

A place at the top table?

Raising Finance's game in the public sector

a PwC Public Sector Research Centre publication





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Foreword: Moving on from the crossroads

The role and leadership of the finance function (“Finance”) in government and the public sector is in the spotlight. There is an unprecedented pressure on public sector finances. As the Chancellor of the Exchequer said in his budget speech of 24 March 2010, “our economy is at a crossroads”.

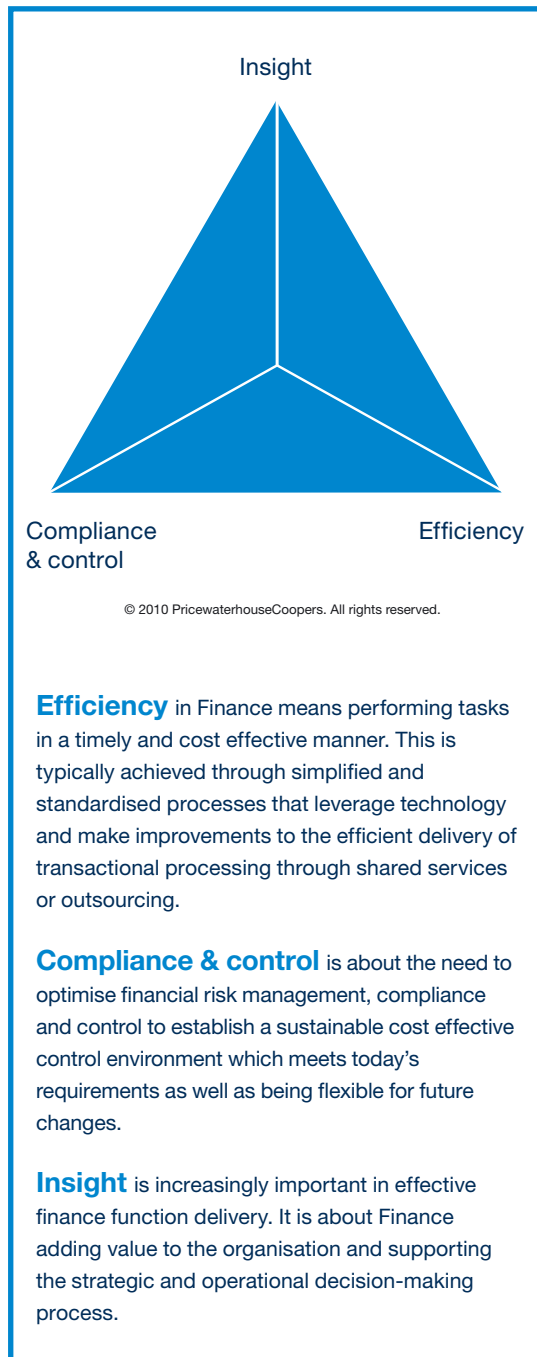
So the need for a high quality professional finance capability, to enable government and the public sector to do its day job effectively, is greater than ever. The immense fiscal challenges that face the nation, with their associated spending cuts, mean that Finance has a vital role to play to help secure all our futures.

Previous reports by The Audit Commission, Capability Reviews and Financial Management Reviews have all pinpointed the centrality of Finance to the delivery of world class public services. There is a widespread view that Finance must now up its game.

Against this background we carried out our research, in January and February 2010, 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 last, when we reported that “Finance was at a crossroads”¹, so as to understand current reactions to those issues and to track progress on expected developments in Finance.

Additionally, this year we have focussed specifically on the crucial issue of how well equipped Finance is to handle the challenges facing the economy². The themes that we explored in 2010 are shown in the table opposite.

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.



¹ ‘Finance at the crossroads: The changing role of Finance in Government and the Public Sector’, PwC’s Public Sector Research Centre, May 2009

² For further discussion of our views on the fiscal position, please go to the ‘Fiscal policy and spending’ section on www.psrc-pwc.com

The triangle is our means of representing the three dimensions. We can then 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.

We assessed how Finance:

- balances the competing demands of insight, efficiency and compliance & control
- is equipped to handle the financial challenges facing the economy
- derives value from investments in technology and shared services
- is perceived to add value
- is responding to change
- should be structured to best support the business
- seeks external best practice
- ensures that it has the right people

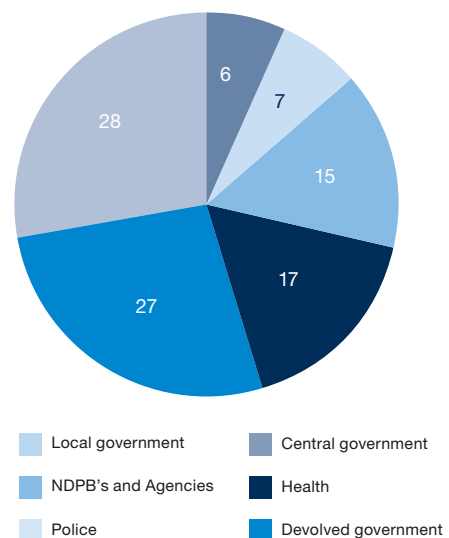
Our research approach

We automated our research study for 2010, using an online survey as our primary research methodology. This year's study was supported by our Belfast-based International Survey Unit (ISU) which administers a wide range of financial and leadership research internationally, both for PwC and external clients, gaining considerable research knowledge and expertise.

Last year's research was conducted using face-to-face interviews with 30 respondents. This year, using our on-line survey to reach a wider audience, we doubled the overall response rate to 60 respondents. We envisage undertaking an assessment of Finance annually and we look forward to widening our research yet further next year.

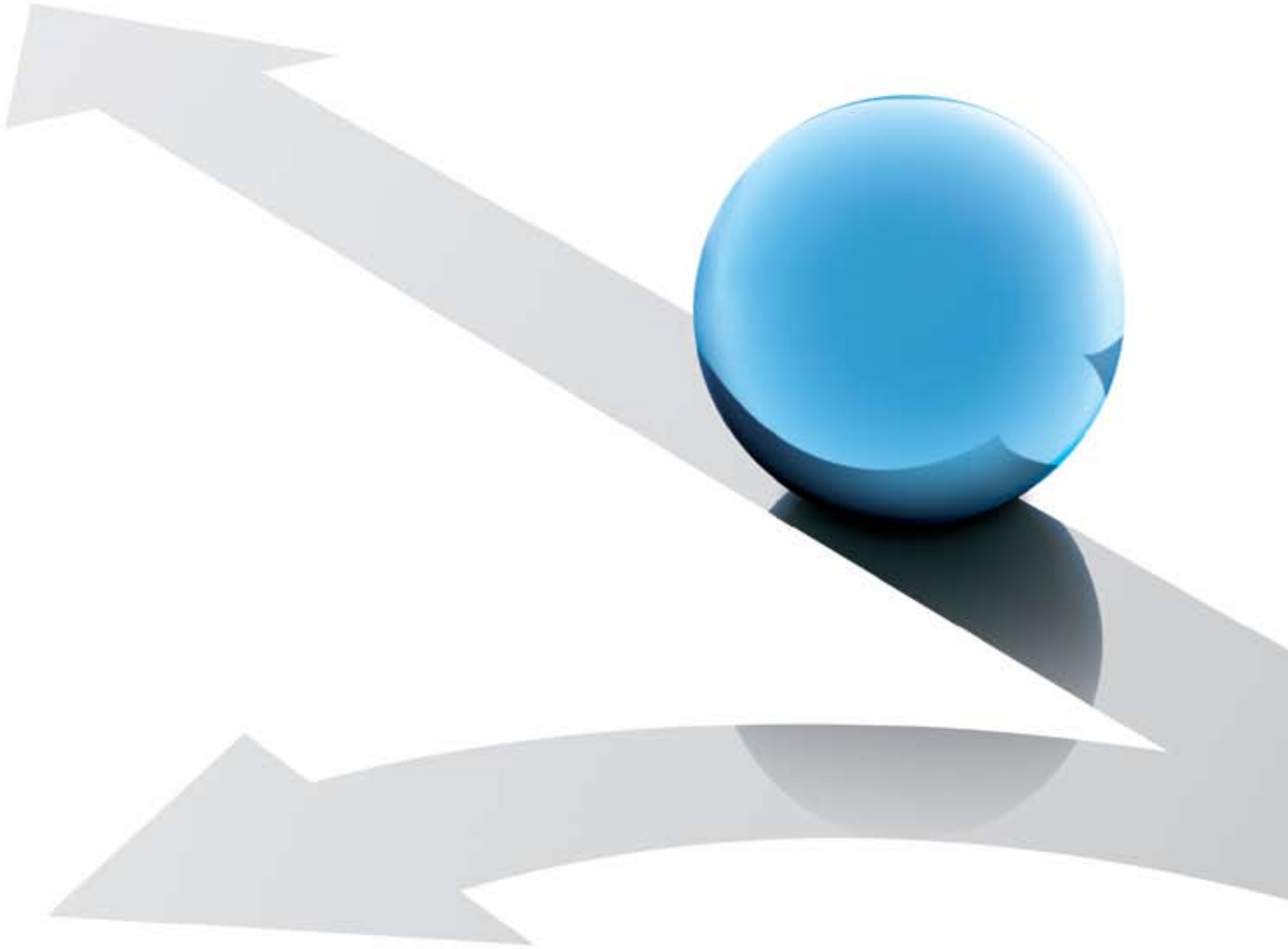
Interview respondents' demographics (%)

The demographics of the respondents to our research are shown in the table below.



We appreciate and value the time of all those who contributed. This report is our 2010 contribution to the ongoing and vital debate of the role of Finance in government and the public sector.

John Berriman
Chair, Government and Public Sector Finance Board
PricewaterhouseCoopers LLP



Executive summary and an agenda for change

2

Fiscal consolidation is the single biggest challenge facing government and the public sector. This means that the strategic challenge facing the public sector has moved squarely into the heartland of Finance. Finance needs to respond by really engaging the business as a partner and providing high level insight, to inform the key decisions that impact on every one of us.

We recognise that the environment is challenging and tough for Finance. Organisations still have to maintain their service delivery, innovate, and deliver new services, despite funding uncertainty. And Finance respondents have made it clear to us that they do not have all the people resources, skills and experience that they need. So finance directors are running faster to stand still and some are already suffering from initiative overload and fatigue.

