HM Treasury

Review of financial management in government

December 2013

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Preface

Constraints on public expenditure will be necessary for years to come as work continues to tackle the deficit and bring the public finances under control. Within this context it is more important than ever that tax-payers' money is spent efficiently and effectively and that we maximise the value secured for every pound we spend. Strong financial management across central government has been, and will continue to be, critical to achieving this. Moreover, the improved information that comes with stronger financial management will be key to delivering better public services and driving public sector reform.

Building on the improvements to the spending control framework that I set out in April of last year, I am confident that the recommendations contained within this review will deliver the necessary improvement in spending control and financial capability. The Government will therefore implement all of the review's recommendations.

Danny Alexander,
Chief Secretary to the Treasury

December 2013

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Foreword

We were asked by the Chancellor and the Chief Secretary in June of this year to undertake a review of financial management in government. We have been privileged in this endeavour to have Lord Sainsbury as expert adviser. Over the last four months, the review team has consulted widely – with UK and overseas finance officials, private sector experts, and finance bodies.

As set out in the terms of reference (Annex A), we have taken as our starting assumption the Accounting Officer framework, namely that Accounting Officers, who are appointed by the Treasury, are directly accountable to Parliament for the efficiency and effectiveness of their spending – a framework that has held since 1872.

Financial management within government has been on an improving trajectory for many years. Every major government department now has on its Board a qualified finance director. The establishment of the Efficiency and Reform Group at the Cabinet Office in 2010 has placed greater emphasis on obtaining value for money from every pound of government spending. At the same time, more needs to be done to make finance central to government decision making – and this comes through in the evidence to the review. A big message we heard is the need for even greater attention across the whole of government on value for money and the outcomes achieved from government spending, particularly as fiscal consolidation continues. Achieving this will require an expansion in the talent pool of finance experts able to operate at Board level.

We would like to express our thanks to the Treasury review team who provided us with excellent support: Caroline Read, David Stevenson, Charly Wason, Ekaterina Srivastava and Terry Rogers.

Sharon White and Richard Douglas

Foreword from Lord Sainsbury

In 2004 for the first time it was decided that finance directors of government departments had to be financially qualified. Since that time a lot of excellent work has been done in improving the government's financial management systems. If, however, the Government is to meet its future fiscal targets and maintain the quality of public services, it will need to improve its financial systems so that it has better information on input costs and outputs.

This will in turn mean creating a new post in the Treasury, the director general for spending and finance, with the responsibility and authority for seeing that the Government's financial management system is fit for purpose. I am delighted that this review sets out a clear plan for enhancing the role of the finance function in government, and for making certain that it is staffed with people who have the qualifications and experience to tackle the challenge the Government will face in the years ahead.

Lord Sainsbury

Executive summary

The Chancellor and Chief Secretary announced the review of financial management in June 2013, alongside the results of the Spending Round setting budgets for 2015-16. The review acknowledges the significant improvements in financial management and public spending control over recent years. There is a strong and increasingly confident finance function in government. Financial reporting to Parliament and the public has improved significantly. Finance directors are now professionally qualified and have a seat on departmental Boards. The spending reductions set out in Spending Review 2010 are one year ahead of schedule and, on the whole, levels of satisfaction with public services have been maintained or improved.[1]

However, as Autumn Statement 2013 shows, more needs to be done and therefore now is the right time to look at how to further strengthen the government finance function.

The review has considered the quality and flow of management information, the effectiveness and operation of Treasury spending controls, including those delegated to and operated by the Cabinet Office, and the leadership of the finance function.

The review team has consulted widely (Annex B) so as to benefit from a range of perspectives. Comparisons were drawn with the private sector and with the public sector internationally. Despite important differences in institutional arrangements, it is striking that private companies and overseas governments face broadly similar challenges to the UK Government.

Private and public sector organisations operate a variety of financial management models, but there are some common themes and challenges: the difficulty of instilling a corporate approach in complex organisations and managing talent; the trade-off between strong central controls and local decision making; and the desire to, but practical challenge of, linking inputs to outputs.

Government can learn from the multi-divisional private sector companies, particularly the premium that is placed on building the right culture within senior management teams, strong financial leadership with clear objectives, as well as the balance of delegation and transparency between the centre and individual divisions. On the basis of consultation, several conclusions were drawn.

First, even greater attention across government is required to understand and demonstrate value for money in government spending. Government finance has a clear role to play in providing the analysis that can cost government activity linked to defined outputs. There are many examples of good practise, for example the costing programme that support the tariff system in the Department of Health, or work to benchmark costs for the prison system in the Ministry of Justice. But a concerted effort is required across government to improve costing, financial management information and overall standards of management accounting. This will require the same level of investment as that made in financial reporting over the last 15 years. The Treasury will work with departments to establish common standards for costing and financial management information, and an agreed implementation programme for each department. These standards will be mandatory and subject to quality assurance through audit. The standards will cover information that should be produced on a common basis across government to facilitate cross-government comparisons where appropriate. This builds on the work of the Efficiency and Reform Group in the Cabinet Office, where the Quarterly Data Summaries enable comparisons to be made between departments on common spend categories.

[1] ICM Research, BBC Public Services Poll (September 2013)

Second, in all organisations (or governments) the corporate centre exercises control over subsidiaries (or departments). The level and degree of control vary over time and in response to circumstances. In the majority of cases, large organisations operate with high levels of delegated responsibility, supported by good management information, with mechanisms to maximise efficiency across divisions and departments. Tight control is often exercised for a limited period following a crisis, where there is poor information or evidence of poor financial management.

