth, who contributed on how Finance is performing in the private sector.

Contact the Finance Leadership

Please contact any of the three authors if you would like to know more about this report. And please contact any members of our public sector finance leadership about the particular finance-related services offered by PwC. We are always delighted to share our thoughts and ideas on current issues, challenges and best practice.

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