It is no great surprise that Finance finds that the time it has to think strategically has reduced as it focuses on the efficient processing of daily transactions as well as on process, compliance and control matters. Our research confirms this and also suggests that the Finance aspiration to be high performing in three years time will be too late. Finance needs to determine how to spend less of its time on compliance & control matters and more on insight. Otherwise it will find itself in real difficulty when the pressures of spending cuts hit. Strong leadership will be essential.

Vision and strategy of Finance

Respondents to our research this year reported a greater clarity of purpose and aspiration for Finance, particularly in terms of seeking to provide excellence and value for money. A written vision or strategy for Finance seems to us to be a bare minimum and yet nearly a quarter of respondents do not have one.

Respondents also reported a desire for Finance to be an integrated part of the business and to influence the organisation's strategy. Yet strategy and planning activity within Finance was rated as a high performing activity by only 5% of respondents, down from 15% last year. So there is clearly a huge amount to do.

23%

of respondents had no written vision or strategy for Finance

Challenges for Finance

Financial uncertainty is the main challenge currently facing the organisations we researched. This was no surprise. But it is a reminder to Finance and to their colleagues across the business that the financial challenge is now the number one strategic challenge for most public sector organisations. Now is the time for Finance to demonstrate that it can make a real and deep value added contribution to the organisation it supports.

Respondents reported that their main challenges in Finance were managing change, increasing efficiencies and balancing the budget and restructuring.

The overwhelming majority of respondents (85% compared to 89% last year) did not consider that seeking external best practice was of high importance. Given the scale of ongoing financial challenges facing the public sector, we question whether there may be more value in seeking best practice than is acknowledged. This might mean looking more closely at other public sector finance functions as well as looking at lessons learned in the private sector.

In our view, the best run organisations are those that are constantly striving to learn and improve.

Over
80%

of respondents reported that financial uncertainty is their main challenge

The role of Finance

By far the largest number of respondents (44% compared to 33% last year) reported that they felt that Finance was perceived by internal customers and other stakeholders as a *'commentator'*. This is a role where Finance recognises the need to support the organisation, helps drive performance and supports major change and decisions. But it is where Finance has made some limited change in terms of roles and responsibilities to support the organisation.

Just over a fifth of respondents (19% last year) see their role in Finance as *'business partners'*, working closely with the organisation, influencing, designing and executing strategy. This suggests that there is still a considerable way to go for Finance generally to own its place at the top table as a fully integrated partner to the business.

Balancing the competing demands of Efficiency, Compliance & control and Insight

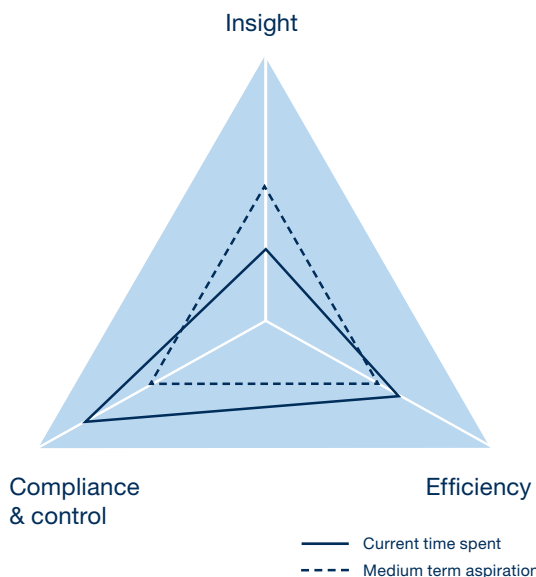
Every finance function has a wide range of responsibilities and priorities to juggle. Finance needs to run efficiently and demonstrate value for money, to establish and maintain effective controls in order to manage risk and to deliver real insight into the business.

It was against these three dimensions that our research, both this year and last, measured the performance of Finance.

Respondents reported that they spend 30% of their time on efficiency, 50% on compliance & control and only 20% on insight. Their aspiration for three year's time is to hold time on efficiency at 30% and reduce compliance & control time to 40%. The time released is to be invested in insight, so increasing that to 30%.

Time spent on compliance & control is at a higher level this year than last year. So as Finance is looking to raise its game as a genuine business partner and tackle big issues around value add and change management, it is being drawn yet further into compliance & control activities. The rebalancing of priorities is likely therefore to be a tough challenge and one that will have to be worked at really assiduously.

We believe that a tipping point has been reached on shared services. Common back office services are needed across central government and the wider public sector. And, in our view, there needs to be a more planned and systematic approach to delivery to secure the maximum cost and operating benefits. This will help to let Finance focus its time on higher value insight activities.



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Efficiency

Efficiency in Finance means performing tasks in a timely and cost effective manner. Just 7% (last year none) of the respondents to our research rated their organisation as high performing today and 69% (63% last year) aspire to be high performing in three years time.

We believe that it will be a challenge for respondents to meet their three year efficiency objectives. Overall there has been no significant change to performance over last year and there is still much for Finance to do to reduce transaction costs further and improve quality.



There is a public sector preoccupation with process rather than realistic outcomes



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. Slightly over half the respondents to our research believe they have a comprehensive controls framework.

Over
80%

of respondents reported how important it is to balance the competing demands of insight, efficiency and compliance & control

The medium term target for time spent on insight activities is

30%

down from 40% last year

Respondents estimate that they spend half their time today on compliance & control (45% of time last year) and they are looking to reduce this to 40% in three years time. Comparable data suggests that top performing finance functions in the private sector spend less than 20% of their time on compliance & control.

The public sector does not generally have effective and efficient mechanisms embedded within financial systems to provide control activities on a continuous basis. And the research suggests that the public sector is both conservative and has a particular aversion to risk.

Specifically on procurement, 11% of respondents assessed themselves as performing poorly and only 10% rated themselves as high performing. External spend is a significant proportion of operational costs and finance directors need to procure with confidence. Better procurement programmes will be necessary to generate cashable savings.

Building control upon control in the public sector simply serves to create complexity and increase cost. All organisations have important risks to manage – in our view 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 and creating a joined up framework to assess and monitor organisational risks.

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 20% of their time on insight (the same as the previous year) and they are looking to increase this to 30% in three years time.

Last year the reported three year aspiration was 40%, so there has been a lessening of ambition over the course of the year. The reduced aspirations are however probably more realistic than those of last year. The comparable time spent today in top performing private sector functions is of the order of 35%.

The high performance aspirations of respondents for specific insight activities are:

- strategy and planning at 53%, down from 75% last year
- management reporting at 46%, down from 68% last year
- business analysis at just 37%, down from 71% last year.

Given the scale of the financial challenges facing public sector organisations, this overall assessment must be a cause for concern. Finance will have to up its game markedly here to become a genuine business partner.

The crucial importance of people and leadership

Our research confirmed the vital importance of Finance addressing a range of people-related issues, including culture, capability, competency, resourcing and skills. Respondents suggest that a concerted focus on organisational design of the finance function is necessary to provide the clarity and link between policy, strategy and outcomes. Finance must ensure that people have the required skills and make certain that the role of Finance is fully understood within the organisation.



All levels of management are not yet bought into the recognition that we will have to do more with less



The approach to changing culture needs to be driven right from the top of the organisation. We encourage the sharing of lessons learned with other public sector bodies. There is a real opportunity here for a pan public sector programme of change.

As Finance looks to re-balance how it spends its time, and to invest more in providing insight to the business, it recognises that people and culture are pivotal and that change will not be straightforward. So the finance director has an essential personal role to step up and address the challenges and provide strong and effective leadership to move the function forward.

At the same time, the broader leadership of the organisation must want to see change and be prepared to sponsor it more widely. If they don't then the finance director will be left rowing against the tide.

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. We examined specifically how Finance is performing in the private sector and what sets top performers apart.

The supporting data suggests that there is a real financial prize for top performers. They operate at a much lower cost and they have many more people devoted to providing insight to the business. They spend less time gathering data and more time analysing it. They are able to report and close more quickly and they invest more in business partnering and providing business insight. 63% of respondents regard Finance as playing a lead strategic role and 11% are engaged in true business partner roles.

Generally Finance in the private sector needs to equip itself with the right skills and capabilities and deliver consistent, accurate, timely and relevant management information, to support decision-making and risk management across the business. Standardising and simplifying processes and supporting technology are key actions to curbing costs and enhancing efficiency.

We believe that these findings will resonate with the public sector finance director. They seem to us to be as applicable to the public sector as the private sector. Most importantly they underpin the need for Finance to up its game.

Top performers in the private sector employ

30%

more people on insight activities and operate at

50%

of median sector cost

A call to action

We reported last year that Finance in government and the public sector was at a crossroads. Things have changed in the last year. Government's top strategic challenge is now the financial challenge. Fiscal consolidation is driving the need to cut costs and manage spend more tightly than for a decade. This presents a once in a generation opportunity for Finance to force its way onto the top table. We believe it must be grasped.

But our research finds that Finance is still struggling with getting the balance right. Too much time is still being spent on compliance & control and not enough on insight; shared services need to be implemented aggressively; a lack of vision is inhibiting change; and we note no great appetite to learn from others in either the public or private sectors.

Finance must step up and be positively encouraged to do so from the "top of the shop". Only then will Finance be a true, respected and equal business partner, capable of helping organisations to reprioritise and achieve the radical funding reductions needed to deal with the structural fiscal deficit.

We believe that the public sector should set the bar high and expect only the very best from its finance professionals. We are convinced that a planned proactive training and development programme would reap real benefits, as would a clear focus on workforce planning. People management strategies need to be in place to manage recruitment, deployment, performance, talent generation, career planning and succession. Finance leaders of the future need to be developed.

Finance people must be given the opportunity to acquire and develop the broader management skills they will need in order to make a full contribution to the organisation.

The leaders of public sector organisations are looking for help and Finance can deliver the insights, if it can step up to the mark. Strong leadership will be crucial now as Finance seeks to focus on the higher value insight activities and help public sector organisations cope with the onset of the public sector's own recession. The time for Finance to take action is now.