In government, in response to the fiscal crisis, tight category controls were introduced in 2010.[2] These were delegated by the Treasury to the Cabinet Office. Aside from challenging and controlling expenditure, the current controls regime plays a role in driving policy change (e.g. on procurement and digital services), improving capability across Government, exploiting cross departmental efficiencies (e.g. on property), and managing broader financial risks (e.g. on strategic supplier management). These have been successful in constraining spend, reducing waste and enabling the Government to operate more effectively with suppliers. However, there is a cost to operating controls.

The review recommends adopting the principle that decision making is delegated to those with the greatest access to relevant information, who are best placed to judge the value of the expenditure and corresponding opportunities and risks. That will often be at the level of the department or delivery agency, but some controls will be a permanent feature. The review therefore sets out the goal of moving, over the medium-term, to a more risk-based system of control. The centre of government will still require levers with which it can exploit cross-departmental efficiencies and to mitigate risks for large investments. The Treasury, working with the Cabinet Office, will institute a process that allows departments to demonstrate that they can operate with higher levels of delegated authority. This will be dependent on sustained improvements in financial standards and transparency of information, and assurance of a cost-conscious culture in each department.

Third, focussed and empowered leadership is essential to driving even higher standards in financial management and ensuring that finance is integral to decision making at the very highest level across Whitehall. Finance leadership models in the private sector vary, but across large multi-division organisations there are some common features. These include a group Chief Financial Officer (CFO) who is not only the principal financial adviser on the Board, but is also responsible for: line management of divisional finance directors; maintenance of organisational professional standards and development of the finance function.

In central government financial leadership is currently split between the part-time role of Head of Government Finance Profession, held by a director general of finance in one of the major spending departments, and the director general of public spending in the Treasury. Neither has any direct management relationship with departmental directors and directors general of finance.

To lead the next phase of change – both in the centre of government and in departments – the review recommends that the leadership model should change. A new director general role will be created at the Treasury with responsibility for public spending and heading the government finance function. This role will perform many of the functions of the CFO role found in the private sector, but adapted to government. The new director general must be financially qualified, possess excellent interpersonal skills, have experience of managing a large, complex finance function and have a strong understanding of the political context in which government operates, to be able to work within Whitehall effectively. The new role will have "dotted-line" management to 17 main departments' directors and directors general finance (i.e. management

[2] Advertising, marketing and communications; strategic supplier management, including disputes; commercial models; ICT; digital service delivery (including ID assurance); external recruitment; consultancy; redundancy and compensation; learning and development; and property.

of technical financial aspects, as well as being involved in appointments and career development of directors and directors general finance). An early priority for the new director general will be to grow the talent pool of finance professionals at all levels in the civil service.

In parallel to the review, the Treasury has also led a review of the functional leadership of government's internal audit service. This paper summarises the conclusions of that work, in particular recommending a move to a single integrated internal audit function for government. This integrated service should be built on the recently created cross-departmental service that provides an internal audit service to eight departments. The first step will be to move this service to be an Arm's Length Body of the Treasury. As that service is established, further departments will be covered by it.

Summary of recommendations

Leadership of Government Finance

1. strengthen financial leadership within Government by creating a new role – director general for spending and finance, which will be responsible for leadership of the finance function and overall public spending;
2. strengthen management relationship between the director general for spending and finance and the Whitehall finance community via a "dotted-line" arrangement to the 17 main departments' directors and directors general finance; and
3. give greater prominence to the Finance Leadership Group.

Management information

1. make the investment to i) better understand the costs of activities and ii) ensure this understanding will be used to better inform decision-making;
2. define standards for costing and management information;
3. continue to develop skills across government; and
4. accelerate current initiatives required to support a common framework, including adopting the common chart of accounts.

Spending controls

1. develop and apply, over the medium-term, a framework within which departments can take greater responsibility for some areas of expenditure that are currently controlled by the centre;
2. set a long-term objective of consolidating controls and central government oversight within a single gateway in the Treasury;
3. lead a shorter term project to improve the alignment of Treasury and Cabinet Office processes.

Internal audit

1. consolidate internal audit shared services over the medium-term providing a single, integrated internal audit service, which will be an independent agency of the Treasury;
2. strengthen the role of the head of profession for internal audit, to become "the head of government internal audit", which will report to the director general for spending and finance in the Treasury; and
3. provide an internal audit service to government departments and to government as a whole.

Director general for spending and finance – job description

Purpose

To manage overall public spending, and to support delivery of the government's fiscal objectives and improvements in value for money by raising standards of financial management across government.

Responsibilities

- direct management of overall public spending and Spending Round process;
- "dotted-line" management of the directors and directors general finance of 17 main departments;
- progressively resolving qualifications of the accounts through discussions with departments, the National Audit Office and the Financial Reporting Advisory Board;
- oversee cross-government financial reporting;
- develop and introduce a mandatory set of standards for management accounting;
- develop the framework of delegated authorities within which departments can take greater responsibility for some areas of expenditure that are currently controlled by the centre;
- oversee development of the government financial reporting systems, ensuring the information is available to those who need it;
- provide leadership to the finance community, by building partnerships and professional skills, championing learning and development, and acting as a senior advisor;
- ensure that the finance community has the skills it needs to carry out its responsibilities;
- ensure effective talent management (including career and succession planning) of the finance community, by developing and retaining skilled staff in order to enhance organisational and professional capability, as well as expanding the pool of senior finance professionals across Whitehall able to operate effectively at Board level; and
- chair the Finance Leadership Group.

1 Introduction

1.1 Excellent financial management is critical to the Government's continued ability to reduce the deficit, achieve value for money from public expenditure and deliver high quality public services. Around 60 per cent of the planned fiscal consolidation for this Parliament has already been achieved. The Autumn Statement 2013 set out that achieving the government's fiscal aims will mean further consolidation over the course of the next Parliament.[1]

1.2 With many efficiencies having already been made and as the fiscal consolidation continues, departments will need even stronger systems and processes to manage spending reductions still to be implemented. It is therefore critical to examine how financial management can be strengthened and knowledge about the effectiveness of public expenditure improved. In June, as part of the Spending Round 2013, the Treasury published a paper on *Strengthening financial management capability in government*, and launched this review.

