



# **CENTRAL GOVERNMENT PANEL NEWSLETTER**

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AT THE HEART OF  
PUBLIC SERVICES



## INTRODUCTION

Welcome to the seventeenth newsletter for finance practitioners and CIPFA members working in central government.

This issue contains synopses of talks delivered at CIPFA's annual Central Government Conference on 12 October 2005. Over 120 delegates attended. The event was chaired by Curtis Juman, Integrated Planning and Performance Management Change Director at the Department for Work and Pensions and Chairman of CIPFA's Central Government Panel. Mary Keegan, Head of the Government Accountancy Service, HM Treasury and Robert Black, Auditor General for Scotland, gave the keynote addresses on the theme of *Finance Professionals Delivering Efficiency Gains*. Other sessions included:

- Coral Newton, Director, CLN Associates, on *Delivering Efficiency: The role of the Finance Function*.
- Janet Eilbeck, Partner, PricewaterhouseCoopers, on *Sound Financial Management, Efficient and Effective Resources Management*.
- David Walker, Editor, Guardian PUBLIC Magazine, on the *Post Election Landscape*.
- Richard Douglas, Director of Finance, NHS, on the *Impact of the Efficiency Programme and the Central Government Modernisation Agenda*.

The newsletter also contains some information about the Central Government Panel and about the Public Management and Policy Association (PMPA).

## CENTRAL GOVERNMENT PANEL EVENTS

Details of the next Central Government Panel seminar, the one-day *Introduction to Central Government Finance*, to be held in 2006, will be placed on the panel website at: <http://www.cipfa.org.uk/panels/centgov/index.cfm> as soon as they become available.

The third Central Government Annual Conference is planned for October 2006. The 2005 conference was attended by over 120 delegates and was oversubscribed. Further details of the 2006 conference will be announced early in the new year and early booking is recommended.

## CIPFA CENTRAL GOVERNMENT ANNUAL CONFERENCE

Curtis Juman, Integrated Planning and Performance Management Change Director at the Department for Work and Pensions and Chairman of CIPFA's Central Government Panel, opened the conference and introduced the theme of *Finance Professionals Delivering Efficiency Gains*. He suggested that after seven years of "feast", Central Government was now likely to be looking at seven or so years of relative "famine".

### **Improving Financial Management in Government**

Mary Keegan, Head of the Government Accountancy Service, HM Treasury, began her keynote address with a firm message: that despite the representations she had received to the contrary, she believed that being a finance professional in central government necessitated a CCAB qualification or its equivalent – and, she said, she was *not* going to change her mind on this issue.

The background to financial management in government is that of spending review 2004, with its flat cash limits and an efficiency programme to take out £21.5 billion annual spend

by 2008. That was however just the beginning! The comprehensive spending review 2008 onwards will be aimed at maximising the impact on effectiveness of existing departmental spending over the long-term and freeing up resources for reallocations new priorities, enabling Government to meet the challenges of the future. There is therefore a clear need to “institutionalise” economy, efficiency and effectiveness.

Mary moved on to introduce a diagram showing the Public Service Value Chain. The diagram exemplified the need to really think about how to place inputs firmly into the Value for Money equation. Every part of every departmental organisation needs to think carefully about this and Finance Professionals need to keep everyone focused on it. If this concept can become part of the whole process of working then further Gershon reviews will not be needed.

It also needed to be remembered, however, that Finance Professionals need to be delivering economy, efficiency and effectiveness within the finance functions. Across all spend, departmental management delivers economy, efficiency and effectiveness and Finance Professionals should be challenging and supporting – and be part of – the process of corporate management.

Mary turned next to the ongoing Department by Department reviews of the effectiveness of financial management, as announced in the July 2004 White Paper. Mary said that one of the first things she had done on taking up office was to draw up a financial framework and in doing this she had used much of the work produced by CIPFA in their Financial Management Model. Some 30 reviews had been signed off so far and a further 15 were in hand. She stressed that this would be a continuous review process.

To date, the reviews had found some silo mentality. Departments were at various points in their change programmes but there were some common themes. Departments need:

- top-down corporate management
- financially literate budget holders
- focus on outcome driven resource priorities, eg, where would the marginal pound be spent?
- to be more demanding of costs and project paybacks.

### **The Efficiency Agenda and Best Value**

Robert Black, Auditor General for Scotland, set the context for his session, explaining that Scotland does have an equivalent of the Gershon review efficiencies and that while he would be drawing on Scotland's experience he would be focusing on those elements of interest to all central government organisations.