The vision and challenges for Finance

3

Introduction

We sought through our research to understand Finance respondents' views on the challenges facing the organisations they support. We then assessed their vision and strategy for the finance function, the key issues facing the function 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

Our assessment of the vision for Finance showed that it has some high aspirations in terms of seeking excellence as a support function and in providing value for money. Respondents expressed a desire to be an integrated part of the business and for Finance to influence the strategy of the organisation. These results show a greater clarity of purpose and a higher performance benchmark this year compared to the research responses last year, which ranged from Finance aspiring to be a business partner to "getting the basics right".

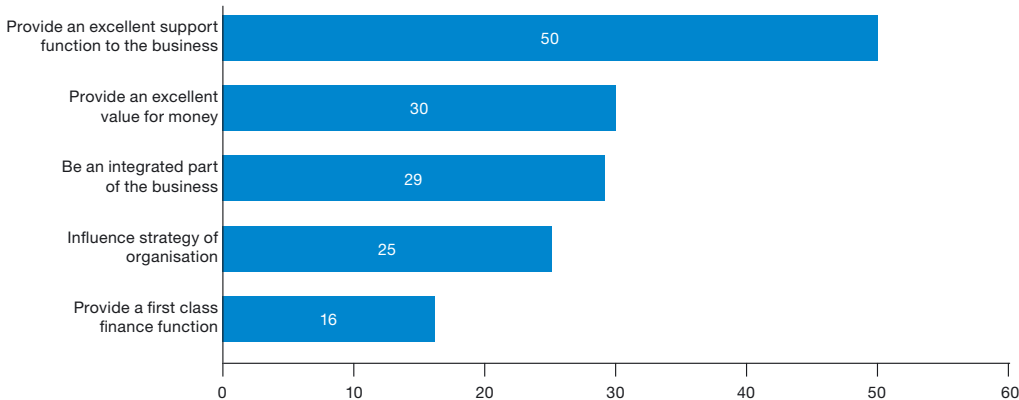
57% of respondents reported that they had a written vision and strategy that aligns to the business strategy of the organisation, with a further 15% having a vision and strategy that covers Finance only. That leaves around a quarter of respondents operating with no written vision or strategy. In this regard it is noteworthy that not all finance directors have a seat on the board.

The lack of a clear vision and strategy raises a number of issues. Does the vision and strategy for Finance align to the priorities of the organisation? Are other board colleagues and finance teams clear on where the finance director is taking the finance function? 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-finance and operational parts of the business, in particular to those people charged with delivery and budgetary responsibilities.

As we have reported previously, if this does not happen, then Finance will find it difficult to secure its important place at the top table of the organisation.

Vision and strategy for Finance

% of respondents (multiple answers were permitted)



Challenges

We comment below on the challenges facing the organisations that we researched and then we consider the specific challenges facing Finance in those organisations.

Challenges for the wider organisation

In order to appreciate the key concerns of Finance today we first sought to understand the backdrop against which Finance is currently operating. Not surprisingly, financial uncertainty is the main challenge currently facing the organisations we researched. This was overwhelmingly the major issue on the minds of respondents, with 81% of respondents highlighting this matter, followed by service issues and forced efficiencies, instanced by 28% and 21% of respondents respectively.

Generally, Finance respondents reported that they were reasonably equipped to handle the cost pressures, with only 9% reporting that they were poorly equipped and, at the other end of the spectrum, 12% reported that they felt fully equipped.

The main reported barriers to Finance tackling the cost pressures were lack of resources and resistance to change, as well as the impact of regulatory and time constraints. Overall, 14% of research respondents specifically instanced the need to maintain current service levels as a barrier to tackling cost pressures. This is intriguing as this could equally be viewed as an incentive to make changes in the way in which finance services are delivered in order to be more efficient.

Finance challenges

Against the backdrop of the organisation-wide challenges described above, Finance reported that their specific function challenges, in order of priority, were: managing change; increasing efficiencies; and balancing the budget and restructuring.

The current economic situation has not surprisingly influenced respondents in that they expected little change in the likely major issues facing them in three years time. The impact of continually tightening financial constraints is a major concern, coupled with capability to manage change.

And change is an ever-present feature. In the last year there has been a wide range of public sector finance initiatives, such as IFRS, the Alignment project, additional focus on whole of government accounts (WGA), and the COINS replacement project. There is more to come with Sustainability Reporting, which will impact across the public sector. Additionally there are non-finance related initiatives which impact on Finance, such as Total Place. So finance directors are running faster to stand still and some are suffering from initiative overload and fatigue.

As shown in the table below, balancing the competing demands of the three dimensions of efficiency, compliance & control and insight was identified as a highly important issue for Finance. 81% of respondents identified this (up from 71% last year) and 19% identified it as of medium importance. Other matters identified as highly important were how Finance is perceived by others to add value, the people and skills challenge and how it is responding to change. We discuss leadership, culture and the importance of people and skills in section 4 of this report.

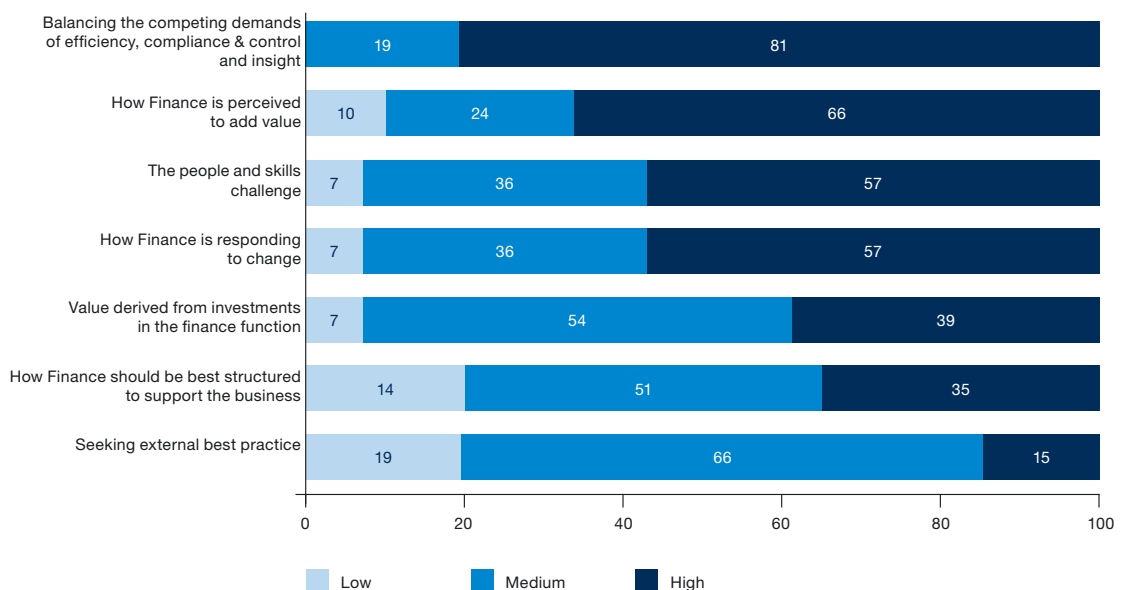
Other challenges, such as how to derive value from investments in the finance function, how to best structure Finance to support the business and seeking external best practice were generally seen by respondents as medium rather than high priority. In an environment of downward pressure on administration costs, unless others recognise

the value that it can add, Finance will find it increasingly difficult to obtain support for the investments it wishes to make to improve.

The overwhelming majority of respondents (85% compared to 89% last year) did not consider that seeking external best practice was of high importance. Given the scale of ongoing financial challenges facing the public sector, we question whether there may be more value in seeking best practice than is acknowledged. This might mean looking more closely at other public sector finance functions and/or by looking at lessons learned in the private sector.

Section 7 of this report assesses how Finance is performing in the private sector and also provides some pointers on what sets top performers apart in that sector.

Importance to respondents of key Finance challenges (%)



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.

As the table below shows, by far the largest number of respondents (44% compared to 33% last year) describe themselves as *commentators*. This is a role where 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.

By contrast, 22% (19% last year) of respondents see their role in Finance as *business partners*. In this role Finance works closely with the organisation, influencing, designing and executing strategy. Here finance teams are well developed and fully enabled with supporting tools, resources and skills, which are made available to contribute to business projects with capability to model, analyse and support change programmes.

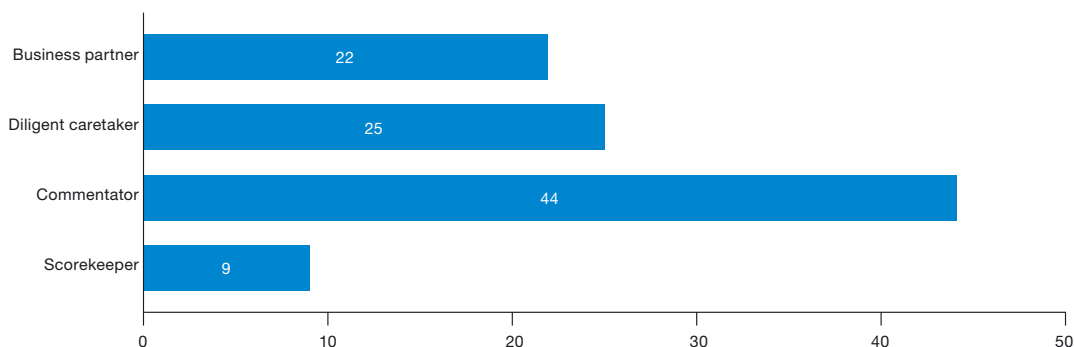
Taken together, our research confirms our view that Finance has some major challenges ahead. And there is still a considerable way to go for Finance generally to own its place at the top table as a fully integrated partner to the business.

Balancing the competing demands of Efficiency, Compliance & control and Insight

We asked respondents to our research to self evaluate their performance in terms of managing the competing demands of efficiency, compliance & control and insight. Last year respondents reported that they were spending 35% of their time on efficiency activities, 45% on compliance & control and just 20% on insight. This year there has been a shift of 5% of time from efficiency (down to 30%) to compliance & control (up to 50%). Insight time remains unchanged at 20%.

This is noteworthy, for at a time when Finance is looking to raise its game as a business partner and tackle big issues around value add and change management, it appears that it is being drawn yet further into compliance & control activities. This might be a symptom of crisis management over the last year, but it is in marked contrast to the private sector.