1.3 As set out in the terms of reference (Annex A), the review takes as its starting assumption the current parliamentary and Accounting Officer framework will remain. The Treasury is responsible for setting the rules for the administration of public money, including arrangements for providing accountability to Parliament for expenditure and ensuring that financial planning is consistent with the Government's fiscal objective.

1.4 In many respects the Government starts from a position of strength: departmental directors and directors general finance are now professionally qualified and have a seat on departmental Boards (Annex C). *Whole of Government Accounts* were published in full for the first time in 2011.The spending reductions set out in Spending Review 2010 are one year ahead of schedule, while levels of satisfaction with public services have been maintained or improved.[2] The UK is one of only two countries, that sets departments binding multi-year budgets.[3] UK's financial management arrangements rank third out of 100 countries for transparency.[4]

1.5 This review builds on a range of recent and ongoing reforms to individual departments' internal systems and processes. For example, the Ministry of Defence has invested heavily in its Cost Assurance and Analysis Service, which provides independent costing analysis to inform budgeting, investment appraisals and procurement decisions. Another example is the Department for Business, Innovation and Skills' new Enterprise Performance Management Programme, which is providing a single system to consolidate, report, forecast and plan, as well as, enabling a step change to the quality and the efficiency of the finance function of the department and across its 32 Arm's Length Bodies. Across government, departments are moving to a small number of shared services, for example for transactional services.

1.6 In commissioning the review, Ministers were clear that it should draw on best practice in both the private sector and comparable public administrations, consulting with a broad range of organisations and individuals.

[1] HM Treasury, Autumn Statement 2013 (December 2013)

[2] ICM Research, BBC Public Services Poll (September 2013)

[3] International Monetary Fund, Public Financial Management and its Emerging Architecture (2013)

[4] International Budget Partnership, Open Budget Survey 2012 (January 2013)

1.7 The review has therefore combined desk based research with extensive consultation across government, the private sector and comparable public sector administrations, set out below:

- **Government:** the review team held several workshops with finance directors across Whitehall and the broader public sector including health and local government. Discussions were also conducted with strategy and policy experts in government, as well as with spending officials in the Treasury and the Cabinet Office, to get a broader perspective on the finance function. A survey was conducted of government finance officials on strengths and weaknesses of the current system, and where improvements should be made.
- **Private sector:** workshops and meetings were held with senior finance professionals from selected FTSE 100 companies and organisations. McKinsey & Company and the Chartered Institute of Management Accountants, hosted external workshops with finance leaders from private sector companies. A senior partner from EY examined government systems in four departments (Ministry of Defence, Foreign Office, Department of Health, Department for Business, Innovation and Skills), comparing their performance to the private sector. In addition, the other three members of the "Big Four" professional services companies – Deloitte, KPMG and PwC were consulted. A full list of those consulted throughout the review can be found at Annex B and detailed findings from analysis of practice within the private sector can be found at Annex D.
- **Overseas governments:** reports were commissioned from embassies in a number of OECD countries,[5] looking at their financial processes and reforms. In-depth in-person discussions were held with Finance Ministries in Canada, France, Germany, Sweden and the US. Detailed findings from the review of international comparators are set out in Annex E.

1.8 In addition, the review team tested the case for change and emerging findings with think tanks and accountancy institutes.

1.9 As external adviser to the review, Lord Sainsbury has contributed his considerable private sector and Ministerial experience, bringing fresh insight and challenge.

[5] Australia, Austria, Belgium, Croatia, Czech Republic, Denmark, Greece, Holland, Ireland, Luxembourg, New Zealand, Portugal, Romania, Slovakia and Spain

2 The current system, and private sector and international context

2.1 Nearly all public expenditure in the UK is authorised by Parliament through an annual process known as Supply Estimates, with expenditure for significant or lasting public activities specifically authorised in legislation. Most budgets are allocated to an individual department of state with an Accounting Officer - generally the most senior civil servant in a department – formally accountable to Parliament for the value for money and probity of their departments' spend. This is set out in *Managing Public Money*[1].

2.2 Parliament looks to the Treasury to make sure that the departments use their powers only as it intended and that resources are spent within the agreed limit. The Treasury sets budgetary and financial reporting requirements on this basis (for further information see Annex C). To allow departments to plan effectively, the Treasury will normally set budgets on a multi-year basis, to enable delivery of the government's objectives and priorities consistent with overall economic and fiscal policy.

2.3 Within these budgets, the Treasury delegates spending authority to departments, subject to upper limits based on the amount of spend on a particular project or programme, and the level of risk involved (e.g. the Ministry of Defence have a delegated limit of £100 million; the Foreign Office have a smaller delegated limit of £15 million). Novel, contentious or repercussive spend[2] always requires specific approval from the Treasury. Since 2010 there have been specific controls on certain categories of expenditure,[3] which are intended to stop wasteful spend, allow greater coordination across government and improve value for money. These controls are operated by the Cabinet Office on behalf of the Treasury. The threshold for Cabinet Office approval varies across the different categories (e.g. in some circumstances[4] projects or programmes involving more that £20,000 of expenditure on consultancy require Cabinet Office and Treasury approval; the threshold for approval for expenditure involving strategic suppliers is £5 million).

2.4 Departments regularly report expenditure to the centre via a central Treasury database (called OSCAR) which consolidates financial data to produce an overall forecast. Departments are also required to report expenditure to Parliament in accordance with the standards set out in the *Government Financial Reporting Manual*[5], which reflects international accounting standards. Departments' accounts are audited by the National Audit Office, which is accountable directly to Parliament.