The issues around efficiency need to be seen in the context of who actually spends the money. In Scotland, some two thirds of government expenditure is actually spent by arms length organisations in health and local government so an integrated approach to efficiency is essential. Looking at a specific case study, a solution for Best Value was:

- focus on the individual council
- self-assessment and audit challenge
- focus on results and improvement
- recognition of local choice and diversity

- risk-based, targeted, proportionate
- three year cycle.

The audit function needs to be modernised especially with regard to its proportionality. Whereas hitherto an audit focus would devote 10% of its resources to performance, 15% to systems and governance and 75% to financial statements, the need now is more one of 35% on performance priorities and risks, 20% on governance and 45% on financial statements. Audit is attempting to develop a good knowledge base to address these issues.

In Scotland, public audit supports the Scottish Executive and Parliament as stakeholders. Reporting to Parliament comprises baseline and follow-up performance reviews, crosscutting performance overviews (vertical and horizontal) and selective reports on financial accounts.

In conclusion, Robert Black stressed that it was essential to have a whole system approach to performance improvements. The conditions for success could be summarised as:

- leadership
- people
- resources
- performance management supported by public reporting and public scrutiny.

### **Delivering Efficiency: The Role of the Finance Function**

Coral Newton, Director, CLN Associates, gave the practitioner perspective to the role of the finance function, based on her experience which included setting up a Finance function for two DfES-funded organisations, Training Standards Council and the Adult Learning Inspectorate.

Coral began with the definition of efficiency:

- reduced inputs for the same level of service provision
- lower prices for the required resources
- additional outputs (quality or quantity) for the same level of inputs.

Economy, efficiency and effectiveness, resources, inputs, outputs and outcomes, and Value for Money are all interrelated.

Resource management has a number of historic weaknesses:

- insufficient focus on delivery
- short-termism
- perverse incentives
- incomplete information on costs
- little information on performance
- poor project management
- poor financial management skills and lack of ownership of financial management – particularly with regard to the people who make the decisions

Coral recommended an NAO publication: *Managing Resources to Deliver Better Public Services*, December 2003. The publication recommends adopting a strategic approach to resource management and having a well-developed capability to convert resources into

services that meet people's needs. It is important to allow appropriate flexibility to encourage innovation and to use management information to make better use of resources and to improve efficiency.

Such a strategic approach to resource management should:

- simplify planning and monitoring to focus on key service delivery priorities
- downgrade activities that are peripheral to core services
- assess the impact of new proposals on existing service delivery
- communicate with delivery partners to ensure alignment of key targets and consistency in investment strategies.

In order to build the appropriate capability, it is important to understand customers' needs and to consult organisations critical to delivery. Assurance should be sought about delivery partners' resource management capabilities and capacity should be built in project and resource management skills.

Greater certainty over future funding is more likely to encourage investment and well-managed risk taking. Unnecessarily prescribed and rigid regulatory regimes with harsh penalties for underperformance can stifle innovation and contribute to poor performance. To allow flexibility and encourage innovation organisations should:

- ensure regulatory frameworks are flexible and do not unduly stifle risk taking
- provide incentives to achieve key deliverables
- delegate appropriate responsibility and authority internally and to delivery partners.

Management information has a key role in the improved use of resources and efficiency. Management information should be timely, reliable, link performance and resource utilisation and support decision-making. The information systems should meet users' needs. Information should be used to understand the full cost of programmes, to target resources and minimise the cost of non-service activities, manage assets and liabilities and finally, to identify opportunities for efficiencies.

For securing stewardship, the emphasis should be on control, probity, accountability and compliance. Performance should be supportive: responsive to customers, efficient and effective, committed. The Finance function should enable transformation. It should be strategic, future oriented, proactively managing change and risk, outcome focused and receptive to new ideas.

The Treasury's criteria for assessing financial management skills include:

- recruit and train qualified accountants
- change the culture of budget holders
- align spending plans with departmental aims
- organise for role as business support advisers
- hold budget holders to account for delivering performance
- provide regular, timely and meaningful reports
- ensure the team, systems and processes are efficient and fit for purpose.

The Finance function's response can be broken down into its three main roles:

- *corporate/advisory role*: invest in capacity to support the organisation in the efficient use of resources
- *financial accounting role*: ensure people to meet professional standards and regulatory requirements efficiently
- *financial administration role*: rationalise, invest in IT, redesign processes, strengthen customer focus, explore shared services.

To summarise then, the role of the finance function in delivering efficiency is:

- identifying opportunities
- realism of proposals
- delivering finance efficiencies
- support managers in managing resources to deliver efficiencies
- sound arrangements for measuring/monitoring and reporting
- review – share learning.