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

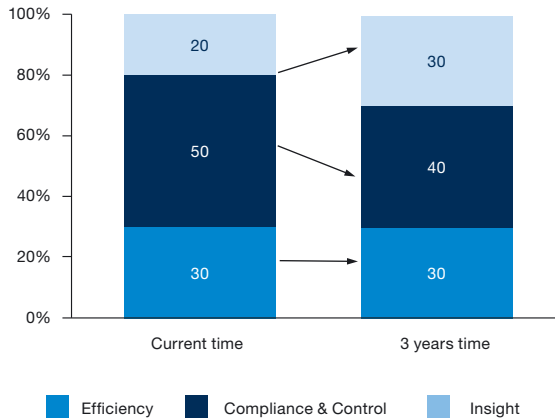


A former government finance director described this to us as a “public sector preoccupation with process rather than realistic outcomes”. Yet to be fair there has been a range of compliance & control issues that have inevitably consumed Finance’s time in the last year. Examples include: implementing control regimes around the handling of sensitive public sector data; putting in place systems and controls to report under IFRS; and building processes to evidence efficiency savings. Nevertheless, this adds to the perception that others have of Finance as stuck in the back office and not at the strategic nerve centre.

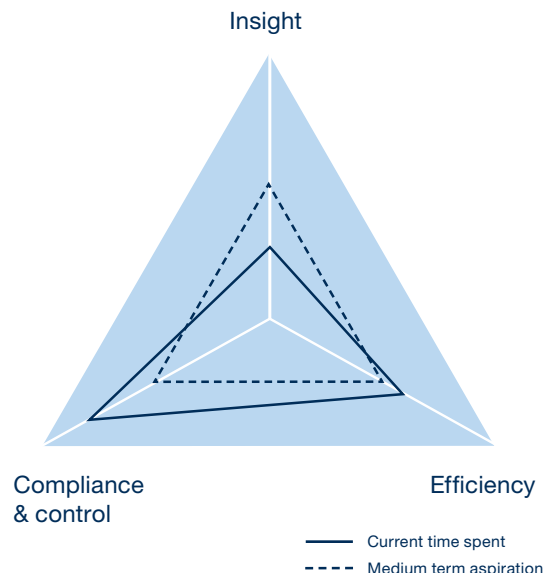
Last year respondents reported that they wanted to reduce compliance & control time more aggressively (to 30%) and double insight time from 20% to 40%. We suggested then that this rebalancing would be a significant challenge and we questioned whether it could realistically be achieved in the timescales. The research results obtained this year confirm our views.

The rebalancing levels this year are perhaps less eye-catching and may well be more realistic, but the challenges remain as significant as before. It will take a real change of culture and mindset for Finance to spend half as much time again on insight activities, and do so by reducing compliance & control activities. It will need the support of senior leadership teams across the whole public sector. We examine the detail behind this in the rest of this section of the report.

Distribution of time spent (%)



Looking to the future, the reported aspiration for Finance is to maintain the time spent on efficiency activities at 30% (the same as reported last year) and to reduce time spent on compliance & control to 40% and use the time freed up to invest in insight, so increasing that to 30% of time spent.



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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 now required to deliver desired outcomes more quickly and efficiently. This is typically 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.

We evaluated efficiency performance in general and specifically for general accounting, external financial reporting, accounts receivable, accounts payable, and personal expenses accounting. Our research reveals that respondents estimate that they are spending 30% of their time on the efficiency agenda, down from 35% last year.

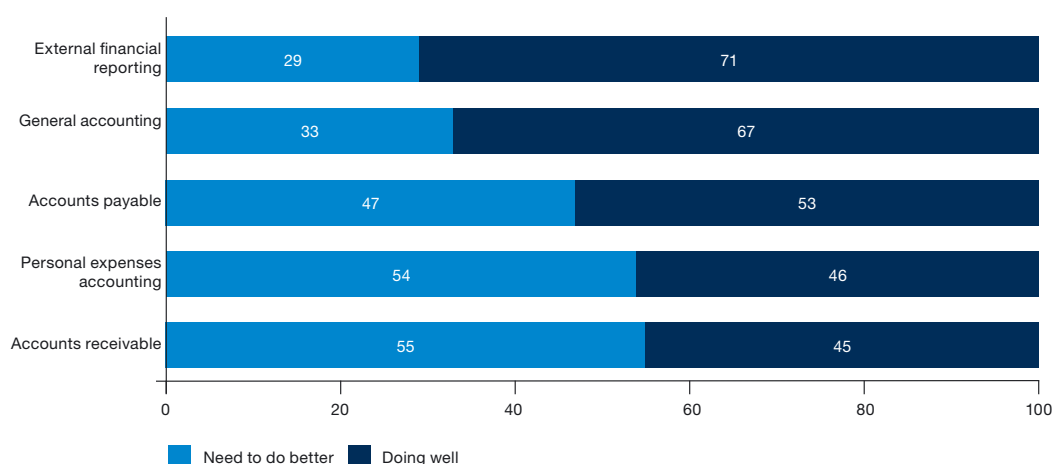
Just 7% (last year 0%) of the respondents to our research rated Finance efficiency as high performing today, in the context of the organisation's priorities. But, in the medium term, 69% (63% last year) of all respondents aspire to be high performing. In our view, Finance needs to tackle this swiftly otherwise there will be significant problems when further pressure of spending cuts hits. We continue to believe that it will be a challenge for respondents to meet their medium term efficiency objectives, especially as respondents are not looking to increase the total time they spend on efficiency activities.

There was a wide range of change initiatives reported by respondents to be currently in hand, in the context of even more being expected for less. The main areas of focus were in process and system investment and regular reviews and monitoring. Other current change initiatives included increasing financial awareness, utilising shared services, restructuring, simplifying efficiency programmes and investing in skills.

Future planned efficiency change initiatives reported to us included: restructuring the finance function, investing in technology, improving shared services and increasing reviews and monitoring. Other change issues were also identified such as staff training and a focus on people and culture. The main barriers to success identified by respondents were people-related matters such as a lack of skills and resistance to change. Our view is that the implementation of appropriate strategies for learning and development for future finance leaders and their teams will be a critical ingredient for success.

We conclude that there will be a need, in a rapidly changing environment, for real and increased attention to be paid to the people agenda and to the simplification and standardisation of processes. 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 therefore crucial. We provide our vision for shared services in the public sector in section 5 of this report.

Transactional performance (%)



A substantial majority of respondents (71% compared to 69% last year) reported that for external financial reporting they believe they are performing well or are high performing. This is not a static agenda and there are major changes that are impacting on the external reporting of financial performance, including IFRS and sustainability performance reporting. These both need careful planning and execution.

The percentage of respondents who reported that they are in aggregate performing well or high performing are within four percentage points of last year for each of the five individual components of finance processing shown above.

Overall there has been no significant change reported over the course of the last year in terms of transactional performance. So there is still much to do for Finance in the public sector to improve its transactional performance, reduce transaction costs further and improve quality.

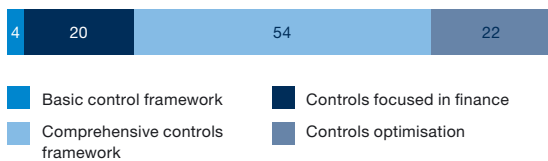
The Compliance & control agenda

Compliance & control continues to be top of the agenda for Finance. It 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.

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*, to controls optimisation.

Our research, as shown in the table below, reveals a majority of respondents (54% compared to 55% last year) believe they have achieved 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.

Compliance & control maturity (%)



By contrast, 4% of respondents both this year and last report that they have a *basic controls framework*. This means that there has been little or no assessment undertaken as to which controls are key to the financial, operational and compliance needs of the business.

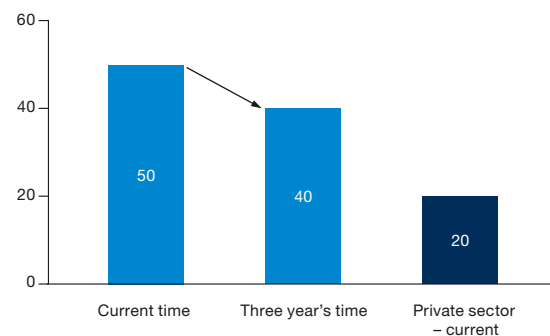
Respondents estimated that they currently spend 50% of their time on compliance & control activities, which is an increase from a reported level of 45% last year. Respondents said that they are looking to reduce the time commitment in this area to 40% in three years time. Comparable data suggests that top performing finance functions in the private sector spend in the order of 20% or less of their time on compliance & control.

Finance in the public sector spends over twice as much time today on compliance & control matters compared to the private sector. This suggests that the public sector is both conservative and has a particular aversion to risk.

Last year we raised a number of questions about the reasons for this and they remain equally valid today. Could it be that the public sector organisations are subject to differing levels of accountability and scrutiny than private sector organisations? Is it the consequence of the regime of targets? Or has there been a culture of non compliance that has been exposed by the introduction of ERP systems?

Does this reflect a worry that the penalty for failure is public castigation, either through the press or in front of the Public Accounts Committee, or equivalent scrutiny body? Or, is it because Finance is regarded as a back office function, maintaining the black box, focussed on compliance & control rather than being used to provide strategic insight? Or is it some combination of all of these factors?

Compliance & control: proportion of time spent (%)



Whatever the causes, both private and public sectors have important risks to manage – but the key remains the management rather than the elimination of risk. Respondents indicated that they obtain high levels of assurance from internal audit, as well as the oversight of management and the board and the disciplines imposed by external audit. We comment on control and how to manage risk effectively in section 6 of this report.

There was a wide range of change initiatives reported by respondents to be currently in hand. The main areas of focus were in targeting internal audit activity, building a compliance culture and a systematic review of controls. Other frequently mentioned actions included the standardisation of compliance & control across linked organisations and entering into shared service arrangements.