2.5 The review compared UK financial management arrangements to several other countries. Despite a set of common issues, the review encountered a range of approaches to management

[1] HM Treasury (July 2013)
[2] HM Treasury (July 2013)
[3] Advertising, marketing and communications; strategic supplier management, including disputes; commercial models; ICT; digital service delivery (including ID assurance); external recruitment; consultancy; redundancy and compensation; learning and development; and property
[4] This is where new contracts are expected to exceed nine months; existing contracts are to be extended beyond nine months; or the expenditure is on procurement related consultancy. For further details, see Cabinet Office, Controls guidance version 3.1 (September 2013).
[5] HM Treasury (May 2013)

information, financial leadership and central spending controls. Generally the UK ranks highly in terms of innovation and transparency in financial management practices.[6]

2.6 While those overseas administrations contacted directly recognised the importance of reliable performance data, none operated a system that comprehensively linked this to outputs. Most are actively considering how to do so, focussing on specific programmes and areas of expenditure. None of the countries visited by the review operated controls on specific categories of expenditure at the level of detail that we do in the UK. In terms of financial leadership, the review encountered a range of models, although few countries place the same emphasis as the UK does on employing professionally qualified accountants, or having a Head of Finance Profession.

2.7 Private sector arrangements considered as part of the review also provided useful challenge and insight. Of particular interest is the use of management accounts to monitor performance of the individual divisions and the business as a whole on a monthly or quarterly basis and the significant time and effort taken to achieve consistent classification and a tight control of the information shared with the Boards. The limited use of tight spending controls to target specific problems or failures, is of interest, as is the delegation of decision making to business units in return for timely and high quality financial and performance data.

2.8 Although the review found that there was no single model of private sector operations, in recent years there has been a progressive shift towards a "business-oriented" CFO, which, alongside their traditional mandate to provide financial analysis and insights, has greater involvement in supporting and developing strategy, and guiding key business initiatives. The model sees the CFO operating more as a "strategic business partner", involved in top-level decision-making.[7] There has been a similar shift in the role of government finance leaders, but private sector models are useful in considering how government might go further. While not directly transferable to the specific setup of government, there is much to be taken from private sector models for management information, central controls and leadership.

2.9 More detailed findings of private sector and international comparators can be found in Annex D and Annex E. Following these findings, the remainder of this publication considers the case for:

- high quality and timely financial and management information that flows freely between departments and the corporate centre, so that costs, inputs and outputs are better understood and that Ministers and other decision makers (including finance professionals) are better informed;
- a proportionate and risk based system of assurance that gives the Treasury, and ultimately Parliament, confidence that money is being spent well and in the way intended; and
- a new model of leadership for the profession, to support a highly skilled finance profession which retains a strong sense of coherence and shared purpose, despite being dispersed across government.

[6] International Budget Partnership, Open Budget Survey 2012 (January 2013)

[7] http://www.forbes.com/sites/kathryndill/2013/08/02/cfos-have-bigger-roles-than-ever-before-and-they-like-it-that-way/.

3 Key issues and recommendations

Management information – context

3.1 The improvements made in financial reporting over recent years have greatly increased the range and quality of the information available to decision makers. The effect of this has been amplified by the increased influence of non-executives on departmental Boards; the discipline forced by reduced budgets; and increased financial capability and focus at senior levels, all of which have increased the demand for reliable financial management information.

3.2 This has led to significant improvements to the information reported to departmental Boards. A recent report by Dr Martin Read[1], despite highlighting deficiencies in government management information generally, found that all of the departmental board reports surveyed included figures for aggregate spend to date against forecasts and budgets. But there remains more to be done to ensure that financial risks and more detailed spending are consistently well understood, particularly to allow meaningful comparisons between departments.

3.3 As public spending continues to be constrained, it will be important that we develop a more sophisticated understanding of what we spend and what we get for it. Some departments have good systems in place for costing many of the services they provide. For example, the Department of Health are able to cost around 700 clinical procedures. To ensure that we can continue to drive efficiency, and that scarce resources are targeted at the highest priority areas we need to reinforce these efforts and ensure that they are consistently applied across government. This is not easy. Many of the countries surveyed aspired to being able to do this, but none have achieved this across the full range of their activities. Private sector companies surveyed said that defining and measuring non-financial performance is intrinsically difficult, and many thought it would be more so in government where the range of outputs is broader and in some cases harder to measure. This will therefore be a substantial task that will take some time to complete. There will be limitations, but recent work in departments highlights the benefits of this approach.

Management information – recommendations

1 **make the investment to i) better understand the costs of activities and ii) ensure this understanding will be used to better inform decision-making**. It took Government 15 years to transform financial accounting. We now need to devote a similar effort to management accounting across government. The Treasury will lead this work, working in close collaboration with departments and the Cabinet Office;

2 **define standards for management information**, working closely with departments to ensure that both their and government's collective needs are met. These will be underpinned by a set of clear principles, including a mandatory requirement that outputs are defined at an appropriate level of detail and costed in a consistent way. The information needed by Ministers and officials in the centre of government must

[1] The Read Report, Practical Steps to Improve Management Information in Government (June 2013)

be made available to them. They will also cover techniques for forecasting, risk, and assurance. The Treasury will work with each department on an agreed implementation plan, which will include ensuring that the structures, processes and behaviours required to use management accounting information effectively are in place both in the department and in the Treasury. Once implemented, departments will be subject to audit against these standards;

3. **continue to develop skills across government** to ensure that the centre and departments increase analytic capacity to use the information effectively in decision making and resource allocation at cross-government and Board level; and

4. **accelerate current initiatives required to support a common framework**: building on the work of the Efficiency and Reform Group, the standards will cover information that should be produced on a common basis to allow cross-government comparisons. In the shorter term, we will accelerate the work required to support a common framework, including completing the substantial task of extending and implementing the Common Chart of Accounts; devising common definitions for accounting for back and middle office services; continuing to focus on excelling at the fundamentals of financial accounting and working with shared service providers to simplify processes and facilitate provision of information to the centre through systems such as OSCAR.