### **Sound Financial Management, Efficient and Effective Resources Management**

Janet Eilbeck, Partner, PricewaterhouseCoopers, introduced her session with a recommendation to the audience to have a look at the Public Audit Forum website at: <http://www.public-audit-forum.gov.uk/>

Janet referred to the amount of material already existing on this topic: the content of the sessions presented during the conference, HM Treasury's series of guides, CIPFA's financial management guidance, various Audit Commission guides and a recent discussion paper out to consultation entitled *World-class Financial Management*. There was also a paper written in 2002 by Janet for the Public Audit Forum entitled *The Whole Truth*.

*The Whole Truth* looked at how better financial accounting might contribute to better financial management and bring broader benefits to the organisation. Accruals accounting is now firmly embedded throughout the public sector – so do we now have better financial management? Do we now have more efficient and effective resource management?

First Janet recapped on *The Whole Truth*. Accruals accounting enabled better planning, management and decision-making and the ability to change behaviours for example through asset management plans. Accruals accounting ensured that all liabilities and assets were accounted for and enabled better performance management as indicators were drawn from better financial data. It also enabled financial resilience to be assessed, because it gave greater clarity on the financial position. There were, however, barriers that prevented better financial management from happening:

- cultural and historical
- disjunction between funding control mechanisms and financial accounts
- lack of appropriate incentives
- internal structures, management information, communications
- systems.

Looking back over the last 3 years, Janet assessed progress made. NDPBs and public corporations continue to report very well, but there are emerging differences for example in speed of IFRS adoption. Central Government is now recording liabilities, with strong NAO

input, although RAB presentation differs from the corporate model and debate continues on valuing commitments.

Risk management has spread awareness of financial risk. There is evidence that the better organisations link objectives, strategies, plans and targets and have improved linkages between priorities and budgets, activity and periodic financial reporting. Scenario modelling of outcomes is still done too rarely.

Janet queried whether the impetus has slowed with regard to asset management and the disposal of surplus assets. However most Chief Executives seemed more financially aware and engaged now. Wider engagement in costs is still a key issue in many failing bodies.

Finance systems are being used to collect performance data and there is an increased interest in balanced scorecards in the better government bodies. There is better identification of cost drivers and cost per activity and more integrated performance indicators in many bodies, with better cost data. PSAs are strongly outcome-focused. The PwC/NAO Building Public Trust Awards have given us some evidence of better environmental accounting and reporting but Janet queried whether more could be done on this and on sustainability reporting.

Turning to cultural and historical influences, Janet suggested that there is stronger political support and strong central departmental support, including but not only on the financial side. Some large departments have fresh vision on delivery and stronger leadership of change. Professional financial leadership has moved strongly forward in central government but training and development still lags behind the best and in weaker organisations may be almost absent.

End-year flexibilities are helpful in preventing spending surges. Artificial devices to square funding and accounting are less visible - but manipulation continues. The structural barriers between Finance policy and operations have gone in many departments. There has been some improvement in management information maturity and some innovative management reporting in departments, eg HMRC.

Accruals accounting systems are now largely bedded in though there are still implementation cost issues on big system implementations. NDPBs are tending to do better. There has been a policy shift towards co-sourcing but little progress is visible yet. A new wave of consolidations is on the way.

Janet summarised her conclusions:

- better linkages between strategy and priorities
- stronger professional and political leadership and greater financial awareness - but more so in the better bodies
- performance information is better, more efficiently collected and targets more likely to be outcome based
- most bodies have advanced on the maturity index
- CPA has been a force for change in local government
- independent regulation has to be more defensible than direct control – and may therefore be better designed?
- there are some significant financial management and continuing structural finance problems in health
- scenario planning is still not sufficiently used

- there is a backlog of old systems waiting for a co-sourcing solution
- not all the accounting issues have been resolved
- training and development are still weak in many bodies.

## **The Post Election Landscape**

David Walker, editor of the Guardian's PUBLIC Magazine, opened his session by setting the scene for the post election landscape: Labour's unprecedented election victory and a presumed five years of unwonted continuity of policy. This was especially impressive by comparison with the situation of changing governments in Europe.

Turning to the question of the future Labour leadership change, David likened Tony Blair to a man in a tearing hurry too rushed consider the consequences of his actions. He referred to Tony Blair's conference speech and his stated priority of "tearing down the old monolith" and suggested that Tony Blair was especially thinking of Health.

The economic circumstances are of a prospective downturn. Other issues include supply-side policies around employment, house prices, the fiscal balance/Gordon Brown's squeeze, trust and information issues around energy, and social change – respect! And migration.