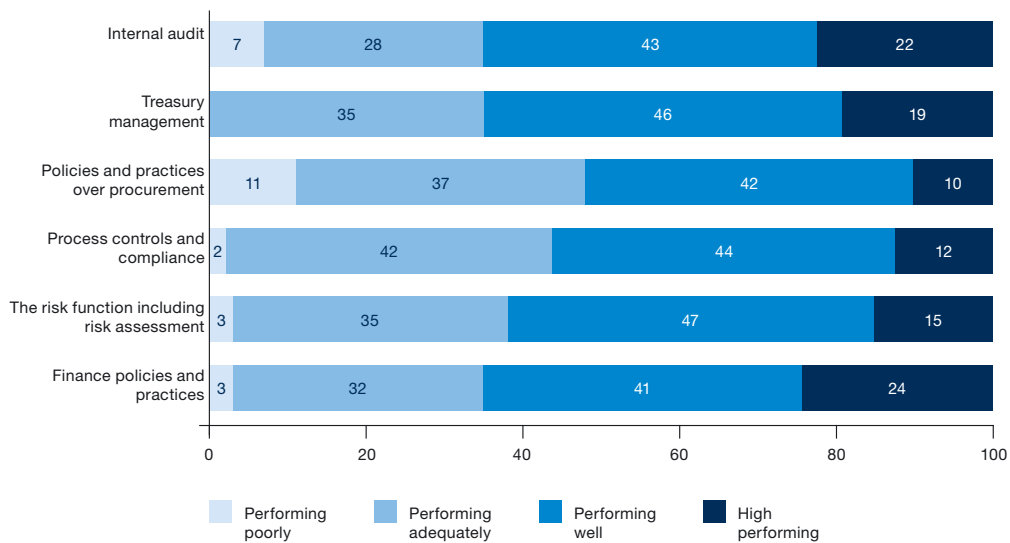
Future planned change initiatives were many and varied and included: creating more efficient finance tools and processes, restructuring the finance function, improving compliance and financial processes and making better use of shared services. People and culture issues were also identified, including staff training and staff changes. The main barriers to success reported by respondents were people-related issues pertaining to resource management and organisational culture.

We asked respondents about their compliance & control performance in general and specifically for process controls and compliance, internal audit and treasury management. This year we extended our research into finance and procurement policies and practices as well as the risk function.

The table below shows how respondents currently assess the compliance & control performance of their organisations in terms of the specific processes listed. There is a generally improving trend across the compliance & control activity spectrum, with performance nudging up.

In terms of specific process control and compliance matters, generally respondents assessed their performance at adequate or above, with 12% (11% last year) self assessed as high performing. There is a clear aspiration to perform better, with 59% (56% last year) of organisations seeking to be high performing in three years time.

Compliance & control process activity performance (%)



Internal audit is similarly self-assessed at adequate or above, with 22% (15% last year) self assessed as high performing today and 52% (54% last year) seeking to be high performing in three years time. Having said that, 7% of respondents reported that internal audit is currently poor performing, although this is an improvement from the 11% reported last year. A high performing internal audit function can play a critical assurance role and help the organisation improve its core policy and business drivers. It can also identify opportunities for process improvement, cost savings and resource management.

This year no respondents reported that they were performing poorly in treasury management, whereas a year ago 11% of respondents did so. 19% of respondents today assess treasury management as high performing. This is the same as last year and respondents report an aspiration to improve this to 51% in three years time, compared to an aspiration of 46% last year. This is essential in our view, given funding concerns, tight cost pressures and public worry over the security of monies.

The area that scored lowest this year was the state of policies and practices over procurement. Here 11% of respondents assess themselves as performing poorly and only 10% rate themselves as high performing. External spend is a significant proportion of operational costs and finance directors need to procure with 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 business partners.

Indeed, it is not only value for money during procurement that is important. Finance also needs to ensure that ongoing contract management and monitoring processes are effective. In our experience, managing change control, contract creep and invoice approvals can all contribute to identifying savings.

So the need to focus on procurement appears to us to make its own case. But 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.

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. For the public sector it is also about contributing to the organisation's performance management and the translation of policy into outcomes.

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

Respondents reported that they currently spend 20% of their time on the insight agenda, the same as last year. They reported that they are looking to increase this commitment to 30% in three years, which compares to a potentially over-ambitious aspiration reported last year to double it to 40%. The comparable time spent today in top performing private sector functions is of the order of 35%.

A 50% increase in time devoted to insight activities is a significant challenge for the public sector. All the more so as there has been no change overall in the last year in time spent on insight.

Meeting the aspiration will depend on a significant re-balancing of time, and will only be achieved realistically by reducing the time spent on compliance & control activities. This in turn will depend upon how the organisation both perceives and supports Finance.

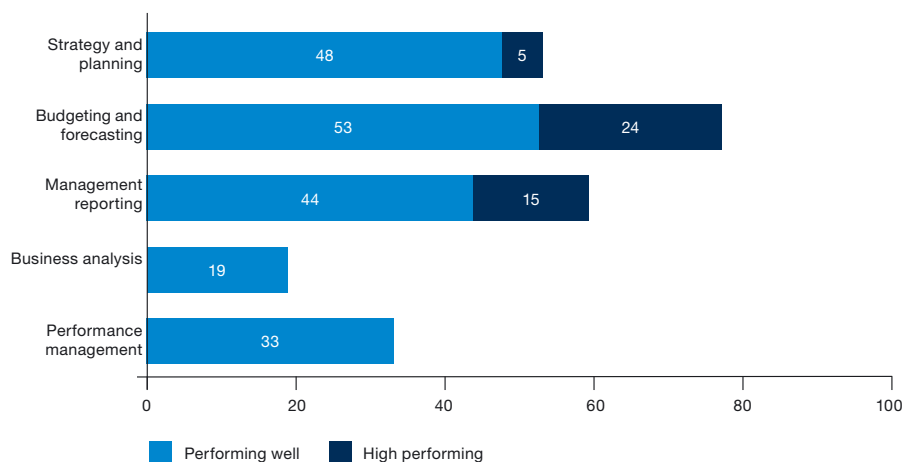
Additionally, we believe there are clear benefits to be reaped from shared services, in terms of increased efficiency, and in focussing on people and change to secure the necessary culture and mindset needed.

The table below shows the extent to which respondents assess themselves as being high performing or performing well for the individual insight processes listed. The results show how few respondents currently rate their insight activities as high performing.

In terms of activity, 24% of respondents rated budgeting and forecasting activities as high performing (up from 12% last year) and 15% of respondents rated management reporting as high performing (up from 8% last year). Although the levels are much improved, the absolute position is still very low. And strategy and planning activity was rated as high performing by only 5% of respondents, down from 15% last year. This area has to be improved if Finance is to secure its place at the top table.

Overall business analysis shows a worsening position. 15% of respondents rated it last year as a poor performing activity and this has deteriorated to 22% this year, maybe because Finance is spending more time on compliance & control. No respondent rated business analysis as high performing (compared to 4% last year) and only 19% rated it as performing well (compared to 27% last year). The reported three year aspiration for high performing business analysis activities has also fallen, perhaps realistically, from 71% reported last year to just 37% this year. Given the challenges facing public sector organisations this overall assessment must be a cause for concern.

Current insight activity performance (%)



The reported three year aspiration is to eliminate poor performance in all the activity streams noted and to see at least good performance, with a substantial level of high performance, particularly for budgeting and forecasting, strategy and planning and management reporting.

Generally the aspirations of respondents are lower this year than last, again more realistically we believe. The strategy and planning high performance aspiration is 53%, compared to 75% last year, and the management reporting high performance aspiration is down from 68% last year to 46% this year. This is all consistent with a less ambitious aspiration for overall time spent on insight activity.

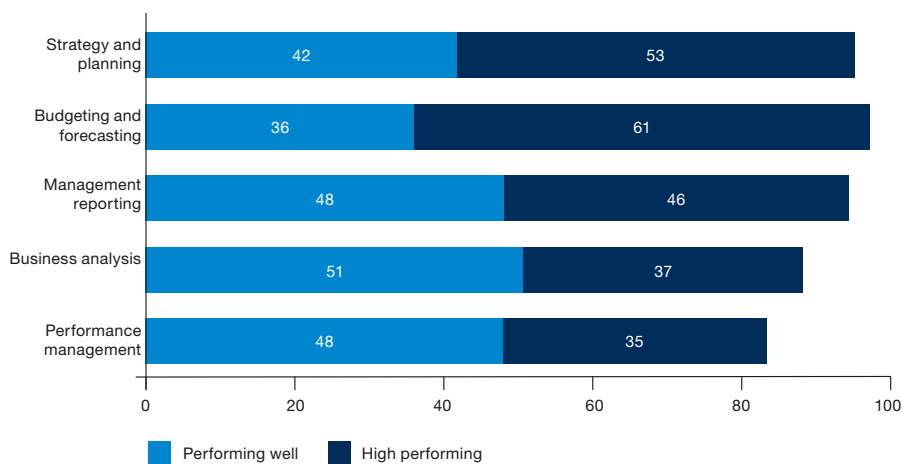
There was a wide range of change initiatives reported by respondents to be currently in hand. The main areas of focus were in adopting a more proactive strategic role, increasing financial analysis, more inter-departmental involvement and reporting and generating more effective financial tools.

The main future change initiatives that were identified were around issues such as organisational development and training and development of staff. Other issues identified included the structuring of Finance and its integration with the business, investment in technology and a focus on strategic planning.

The main barriers to success were reported as people-related issues pertaining to lack of resources and resistance to change, as well as budgetary constraints and organisational change. Key resource enablers to overcome the barriers were identified as staff training, time and resource, increased financial support and external and board support.

The overall scale of the insight improvement ambition is significant. In our view it may still not be realistic. But it reflects the direction that Finance needs to go and it mirrors the gap that needs to be bridged for Finance to become a genuine business partner.

Insight activity aspiration in three years time (%)



Leadership, culture and the importance of people and skills

4

The crucial importance of the related issues of people management and organisational culture were raised regularly throughout our research. And a fundamental underpinning to effective people management is strong leadership.

In this section of our report we consider leadership, both in the context of the organisation as a whole, and more fully in the context of Finance. We also consider the reported people issues, concerns and plans of Finance and assess their impact on the vision and future aspirations of Finance.

The leadership role of the finance director

Leadership is a highly significant factor that impacts on the reputation and positioning of Finance. We did not specifically research how leadership was provided by finance directors, although our research sought to understand finance directors' plans to move their functions forward.