Controls – context

3.4 The Treasury operates several in-year spending controls as a means of better monitoring and controlling expenditure. These include overall annual expenditure limits and the requirement that departments seek Treasury approval for project and programme expenditure above agreed thresholds.

3.5 Much of the budgetary system that the Treasury sets and administers is shaped by Parliament's requirement that it should approve expenditure on an annual basis, and will continue to do so.

3.6 Although necessary, departments report that the focus on annual expenditure constraints flexibility and can constrain options, particularly where expenditure profiles change between years. The Budget Exchange[2] process affords some flexibility between years and the Treasury announced further flexibility on major capital programmes in Spending Review 2013. While departments and the Treasury will continue to face difficult decisions linked to annual budgeting, a sustained focus on improving the consistency and depth of management information across government will strengthen departments' ability to forecast costs and expenditure, and the centre's ability to make decisions on when greater flexibility is required.

3.7 From 2010 the Government introduced a new set of spending controls covering specific categories of expenditure. The Treasury delegated operation of some of the controls to the Cabinet Office. Further information about the controls and how they are operated can be found in the *Cabinet Office Controls guidance*[3].

3.8 In 2010, these controls were required as a shock to the system; to challenge and stop wasteful spending and bring a renewed focus on efficiency and value for money. Around 60 per

[2] HM Treasury, Consolidated budgeting guidance from 2013-14 (March 2013)

[3] Version 3.1 (September 2013)

cent of the £10 billion efficiency savings reported by Cabinet Office for 2012-13 are from areas where a category spending control operates.[4]

3.9 The controls have also played a role in driving policy change (e.g. on procurement and digital services) and improving capability across government by encouraging departments to draw on a central source of expertise in areas such as digital delivery and procurement. Moreover, they have provided a platform for ensuring that the public sector as a whole can exploit economies of scale, while managing cross-departmental financial risks.

3.10 However, there is a cost to operating controls (since April 2013 departments have submitted several hundred business cases to Cabinet Office and the Treasury for approval). There is a need to assess that the controls still remain proportionate.

3.11 While in 2010 there was a clear case for introducing additional controls, the Treasury remains committed to the principle that responsibility for decision making should fall to those with the greatest access to relevant information, and who are therefore best placed to judge feasibility and understand opportunities and risks. That will generally cascade through department to front-line delivery organisations.

Controls – recommendations

1. over the medium-term the **Treasury will develop and apply a framework within which departments can take greater responsibility for areas of expenditure** that are currently controlled by the centre;
2. in order to pass responsibility back to departments the Treasury will require assurance that departments will avoid a return to the conditions that prompted the additional layer of controls in the first place, and that the necessary oversight and levers are in place to continue to identify and exploit cross-departmental efficiencies;
3. this framework will be based on a system of **earned autonomy, wherein thresholds for seeking approval on expenditure are raised for individual departments, dependent on demonstrating capability, sustained improvements in financial standards, transparency of information, commitment to key reforms and provision of ongoing assurance** (including in the form of robust and visible management information); and
4. this framework should present departments with a clear set of incentives to take greater ownership of the Government's efficiency and reform agenda.

Strengthening the centre of government, the relationship between Cabinet Office and the Treasury – context

3.12 The Government announced the formation of the Efficiency and Reform Group (ERG) in May 2010 to work across organisational boundaries and drive the Government's efficiency and reform agenda. The group is responsible for operating many of the Cabinet Office's key controls as well as the Quarterly Data Summaries (QDS). As ERG has developed and evolved, so has the relationship between the Treasury and Cabinet Office, particularly in relation to the operation of spending controls and project approvals.

3.13 Within ERG there has been a concerted effort to minimise the additional bureaucratic burden related to the new controls and to align with existing processes. However, the review

[4] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/204603/FINAL_12_13_ERG_annual_report.pdf

consultation concluded that there is further to go in terms of aligning the Cabinet Office and the Treasury's processes and systems. Some of this work is already underway in relation to gateway approvals for major projects and programmes.

Strengthening the centre of government, the relationship between Cabinet Office and the Treasury – recommendation

1. the **Treasury should lead, working with the Cabinet Office, a short-term project to improve the alignment of processes and systems at the centre of government**, building on the work that has already been done. This should include clearer arrangements for sharing information and making decisions where expenditure cuts across multiple controls. The project will aim to improve the speed and quality of decision making within the corporate centre; and
2. set a long-term objective to consolidate the operation of central controls and decision making within a single gateway in the Treasury.

Leadership – context

3.14 The leadership model for finance in government differs significantly from any in major private sector or international organisations:

- first, there are split responsibilities. The Head of Finance Profession is a part-time role, held by a director general in a major spending department. This role has a clear focus on building capability within the finance profession and promoting the role of finance in Government more generally. Responsibility for setting and maintaining the spending and financial reporting frameworks rests with the director general public spending, located in the Treasury. This role focuses on the: management of overall public spending; supporting spending directors and teams in their relationships with Whitehall departments, and leading the Treasury's spending relationship with Number 10 and the Cabinet Office. In major private sector organisations both of these roles would be combined in the CFO function; and
- second, neither of these roles have any direct management relationships with the directors and directors general finance in government departments. The head of function operates through influence and by consent, the director general public spending through instruction and guidance that carries the authority of the Treasury's Permanent Secretary.