The bigger picture shows issues around:

- a bad UK trade balance
- inequality
- problems around productivity – is public sector growth to blame?
- a service economy with a manufacturing labour force?
- infrastructure and investment rates.

Looking at the fiscal balance over 2005 to 2008, there will be a gap between revenues and spending even if economic growth continues. There are questions over whether the clampdown on tax avoidance will be adequate and questions around the future of local government taxation - before and after the Lyons review. All the indications are that the next spending round will be tighter and that there will be "wall-to-wall" spending reviews. Efficiency is heavily dependent upon the IT promise. The prospects for 2008 – 2001 not *gloomy* as such. Health, he thought, was not likely to be cut below 4%.

Looking at the opportunities for the Conservatives, David identified:

- the tax burden
- the effectiveness of public spending, eg the £100,000 GP
- the high number of public sector jobs being advertised
- economic well-being
- boredom and the press.

David saw the big issues as:

- pensions and the long run
- training and a great leap forward in productivity
- benefits and inequality
- the social spend and the public/private balance
- local government.

Boredom could also be a problem for Gordon Brown in the context of the long succession process. David raised the question of to what extent the differences between Brown and Blair were differences of style rather than differences of substance.

In conclusion, David recommended the audience to “make hay while the sun still shone”. Right now was possibly the best time for finance professionals in terms of public sector employment trends and the much prized role of the finance function.

### **The Impact of the Efficiency Programme and the Central Government Modernisation Agenda**

Richard Douglas, Director of Finance, NHS, began his session by setting out the context of the NHS and its sheer size: currently £70 billion and expected to reach £90 billion by 2007/8. Services are delivered through 600 or so organisations and there are some 1.3 million employees - the NHS is the third largest employer in the world.

Richard stressed that the Department of Health efficiency programme is not a “bolt-on” produced simply in response to Gershon but an integral part of a reform and modernisation programme developed for the NHS plan to 2010. He posed the question that despite years of best practice guidance etc etc, across the NHS there remains a significant difference in unit costs. Why should this be? He suggested that the answer lay with incentives and the fact that individual organisations have not benefited from being efficient nor have they experienced the disbenefits from being inefficient. He put forward a four-point response:

- fixing budgets for three years
- paying at average cost for activities and allowing bodies to keep any surplus
- aligning financial responsibility with service
- increasing contestability.

Richard suggested that the big potential gain is from increasing the productive time of front-line staff. There are three key areas here:

- a more flexible workforce
- greater use of IT
- process redesign.

A major programme of investment is under way for each area. There will be new contracts for nearly all staff and massive IT investment. There will also be an extensive programme of general modernisation led by the Modernisation Agency: 10 high impact changes.

Back offices/corporate services and procurement were both things that are best done centrally. Each of the 600 plus organisations in the NHS used to have their own back office -

the NHS is starting to move away from this through a joint venture with Xansa. In procurement, becoming a bigger buyer will bring more power to the NHS in negotiating over drug prices, national supplies and services and software licensing.

In terms of efficiency savings, the NHS is aiming to make £5.8 billion savings. Some 20% of this is for national delivery and 80% for local delivery.

In conclusion, Richard stressed that organisations should not think of efficiency as a programme, that they should aim to get the incentives right and that they should identify what inhibits efficiency and focus on removing those inhibitions. While organisations should measure progress, they should not become obsessed by measurement for its own sake. Finance professionals are more than merely scorekeepers.

## PUBLIC SERVANT OF THE YEAR AWARDS

Entry packs for the 2006 Public Servants of the Year Awards are now available - with an entry deadline of 25 November. This prestigious award scheme, run by *Public Finance* magazine in partnership with CIPFA, the Cabinet Office, the Office of Government Commerce and MORI, has 13 categories, which cover individual, team and project achievements. The awards acknowledge the dedication and commitment of public servants from across the spectrum of our public services, at all levels, including non-executives.

All winners are also eligible for the Outstanding Individual or Team of the Year Award. If you would like to enter or know of an individual, team or project who or which deserves to be entered, contact Helen McDonnell, for further information and an entry pack, at [helen.mcdonnell@cipfa.org](mailto:helen.mcdonnell@cipfa.org) or on 020 7543 5872. Entries can also be made online at [www.publicservants.org.uk](http://www.publicservants.org.uk)

## FINANCIAL MANAGEMENT

Strong and effective financial management is key to well-managed and sustainable public services.

The CIPFA Financial Management Model (FM Model) is a web-based self-assessment tool that examines financial management in the public services. It tests how an organisation measures up against 42 good practice statements and places that organisation into a spectrum of three 'styles' – Enabling Transformation, Supporting Performance and Securing Stewardship – to build a picture of how finances are working and identify areas for improvement. A key feature is the ability to survey opinion throughout the organisation.