We support the June 2009 CIPFA statement on the role of the Chief Financial Officer (CFO) in public service organisations.³ The foreword to that statement explains that the CFO occupies a critical position, holding the financial reins of the business and ensuring that resources are used wisely to secure positive results. The global financial crisis and economic downturn are acknowledged by CIPFA to have made those tasks even more challenging, so underlining the fundamental importance of the role.

CIPFA statement: the CFO in a public service organisation:

- is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest
- must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy
- must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively

CIPFA states that, to deliver these responsibilities, the CFO must lead and direct a finance function that is resourced to be fit for purpose and must be professionally qualified and suitably experienced.

³ 'The role of the chief financial officer in public service organisations', CIPFA, June 2009

There is no doubt in our minds that Finance has been asked to step up a level. CIPFA has made an unequivocal public statement explaining that the CFO has a pivotal role to play and that there must be strong finance capability and leadership in government and the public sector. It is interesting to note the importance placed on Finance being involved in the development and implementation of strategy. Our research shows that only 5% of respondents currently rate their strategy and planning activities as high performing. So there is a long way to go.

Our respondents are clear on their direction of travel and the actions needed to be taken by Finance and on the potential enablers and barriers to future success. So will the leadership of public sector organisations now universally welcome Finance aboard? Or instead will they view Finance as the ‘policeman’ who discharges the compliance & control agenda, or the ‘machine operator’ who runs the efficiency agenda, with them showing little interest in the insight capabilities that Finance can and should provide?

We remain of the view that Finance needs to be seen, and used, for its widest capabilities. The finance director must showcase the full range of Finance skills and activities and really step up to the mark, so that Finance secures its proper place at the top table.

The importance of people

Our research reconfirmed that people issues are very high on the concern list for respondents and they underpin many of the change actions proposed for the future.

The people issues expressed to us included culture, capability, competency, resourcing and skills. We received extensive observations on the cultural and behavioural issues that impede the development of Finance in the public sector, set in the context of reduced funding and the lack of opportunity to invest.

Concerns raised about Finance resources included how to:

Maintain staff morale and productivity, through a period of organisational change

Reduce the current reliance on contractors to provide a sustainable in-house team

Develop capability and capacity, within and outside Finance, to take on more value add activities

Reduce numbers and redeploy staff to new posts, in the context of effective manpower planning

Handle the competing demands made on scarce staff resources, as well as getting the day job done

Secure change in the context of initiative fatigue and limited funding available for investment

Overcome a resistance to change and to new ways of working – “we have always done it this way”

Retain highly qualified staff as the private sector recovers and staff turnover increases

The term culture 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 using the term culture, 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 can also encompass working environment and leadership style.

A range of possible solutions to address the concerns were advanced by respondents and these included: restructuring Finance; recruiting more qualified accountants who can add more insight; increasing awareness through communications and staff training; improving lines of accountability and improving people management skills in Finance.

We also heard the challenging observation that there is a need to encourage more risk taking in finance teams to reduce the emphasis on compliance & control. We believe that this approach is worth exploring further.

We have advanced some practical suggestions, as shown in the table opposite, specifically in terms of workforce planning and transformation for local authorities in the battle to cut costs, in our Talking Points publication “tough times, tough decisions”.⁴ We believe that these suggestions are applicable to the wider public sector.

- Quick wins to accelerate the process of people transition
- Correctly designing organisational structures
- The need for strategic workforce management with several interrelated actions being taken at once
- Implementing significantly improved performance management systems to drive productivity and link service outcomes with individual objectives, driving out performance mediocrity
- Redesigning services and roles to achieve a leaner, fitter workforce
- Recognising the importance of effective people management to these processes
- Aligning spend on training to organisational outcomes

⁴ ‘Tough times, tough decisions: The dilemma of workforce planning and management in local authorities’, PwC’s Public Sector Research Centre, January 2010

Plans for change and barriers to success

As set out in section 3, we asked respondents about their current and proposed plans for change and the barriers to future success. The following summaries are the people and cultural comments that we received, grouped under the efficiency, compliance & control and insight headings.

Efficiency activities included putting a focus on staff training, people and culture. The main barriers to success were identified as a lack of skills and resistance to change.

Compliance & control activities included restructuring the finance function, staff training, staff changes and a focus on culture. The main barriers to success reported by respondents were issues pertaining to resource management and organisational culture.

Matters reported in respect of insight primarily related to organisational development and training and development of staff. The main barriers to success were identified as lack of resources and resistance to change, as well as budgetary constraints and organisational change. Key enablers to overcome the barriers were identified as staff training, time and resource, increased financial support and, importantly, external and board support.

What is not clear to us is the extent to which the reported and desired activities are grounded in clear plans and actions – or whether they are a wish list of things to do.

Tone from the top of the organisation

Change will not however come overnight. It usually comes slowly and as a result of clear plans, actions and communications. Most importantly the whole leadership must embrace change and the leaders need to “walk the talk” 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 and senior policy makers.

We said last year that the Permanent Secretary, or Chief Executive, needs to provide the lead, and if it is not forthcoming on financial matters, then Finance will struggle to make its voice heard. Indeed, in these circumstances, it is difficult to see how Finance can add value beyond commentary and scorekeeping. Nothing arose in our research this year to change our previously reported views.

The central government respondent who commented that “we need a change in culture within the business and finance to accept new ways of working” reinforces our observations.

Conclusions

We believe that the public sector should set the bar high and expect only the best from its finance professionals. No one would pretend that when it comes to people and culture issues in Finance there is an easy fix. And this challenge also extends to those finance people who work in a policy or operational area.

Our respondents' replies suggest to us that a concerted focus on organisational design of the finance function is necessary to provide the clarity and link between policy, strategy and outcomes, ensure that people have the required skills, and ensure that the role of Finance is fully understood within the organisation.

We suggest that a planned proactive training and development programme would reap real benefits, as would a clear focus on workforce planning. People management strategies need to be in place to manage recruitment, deployment, performance, talent generation, career planning and succession. And finally, but equally importantly, finance people must be given the opportunity to acquire and develop the broader management skills they will need in order to make a full contribution to the organisation.

When designing roles we recommend that consideration be given to how to find people with the skills and experience to undertake the role and to assess how the role can best be discharged. There is a need to determine the level of decision making powers that attach to a role, particularly to avoid bottlenecks. Finally, careful thought needs to be given to how a role fits within a career structure, so as to enable and facilitate career progression.

The approach to changing culture needs to be driven right from the top of the organisation. We encourage the sharing of lessons learned with other public sector bodies. There is a real opportunity here for a pan public sector programme of change.

As Finance looks to re-balance how it spends its time, and to invest more in providing insight to the business, it must recognise that people and culture are pivotal and that change will not be straightforward. This means that the finance director has an essential personal role to step up and address the challenges and provide strong and effective leadership to move the function forward. This will require bravery to promote excellence and a demonstration of a clear desire to improve.

At the same time, the broader leadership of the organisation must want to see change and be prepared to sponsor it more widely. If they don't then the finance director will be left rowing against the tide.

The balance of this report

The remaining sections of this report focus on three key areas that will help to move Finance forward. We set out firstly our vision for shared services in the public sector and then our views on how to manage risk effectively. Finally, we reflect on how Finance is performing in the private sector and what sets top performers apart in that sector, which could be used to lever further change in the public sector.

The common thread for success is strong leadership, good people and a culture receptive to change.

A vision for shared services in the public sector

Current status of shared services within the public sector

Significant investments have been made in recent years to establish corporate back office systems and shared services across a number of central government departments. Established shared services now include DWP, HMRC, MoD, NOMS, Research Councils UK, DfT and Defra. These centres service around 650,000 users out of a total of some 750,000 total users across central government.

These shared services have, by and large, developed to service their host departments. In this respect they have made some progress in automating previously manual or disparate processes and in improving levels of compliance. We believe that opportunities were missed during implementation to standardise and simplify the way business was done. As a result, there is still significant complexity, inefficiency and cost inbuilt into the operations. Furthermore, each shared service operates its own IT platform, with its own processes and ways of working.

Until now, in the absence of any concerted central drive, most shared services largely follow their own internal improvement agendas, with no material plans for cross departmental convergence. DWP is a notable exception, providing services to the Cabinet Office and DCSF and having expressed a desire to take on more business.

Further investments, on a smaller scale, have taken place in local government and in respect of locally delivered services. Examples include NHS Shared Business Services, Southwest One, and initiatives at Surrey County Council and Northamptonshire County Council. However, these initiatives are less common and smaller in scope than those in central government.

In the absence of an overall plan it is not surprising that a variety of different shared service delivery models exist across the public sector. These include intra departmental shared services, inter departmental services, public/private joint ventures and fully outsourced private organisations.

The government has now explicitly recognised the need to improve back office efficiency. The May 2009 Operational Efficiency Programme (OEP) report on back office operations and IT⁵ estimated that the total costs of providing back office services amount to some £18 billion, of which around £9 billion relates to finance, HR and procurement processing. Potential savings of £4 billion were identified in that report.

The recent smarter government White Paper⁶ was issued in response to the OEP report, and included a series of actions and recommendations for moving the shared services agenda forward in central government.

Smarter Government

The White Paper recommendations included:

- the establishment of a cost baseline for back office processes (HR, Finance, IT, Procurement and Estates) for all central government bodies with more than 250 staff
- agreed targets for improving back office performance to the level of the best performing organisations, informed by private sector benchmarks
- examining the possibilities for expanding the most successful shared service centres in central government to create a public sector shared services company to offer services across the public sector

⁵ 'Operational Efficiency Programme: back office operations and IT', HM Treasury, London, May 2009

⁶ 'Putting the frontline first: smarter government', HM Government, London, November 2009

The 2010 Budget⁷ announced proposals for DWP Shared Services to take on four additional departments and move to a new corporate structure by April 2011. There were also announcements concerning the MoJ and the MoD.

The budget additionally announced the creation of a team of experts who will report to the Chief Secretary to the Treasury. Their remit is to develop and promote the agenda for shared services in government through working with departments, and to look for opportunities for private sector involvement and greater commercialisation.