3.15 There are also significant differences between the Government and the private sector and other governments in the way they manage finance as a function:

- few other countries have a separate role of Head of Finance Profession, or consistently place the same emphasis on employing professionally qualified accountants;
- however, in countries which take a more centralised approach to financial management, the finance ministry does sometimes play a greater role on the selection and appointment of finance officers in departments and agencies, including direct line management of some senior finance posts;
- private sector organisations placed greater emphasis on developing talent. Those with whom we spoke recognised the importance of growing rather than simply recruiting senior talent. Some governments, such as Canada also emphasised the importance of adopting a government-wide approach to developing talent.

3.16 It will become increasingly important that finance is consistently at the centre of strategy and policy formation. Moreover, the review sets an ambitious agenda in terms of improvements to the quality and consistency of financial management information and the role of departments in owning and driving the Government's efficiency and reform agenda.

3.17 Focused and empowered leadership, with real authority, will be needed to deliver continued change. Combining the two existing roles into one, locating the new role in the Treasury, and granting the individual a degree of authority over individual directors and directors general finance will aid this transformation. This role will be analogous to the CFO role in the private sector, but differences will remain due to the structural set up of private companies compared to the public sector, in particular the Accounting Officer framework (Annex C).

Leadership – recommendations

1. **strengthen financial leadership within Government, by creating a new role** – director general for spending and finance, which will be responsible for leadership of the finance function and overall public spending. This role will have the overall accountability for driving improvement in financial management across government (see **Box 3.A** for more detail on key responsibilities)

   a. the new role will be **located within the Treasury** to ensure that director general for spending and finance has direct strategic oversight of expenditure policy and is in a strong position to assist in formulating the Government's financial strategy, devise spending policy and strengthen cross-departmental working;

   b. the new role will be a **director general with a seat on the Treasury's Executive Management Board** and will report to the Treasury Second Permanent Secretary (Finance);

   c. in order to meet the requirements set out in **Box 3.A** the director general for spending and finance **must demonstrate the following qualities**:

      - excellent interpersonal skills and ability to communicate effectively;
      - strong understanding of the political context in which government operates, to be able to work within Whitehall effectively;
      - experience of managing a large complex financial function; and
      - practical financial experience and be financially qualified. The first incumbent should have an accountancy qualification.

Box 3.A: Director general for spending and finance – job description

Purpose

To manage overall public spending, and to support delivery of the government's fiscal objectives and improvements in value for money by raising standards of financial management across government.

Responsibilities

- direct management of overall public spending and Spending Round process;
- "dotted-line" management of the directors and directors general finance of 17 main departments;
- progressively resolving qualifications of the accounts through discussions with departments, the National Audit Office and the Financial Reporting Advisory Board;[5]
- oversee cross-government financial reporting;
- oversee development and introduction of a mandatory set of standards for management accounting;
- oversee development of a framework within which departments can take greater responsibility for areas of expenditure that are currently controlled by the centre;
- oversee development of the government financial reporting systems, ensuring the information is available to those who need it;
- provide leadership to the finance community, by building partnerships and professional skills, championing learning and development and acting as a senior advisor;
- ensure that the finance community has the skills it needs to carry out its responsibilities;
- ensure effective talent management (including career and succession planning) of the finance community, by developing and retaining skilled staff in order to enhance organisational and professional capability, as well as expanding the pool of senior finance professionals across Whitehall able to operate effectively at Board level; and
- chair the Finance Leadership Group.

2 **strengthen the management relationship** between the director general for spending and finance and the Whitehall finance community, **via a "dotted-line" arrangement** to the 17[6] main departments' directors and directors general finance (Box 3.B).

a Departmental directors and directors general finance will continue to report on day-to-day issues and delivery of the departmental strategy, via a "solid-line", to their permanent secretaries, who will remain accountable to Parliament on departmental spend. It is important that directors and directors general finance retain confidence of their permanent secretaries and secretaries of state. At the

[5] The Board Responsible for advising the Government on the adoption of accounting standards

[6] Cabinet Office; Business, Innovation & Skills; Communities and Local Government (DCLG); Culture, Media and Sports (DCMS); Education (DfE); Energy & Climate Change (DECC); Environment, Food and Rural Affairs (DEFRA); Foreign Office; Health (DH); HM Revenue and Customs; HM Treasury; Home Office; International Development (DfID); Ministry of Defence; Ministry of Justice; Transport (DfT); Department of Work and Pensions (DWP)

same time, the director general for spending and finance will input into appraisal discussions of directors and directors general finance based on, amongst other things, their compliance with finance policies and procedures set by the centre and their co-operation on cross-cutting finance matters;

b **final recruitment decisions** for departmental directors and directors general finance will continue to sit with the individual permanent secretaries **via the "solid-line" arrangement**. However, the director general for spending and finance will also be involved in these recruitments: she or he will review candidates and be part of selection panels;

c the director general for spending and finance will be actively involved in expanding the pool of senior finance professionals across Whitehall, and in career and succession planning; and

d the director general for spending and finance will be responsible for articulating the long-term vision for the finance profession and driving efforts to broaden finance capability across government more generally.

Box 3.B: The management relationship between the director general for spending and finance and directors and directors general finance, will be based on:

- effectiveness of financial management in their departments, including a discussion on performance of departmental finance function against a number of agreed indicators; and discussions (with departments, the NAO and Financial Reporting Advisory Board) to resolve any qualifications of accounts;
- compliance with finance policies and procedures set by the director general for spending and finance;
- co-operation on cross-cutting finance matters, including considering cross-departmental efficiency savings;
- championing the importance of financial management in their organisations;
- building the capability of the finance function both departmentally and corporately; and
- talent management of the finance function in their department.