The FM Model sits on a secure website that lets users score and evidence the good practice statements, revisit, collate and report on their scores and target questions at key people to test views and opinions. It offers organisations the opportunity to:

- manage strategic risk through self-assessment
- identify strengths and areas for improvement
- prioritise improvement
- be better prepared for inspections and audit
- review and track its progress over time
- benchmark performance against other comparable organisations.

For more information visit [www.cipfa.org.uk/shop](http://www.cipfa.org.uk/shop).

## PUBLIC MANAGEMENT AND POLICY ASSOCIATION (PMPA)

*The PMPA offers managers and policy makers a range of opportunities to keep in touch with and understand the wider cross-cutting developments in public policy making that affect the governance, general and financial management of public services.*

Opportunities coming up include:

### **8 November 2005: Professor Andrew Gray: *Are We Being Served Appropriately? Citizens, Clients and Customers as Service Beneficiaries.***

*Venue: Robert Street, London.*

*Chair: Vernon Soare, CIPFA Director of Policy and Technical*

With the increasing variety of public service delivery, there is a concomitant variety and complexity of user relationships with services. However, for more than a decade we have been exhorted by Conservative and Labour reformers to express the user as the universal 'customer'. Public servants may find the customer service metaphor valuable in drawing attention to and remedying an admitted and culpable neglect of the public in the history of public service provision. Yet the indiscriminate use of the term to embrace the service relationship with consumers shows a lack of understanding of its meaning and implications. By overlooking our predominant relationships as citizens and clients, it discourages rather than encourages appropriate relationships between service providers and beneficiaries. It thus puts at risk the very advance of a consumer emphasis that is sought. We can and must do better to ensure that we are served appropriately.

### **8 December 2005: PMPA Annual Conference**

Venue: Institute of Public Finance, Queen Anne's Gate, London

Taking as its theme the developing trend to devolved and decentralised government and service delivery, the day will feature for a thoughtful, reflective and stimulating range of speakers drawn from leading organisations in public service management and policy. Please make a note of this date in your diary now and register your interest with Rikki Ellsmore, by emailing her at rikki.ellsmore@cipfa.org. Further details will appear shortly.

*To find out more:*

The PMPA is a national membership organisation managed and supported by CIPFA. Members of CIPFA, ACCA and CIMA are entitled to join at a discounted annual rate. Further information on joining the PMPA is available from the PMPA website – [www.pmpa.co.uk](http://www.pmpa.co.uk) or from Sandra Harper at CIPFA, 3 Robert Street, London WC2N 6RL. Tel: 020 7543 5679; Fax 020 7543 5695; email: [sandra.harper@cipfa.org](mailto:sandra.harper@cipfa.org)

## CIPFA'S CENTRAL GOVERNMENT PANEL

The Central Government Panel generally meets four times a year and is responsible for all financial management and policy issues that affect central government.

The Central Government Panel's current members are:

Curtis Juman (Chair)	Department for Work & Pensions
Barry Atkinson	Independent
Brian Baverstock	Scottish Funding Councils for Further & Higher Education
Ian Bennett	Tribal Group
David Buchan	Home Office
Phil Butlin	Pensions Regulator
John Codling	Department for Work & Pensions
Paul Connew	KPMG
Alistair Cook	Passport & Records Agency
Paul Haylock	Housing Corporation
Steve Heminsley	Inland Revenue
Wil Huntley	The Environment Agency
Curtis Juman	Department for Work & Pensions
Lesley Lodge ( <i>Secretary</i> )	CIPFA
Martin Sinclair	National AuditOffice
Mal Singh	HM Treasury
Nick Sharman	Department for Constitutional Affairs
John Smith	Department of Finance & Personnel, Northern Ireland
Mike Suffield	National Audit Office
Martin Veale	National Assembly for Wales
Chris Welford	Electoral Commission
Steve Will	National Air Traffic Services Ltd

## CONTACTS AND USEFUL LINKS

If you have any comments or suggestions regarding this Newsletter or the work of the Central Government Panel, please contact Lesley Lodge, Finance and Policy Manager, 3 Robert Street, London WC2N 6RL or email on [lesley.lodge@cipfa.org](mailto:lesley.lodge@cipfa.org)

For further information on CIPFA's activities, click onto the CIPFA's website at [www.cipfa.org.uk](http://www.cipfa.org.uk) There is a separate section for the work of the Central Government Panel and for each of CIPFA's other panels and you can purchase CIPFA publications online.

For the new Financial Reporting Manual, visit: <http://www.financial-reporting.gov.uk/>