We see the announcements in the White Paper and Budget as a welcome step forward for the improvement of back office services in central government. However, much of the challenge for advancing shared services in the public sector to deliver efficiency savings lies outside central government.

Local government, and locally delivered services such as health and education, comprise around 80% of the costs of employment for back office services. It is here that a large proportion of the efficiency benefit will potentially be found. However, the barriers to delivering the shared services agenda across these sectors are likely to be at least as much of a challenge as in central government.

Issues with current shared services arrangements

There is a wide gap between the ambition of existing departmental shared services initiatives and the ambition set out in the OEP. The piecemeal development of shared services across the public sector highlights the historic lack of vision for how back office shared services should develop. A number of issues will need to be resolved if the shared services agenda is to deliver the OEP efficiencies.

Shared service issues to be resolved to deliver on the OEP

- lack of a clearly defined role for the centre in defining and driving the vision forward
- lack of independent delivery structures
- the absence of a mandated way forward
- issues with public procurement rules and the potential irrecoverability of VAT in some sectors
- the capacity of organisations to deliver and sustain change
- recognition of the potentially significant costs, for example, of transition and redundancy, to make the required changes

The steps outlined in the White Paper represent a first step towards a vision for the future of back office shared services. But more will need to be done to spread this message across the public sector and to secure support at the highest levels, for the delivery of the radical changes required to release savings.

⁷ '2010 Budget, Chapter 6, Protecting Public Services', HM Government, London, March 2010

Our vision for public sector shared services

We believe that now is the time to move aggressively on the delivery of common shared back office services across the government and the public sector.

A new framework, encompassing fundamental change to delivery mechanisms, is required to achieve the level of benefits that have been identified. We envisage progression to a contestable mixed economy, with a range of public and private suppliers providing corporate business services across the wider public sector.

There is a need for greater direction and a more assertive approach from the centre of government to assist the progression of shared services to the next stage of development. The recent Budget announcement is a welcome step in this direction.

Making greater savings will require shared service offerings to be extended across departments and organisational boundaries. As this develops, so the case strengthens for transition to more central non-departmental ownership, in order to permit a more arms-length relationship and cross entity sharing.

The case for shared services in the private sector is usually predicated on a mandate from the top. It is our view that, in the absence of an equivalent mandate in the public sector, the likelihood of achieving the full potential savings and benefits will be fundamentally undermined.

In central government there is a strong case for mandating simplified and standardised business processes. The precise choice of delivery model and/or partner to deliver business services does not necessarily need be prescribed, providing departments meet specified savings or cost targets.

Local government and locally delivered services may require their own tailored solutions. However, the underlying principle of some form of mandate is just as relevant here.

It is fundamental to the progression of this initiative that an adequate baseline is established across business services within the public sector, applying a common set of definitions, to assess the existing scope of activity, end to end costs and service levels. It is only on such a foundation that robust business cases may be developed and commercial structures put in place that will demonstrate measurable progress towards the vision.

As a consequence of the diverse nature of the public sector, it is not likely that any one specific delivery model will prevail. And in the absence of a mandate, there can be no certainty of the success of applying a given commercial model. Accordingly, we envisage that acceleration of savings will come from the development of a range of solutions, acting within a framework of greater centralisation and “carrot and stick” interventions. These are likely to include wholly public sector owned, a mix of public and private sector ownership and, in some cases, a direct move to the private sector. It is entirely feasible that a number of initiatives can be commenced in parallel.

Consideration should be given to transferring ownership of certain existing central government shared services from host departments to central ownership, to permit aggregation and extension of services under more arms-length arrangements.

It should be noted that these developments will require significant changes to the operation of the retained functions of the customer departments to new shared service centres. Retained organisations will be required to standardise and simplify their operations to maximise the benefits and cost savings.

By 2015 we expect the number of service providers will have reduced to a relatively small number of independent providers of back office services, both public and private. As these organisations mature, additional services will be offered. To facilitate this, a framework will be required to enable consolidation to take place within and across shared service centres by department, function, or geography. In time, it may be possible to realise capital value through the disposal of a publicly owned shared services centre to the private sector.

Research finding on shared services in the private sector

Our research into Finance in the private sector (see section 7 of this report) shows that the direct costs of top quartile finance functions run at around half of those in median organisations. This indicates that there is a great deal to be gained from a focus on performance improvement.

The consolidation of finance processes in private sector organisations to shared service centres is gathering pace. Around 65% of private sector participants in our benchmarking evaluation have established shared service centres or consolidated some element of their transaction processing, compared to around 50% in the previous year. But scope and maturity varies significantly amongst participants. Less than 40% of the participants reported having a discrete shared service centre organisation that operates independently, with a clearly defined governance structure and service level agreements.

Although less than 20% of private sector participants are using shared service centres for more complex activities, such as financial reporting or project accounting, many have projects in progress to identify activities higher up the value chain that could be centralised without compromising security, independence and control.

It is interesting to note less than 30% of private sector participants currently pursue more advanced sourcing strategies, such as outsourcing to a third-party provider, or retaining in-house but off-shoring. Despite the potential for further savings, it appears most private sector organisations prefer in-house, on-shore alternatives.

Our research indicates that the benefits of standardisation, consolidation and automation make the investment worthwhile. Irrespective of size and complexity, top quartile private sector participants operate at around half the cost of a typical finance function, while sustaining higher levels of insight, control and efficiency. All private sector participants in our research have initiatives in hand to improve process standardisation, although the areas of finance addressed vary in each organisation.

The Smarter Government White Paper recommends that private sector benchmarks will inform agreed targets for improving public sector back office performance, to the level of the best performing organisations. So having a good understanding of what the private sector is doing in terms of shared services and their performance levels will be important information for public sector finance teams.

Conclusions

We believe that a tipping point has been reached. Common shared back office services are needed across central government and the wider public sector. And in our view, there needs to be a centrally planned and systematic approach to delivery to secure the maximum operating and cost benefits.

Controls – how to manage risk effectively

Introduction and actions for Finance

Our research shows that the focus by Finance on compliance & control has increased during the year, partly as a consequence of crisis management. And yet last year respondents indicated a desire to invest more time in providing insight to their organisations and less time on compliance & control. So Finance needs to grip the agenda and institute some changes.

We believe that control is not just a Finance activity. Overall responsibility for risk management and control belongs in the hands of executive management. But Finance needs to do more to embed a controls culture within the DNA of public sector organisations. It needs to strip out non value-adding controls and processes and bring its risk and control consciousness to the top of the organisation. And it should create an aligned and integrated risk and control framework to assess, address and monitor organisational risks.

In our view these actions will help to free the time that Finance needs to focus strategically and provide more and deeper added value insight to the organisation, so helping to secure its seat as a genuine business partner at the top table.



It is easier to exercise compliance & control as opposed to identifying how processes can be improved and changed



Public sector Compliance & control activity

In our view a fundamental issue for the public sector is why so much of the burden for addressing safeguards currently falls on the finance community. We do not believe that Finance should be the first line of defence. An organisation's internal control efforts need to be about much more than finance-managed compliance. It should however be the responsibility of Finance to help embed a culture of compliance in the organisation and to ensure that risk and control implications are properly factored into the decision making process.

Overall responsibility for risk management and control belongs in the hands of executive management. Indeed all staff need to recognise that control is part of their job. Management needs to be satisfied that it has the necessary tools in place to manage its risks effectively. Implemented and working effectively, internal controls need to be embedded into everyday processes and should routinely improve information reliability, decision-making and operational performance.

Finance clearly has deep expertise to bring to bear, as finance professionals both understand and implement compliance & control frameworks. Finance is the natural home of accounting and, as a result of their training, Finance professionals are naturally equipped to handle risk and control. Much of that training is about understanding the risks and relevant and appropriate control strategies to address those risks.

In our view the most effective finance professionals are those that communicate well, engage meaningfully with their organisations and provide relevant solutions. Finance needs to develop more facilitative consulting and business partnering skills that will allow finance professionals to equip line management to both design and operate efficiently controlled processes. It is those same advisory, consulting and communicating skills that will let Finance operate at the top of the organisation as a genuine business partner.

Aligned risk and control

Compliance & control activities are often seen as a burden, to budgets and management time, and associated with unnecessary cost and inefficiency. To move beyond this, we believe that the public sector needs to draw on the experience of best in class ‘aligned’ models. These integrate risk and control processes and create a joined-up framework to assess, address and monitor organisational risks.

Many leading private sector organisations have adopted this approach. They have found that aligning or coordinating these processes can create real improvements in their organisation’s ability to produce a more understandable view of risk, as well as ease the management burden and the costs of compliance. They have found that risk alignment can act as a catalyst for co-ordination across the organisation. It encourages the sharing of good practice and supports integrated risk reporting, to both senior management and board committees.

Experience shows that it is important that there is proper planning to ensure that when alignment is implemented it does not spawn a plethora of activity streams across the organisation. And there needs to be an effective collaboration between the many risk-related control groups. When implemented effectively, risk alignment can produce an efficient joined-up approach and a consistent set of processes that eliminate non value-adding risk management and control activities.

Change programmes and the role of Finance

The public sector is likely to experience significant levels of operational and systems change in the coming years. Transformational actions will be essential as the public sector tackles the issue of fiscal consolidation. Yet experience shows that new operations, systems and processes drive the majority of control failures. So Finance has a key role to play in ensuring that executive management implements change programmes effectively. And whilst Finance is inevitably involved in assisting to rectify control breakdowns, it will need to act proactively to help avoid the pitfalls arising in the first place.

Finance could and, in our view, should equip those responsible for directing programmes with proportionate and appropriate risk management skills. For example, Finance could challenge whether a programme has clear goals with articulated benefits, whether those running the programme have considered different ways of achieving their goals, and whether the representatives on stakeholder and governance boards are experts in different facets of the project, or merely interested in a successful outcome.

Through its involvement in these programmes, Finance needs to bring risk and control skills to the front line to make those responsible for operating the day-to-day processes more control aware. Finance needs to equip fellow managers who do not have a finance background. It needs to proactively coach and encourage staff across the organisation to build a culture of compliance through risk and control consciousness.

The journey forward

By taking the steps described above, Finance in the public sector will have genuinely started on the path to achieving its objective of reducing its time on compliance & control and investing more time in providing insight to the organisation.