3 **give greater prominence to the Finance Leadership Group**[7] (FLG), which will be chaired by the director general for spending and finance. Individual members of the FLG will be responsible for strengthening finance communities in their respective organisations and ensuring that finance is placed squarely in the centre of decision making. In doing so FLG members will need to:

a promote and champion a culture of effective financial and performance management throughout central government;

b discuss government-wide spending priorities;

c cascade finance policies and procedures set by the centre to their organisations and ensure appropriate compliance; and

[7] FLG was set up in 2005. Membership currently consists of: DWP, DfT, BIS, CLG, DfE, HO, DH, DFID, HMRC, MoD, MoJ, Wales, Scotland, Director Public Spending (HMT) and the Head of the Finance Profession

d take specific leadership of priority areas and commission delivery of activities, reports and projects to the finance director group and other groups as appropriate.

Internal audit – context

3.18 The role of internal auditors is key to assuring that financial management practices meet required standards. As such, the government's internal audit service has an important role to play in supporting transformation in the application of financial management practices, as well as in all other aspects of government activity.

3.19 The central government internal audit service was transformed into a core set of shared services from April 2013. This built on an internal audit transformation programme, the aim of which has been to drive a step change in the quality of internal audit.

3.20 The principle behind creating shared services is to have sufficient numbers of internal auditors grouped together for the development of capability and future leaders and the sharing of resources, particularly for specialist areas.

3.21 Ten core internal audit shared services were established from April 2013. They cover 17 main departments.[8] Nine of these cover one department each, together with many of their related Arm's Length Bodies (ALB). The other one is the Cross Departmental Internal Audit Service (XDIAS) that covers the remaining eight departments and many related ALBs. There is potential for further consolidation.

Internal audit – recommendations

1 **over the medium-term, to consolidate the shared services further providing a single, integrated internal audit service**. This will maximise the benefits from sharing resources, specialist skills and talent, whilst continuing to provide a high quality, responsive and flexible service to each department and ALB client. It will also strengthen moves to identify and manage a cross-government view of risk and assurance;

2 this service will be internal to central government, as well as to departments and ALB clients, and **be an independent agency of the Treasury**. Going beyond the current service, this would also provide assurance on common risks and a clear framework for escalation of key departmental risks to the centre. **The move to an integrated service should be done incrementally**, based on service improvements and client needs, and structural changes should not interrupt the quality of service to existing clients, whilst improving it to the centre. The integrated service will be established, in four stages:

   a setting up the XDIAS agency;

   b establishing reporting lines, including to the functional lead;

   c consolidating the smaller departments' services; and

   d moving all staff across to an integrated service.

[8] Including Cabinet Office; Business, Innovation & Skills; Communities and Local Government ; Culture, Media and Sports Education ; Energy & Climate Change; Environment, Food and Rural Affairs ; Foreign Office; Health ; HM Revenue and Customs; HM Treasury; Home Office; International Development; Ministry of Defence; Ministry of Justice; Transport ; Department of Work and Pensions

3 the service, will provide robust and consistent advice and assurance to Accounting Officers, audit and risk committees and the central departments as follows:

   a a comprehensive and flexible service dedicated to and agreed with Accounting Officers and their Audit and Risk Assurance Committees to support them in managing their departmental and ALB delivery and other risks;

   b a framework for escalating significant local risks, including those that may have a cross government impact;

   c a service to the centre of government to provide assurance explicitly on cross government risks and common performance measures.

4 the role of the head of profession for internal audit will also be strengthened and **become "the Head of Government Internal Audit"**. As well as overseeing cross-government operational elements, she or he will also take a holistic view of resource requirements and capabilities across the piece and other chief internal auditors and heads of internal audit (HIA) would be accountable to the head of government internal audit.

5 the head of government internal audit, will report to the director general spending and finance in the Treasury, and be responsible for maintaining a single set of detailed professional standards, driving continuous improvement in these, and be involved in all senior HIA appointments (in consultation with Accounting Officers who will have the final say, based on a shortlist of suitably professionally-qualified candidates approved by the functional lead). To assist with the management of cross-government risk, the accounting officer would be expected to release any internal audit report, particularly where material issues are concerned, to the Treasury's Principal Accounting Officer and the head of government internal audit. Audit and risk committees will continue to see all reports as they require. The Permanent Secretary to the Treasury will be able to commission cross-government internal audit work , though this will be by exception rather than routine. Accounting Officers will also be able to propose cross-government audits where they identify common risks.

4 Next steps

4.1 Implementation of the review's recommendations will begin in the New Year.

4.2 The immediate next step is recruitment for the position of director general for spending and finance, which will begin in the first part of 2014 and will be externally advertised and open to candidates inside and outside of Whitehall. The successful candidate will lead on the implementation of the recommendations set out in the review.

4.3 In addition, a new team will be created in the Treasury to support the director general for spending and finance in specifically implementing the work on establishing a set of standards on management accounting in order to help departments to consistently record inputs and outputs. This team will work closely with departments and the Cabinet Office.

4.4 Beginning in early 2014, the Treasury, working with the Cabinet Office, will lead a project to better align Treasury and Cabinet Office processes.

4.5 Over the medium-term the Treasury will lead a project to develop a framework within which departments can take greater responsibility for areas of expenditure currently controlled by the centre.

4.6 For internal audit, the process for establishing the XDIAS agency will commence in the New Year, as well as an implementation plan for the longer-term vision for the service.

A Terms of reference

A.1 The review will particularly examine how the Treasury can, within existing budgets, and while preserving the single point of accountability to Parliament for financial stewardship that the Accounting Officer regime provides:

- improve the quality and consistency of management information flows between the Treasury and departments to ensure these are of the right quality to enable effective risk-management and decision making across government;
- strengthen the role of the Head of the Government Finance Profession in promoting and assuring improved financial capability – skills, systems and processes – across government (considering also the interaction of this role with the Treasury);
- ensure that the right levels of delegated authorities and approvals are in place to ensure both tight spending control and appropriate flexibility for those departments with proven financial management capability; and
- create a more streamlined, coherent set of central appraisal and approval processes for projects and programmes outside those delegations.