How Finance is performing in the private sector

Introduction and overview

We have recently published our 2009 annual review of Finance in the private sector in which we assessed over 100 participating companies (largely FTSE 200 firms, but also international groups of a similar size and complexity)⁸. Our review examined whether Finance in the private sector is equipped to provide the levels of strategic insight, risk oversight and other key aspects of the 'business partnering' role now expected of them. We also looked at how the best performing private sector finance functions are able to meet evolving business needs, balance being a business partner with their traditional responsibilities and ultimately deliver real value to the enterprise.

We have included a summary of the key research outputs in this section of our report as we believe that finance directors in government and the public sector will be interested to know of the challenges and issues facing their counterparts in the private sector. Most striking to us is the desire of Finance in both sectors to act as a business partner and provide real insight to the business, and the extent of the challenges of getting there.

Highlight findings

Our research found that finance directors and their teams in the private sector are also juggling the right balance between the three competing agendas of insight, efficiency and compliance & control, in addition to managing and motivating their people. They are struggling with the increasing and competing demands placed upon them, particularly coming out of the downturn. Finance functions, focused for so long on compliance & control, are under great pressure to manage costs tightly and provide more and better quality management information to the business.

Key highlights of our research findings in the private sector include:

- many finance organisations still lack the necessary capacity and capabilities to fulfil the role of true business partner
- there is strong dissatisfaction in organisations with the quality of management information provided by Finance
- only 11% of finance personnel are engaged in true business partner roles, despite CEOs looking to Finance to provide more insight and advice

Finance in the private sector wants to ensure that the way that it is steering the function and partnering the business is building towards a high performing function and one which is recognised as integral to success. However, when it comes to business partnering, our analysis indicates that Finance's ambitions in the private sector often outrun its abilities.

⁸ 'Is finance rising to the challenge?', PricewaterhouseCoopers LLP, February 2010

Summary observations on Insight, Efficiency and Compliance & control

Insight

Our research raises concerns about whether most finance teams are equipped to deliver the kind of support that private sector CEOs are demanding. While engagement in insight activity has increased, the full time equivalent (FTE) staff complement in business partnering roles has barely changed in the last year. When set against the widespread dissatisfaction with management information, and limited evidence of any increased investment in this area, this suggests that even though some additional staff are being re-assigned to partnering activities, they may not have the training, resources and business acumen to ensure their input is of real value to the business.

As shown in the table below, more than 80% of private sector research participants expressed dissatisfaction with the quality of management information (MI). Particular concerns centre on whether the MI is sufficiently meaningful and forward-looking to drive business decisions. Underlying difficulties include broadening the focus of MI to provide sufficient breadth of non-financial performance data and being able to develop timely, reliable and comparable metrics for such information.

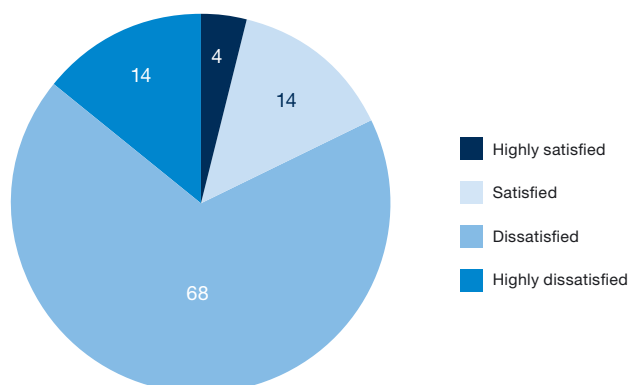
Efficiency

Streamlining operations and standardising processes continue to be high on the agenda as private sector finance functions seek to reduce costs, enhance efficiency and free up more time for insight and analysis. Around 65% of companies that we benchmarked have consolidated at least some of their transaction processes. The more mature organisations are now looking to extend this approach to activities further up the value chain, such as financial reporting and project accounting. However, the benefits of such moves are not necessarily being fully realised as processes have often not been rigorously standardised or simplified.

Compliance & control

At times of business change, it is essential to focus on the control implications of this change and the new financial, operational and compliance risks it brings. By doing so, the reorganised processes are more resilient and sustainable. Leading private sector organisations have, despite the downturn, managed to make the move from the direct delivery of core transactional and risk management processes to more of a policy and oversight role, which enables them to manage more effectively the many changes impacting the business.

Satisfaction with Management Information (%)



What sets top performers in the private sector apart?

Our research shows that participants in the top quartile of benchmark evaluation ratings are able to operate at much lower cost, while sustaining high levels of insight, efficiency and compliance & control.

The top quartile finance functions in the private sector that we researched operate at approximately 50% of the cost of the median. Key attributes that set them apart include:

- a clear focus on providing business insight, with top performers reporting a greater proportion of FTEs engaged in insight activity
- a greater investment in business partnering capabilities
- a better use of high value specialists' time, through standardisation of data models across markets and within business units and investment in sophisticated business information and analytical tools
- a combination of financial and non-financial MI and the development of simple and transparent metrics to align financial performance with the delivery of strategic objectives
- much of the routine transactional activity transferred to consolidated service centres and achieving faster close times through active standardisation and simplification
- a strategic approach to cost management that distinguishes savings opportunities from spending that is needed to sustain the delivery of business objectives.

Business insight

Business insight is a key objective for most finance functions and entails effective partnering with the business to create value. Delivering relevant and timely MI and supporting the corporate performance management model are key priorities. Private sector organisations are also looking to senior finance executives to help strengthen oversight, co-operation and accountability across functions and geographical boundaries, and ensure cost control initiatives are implemented successfully and in line with their overall business objectives.

Top performers in the private sector recognise that the ability to provide real strategic insight demands dedicated resources, engagement skills and commercial understanding, as well as financial qualifications. Indeed, top performers in the private sector employ 30% more people on insight activities.

Business partnering

Business partners are finance employees with the skills and experience to work alongside the business; influencing, designing and executing business strategy and planning. Business partnering requires the ability to understand both finance and business realities, to challenge decisions and, in many ways, act as a business consultant.

Corporate boards are looking to their finance functions to provide more active input into decision-making. In practice, however, it is not always clear how finance functions should fulfill this business partnering role.

There is no template for being a valued business partner or how this role should sit alongside more traditional responsibilities. A key challenge is how to strike the right balance between the potentially conflicting demands of strategic insight and independent oversight.

Talent management

Top quartile performers in the private sector are investing more in training and reward. Experience indicates a strategic approach to talent management that aligns recruitment, training and retention policies with long-term functional objectives can help to ensure limited resources are targeted most effectively.

Many of the better performing research participants place greater emphasis on nurturing talent from within through rigorous succession plans for key roles and career maps involving secondments, specialist training in finance academies and job rotation across different business and support functions.

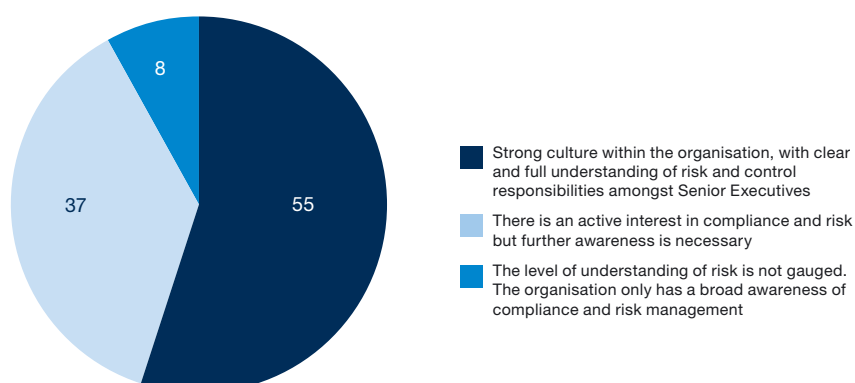
Oversight and control

Most private sector finance teams we have studied have now overcome the initial challenges of establishing the policy frameworks required to handle current regulatory and related risk management requirements. However, performance in fully embedding these frameworks remains patchy.

Those finance teams that have achieved this are in a much stronger position to safely reduce the cost and compliance burden. Our research, as shown in the chart below, shows that just over half the companies benchmarked reported a strong risk culture within their organisation, with clear and full understanding of risk and control responsibilities amongst senior executives.

Having helped to raise risk awareness across the business, these finance teams are now shifting their focus to ensuring accountability across different functions and territories, through enhanced risk analysis and exception reporting. Leading organisations are also moving from the direct delivery of core transactional and risk management processes to a policy and oversight role, with the day-to-day work being transferred to multi-functional group service centres.

Risk culture rating (%)



Transactional activity

What management expects of finance teams is also expanding. This includes experience of managing change, the customer-focused mindset of a shared service centre and the engagement skills to work in collaboration with the business. As more transactional activity is consolidated or outsourced, many finance teams also need the relationship management expertise to oversee contract delivery. More than half of the private sector research participants have assigned business partners to manage transactional services, compared with less than 30% the previous year.

Control of costs

More than 80% of private sector research participants cited cost control as a key priority. However, there is an increased appreciation among top performers of the need to avoid arbitrary and unsustainable cost cutting programmes. With its organisation-wide view of expense, risk and profitability, the finance function is seen as being well-placed to raise awareness about cost and revenue drivers and identify opportunities for lasting savings. However, many are finding the data is difficult to source and includes varying definitions.

Conclusions

The findings from the benchmark study highlight three key hurdles that will need to be overcome to enable private sector companies to leverage the full value of their finance functions:

- ensuring Finance has the right skills and capabilities to support the business operating model and satisfy the needs of the organisation
- ensuring the delivery of consistent, accurate, timely and relevant Management Information to support decision-making and risk management across the business
- standardising and simplifying processes and supporting technology to curb costs and enhance efficiency.

In our view these conclusions are as applicable to the public sector as the private sector and they underpin the need for Finance to up its game.

Contacts in PricewaterhouseCoopers



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The board oversees the wide-ranging finance relationships that exist between PwC and the broad range of organisations with whom we work, across central government, local government and the health sector, as well as with other key stakeholders across the public sector. The board comprises specialists drawn from across PwC who provide advice on a wide range of public sector finance matters.

Contact the Finance Board

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

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About the analysis and editorial team

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