B Stakeholder engagement

Table B.1: Stakeholders consulted during the review

Foreign administrations	Workshops	Key individuals
The review team commissioned and received reports from 16 UK embassies on host countries financial management arrangements and recent reforms. The review team has spoken with counterparts in the following organisations: • Canadian Federal Government • French Finance Ministry • German Finance Ministry • Stockholm City Council • Swedish Finance Ministry • Swedish Financial Management Authority • Swedish National Audit Office • US Office of Management and Budgets	• CIMA Roundtable (private sector CFOs) • CIPFA Roundtable (Wider public sector CFOs and finance directors) • Civil Service Board • Efficiency and Reform Group, Cabinet Office • Finance Leadership Group • Government Finance Profession conference • Government finance directors • Institute for Government Roundtable (advisory sector and professional Institutes) • McKinsey & Company • National Audit Office • Permanent Secretaries • Treasury spending deputy directors and spending principles • Treasury spending directors • Whitehall strategy and policy leads	• Bob Alexander, finance director , NHS Development Authority; • Carolyn Williamson, County Treasurer, Hampshire CC. • Charles Nichols, Group Controller, Unilever; • Charles Tilley, CEO, CIMA; • David Goldstone, CFO, TfL; • Doug Alexander, Vice President, Finance, Shell Chemicals; • Dr Martin Read, Non-executive director, ERB; • Drew Cullen, Director CIPFA; • Duncan Whitfield, CFO, LB Southwark; • Gillian Russell, Senior Partner, Deloitte; • Helen Ripley, Public Sector Partner, ACCA; • Ian Carruthers, Director, CIPFA; • Ian Tyler, former Chief Executive, Balfour Beatty; • Julian McCrae, Deputy Director, Institute for Government; • Laurie McIlwee, CFO, Tesco; • Lord Sainsbury • Mike O'Donnell, CFO, LB Camden; • Nick C Jones, Global Director, PwC; • Peter Spence, Director, CIMA; • Richard Wilson, Senior Partner, EY; • Rob Hortopp, Director KPMG; • Rob Whiteman, CEO, CIPFA; • Sarah Shipton, Public Sector Partner, CIMA; • Stephen Bolton, Group Controller, Diageo; • Sumita Shah, Public Sector Partner, ICAEW; • Vernon Soare, Director, ICAEW

C Current approach to financial management

The Control and Budgeting Framework

C.1 Nearly all public expenditure in the UK is authorised by Parliament. In addition, expenditure for significant or lasting public activities needs to be specifically authorised in legislation. Parliament approves about 50 individual budgets every year through a process known as Supply Estimates. Most budgets are allocated to an individual department of state, each of which has an Accounting Officer, a role that is generally combined with that of the most senior civil servant in a department. Accounting Officers are formally accountable to Parliament for the value for money and probity of their department's spend, for producing resource accounts and living within their budget allocations. This is set out in *Managing Public Money*.[1]

C.2 Parliament looks to the Treasury to make sure that departments use their powers only as it has intended and that resources are spent within the agreed limits. The Treasury appoints and can remove Accounting Officers and sets the criteria against which they take their decisions. The Accounting Officer may delegate powers to spend to lower level budget holders or Arm's Length Bodies through formal letters of delegation. These budget holders may then delegate further as required.

C.3 The Treasury allocates budgets to departments through Spending Reviews. To allow departments to plan effectively the Treasury will normally set budgets on a multi-year basis. Spending Review 2010[2] set departmental budgets for the four financial years up to 2014-15. They can be amended at annual fiscal events – i.e. the Budget and the Autumn Statement. Spending allocations set by the Treasury are reflected in the Estimates approved by Parliament.

C.4 Within these budgets the Treasury delegates spending authority to departments, subject to limits based on the amount of spend on a particular project or programme. Novel, contentious or repercussive spend requires specific approval from the Treasury. There are also specific controls on certain categories of expenditure,[3] which are designed either to allow greater coordination across government or improve value for money. Most of these controls are operated by the Cabinet Office on the Treasury's behalf. Beyond this, the Treasury does not seek to micromanage or second guess departments' spending decisions.

C.5 Spending departments are required to have a Board chaired by their most senior Minister, and consisting of junior ministers, the most senior civil servants in the department and non-executive members drawn from the private sector. Each department should have a professionally qualified finance director on the Board[4]. The Board is responsible for good management of the department's resources, and performance management of lower level organisations. The main Board, or one of its executive committees, will receive regular updates on spend and forecasts against budget.

[1] HM Treasury (July 2013)

[2] HM Treasury, Spending Review 2010 (May 2013)

[3] Advertising, marketing and communications; strategic supplier management, including disputes; commercial models; ICT; digital service delivery (including ID assurance); external recruitment; consultancy; redundancy and compensation; learning and development; and property

[4] HM Treasury, Managing public money (July 2013)

Types of expenditure

C.6 Parliament approves three categories of expenditure: resource, capital and a net cash requirement. Resource expenditure includes the total consumption of resources – typically labour, raw materials, goods and services – over the period, irrespective of when they were paid for. It includes the consumption of inventory (stationery, fuel, medicines, ammunition, etc.) and an appropriate amount for consumption of capital assets such as buildings or vehicles, known as depreciation. Capital expenditure is broadly expenditure on assets that are expected to be consumed over more than one year. The net cash requirement is the amount of cash that the department is authorised to spend. Parliament approves separate capital and resource budgets for Departmental Expenditure Limits (DELs) and Annually Managed Expenditure (AME). AME consists of items that may fluctuate due to factors outside departments' control, for example benefits payments or pensions. Within resource DEL, Parliament sets a separate limit for each department for administration costs.

C.7 Treasury controls, which are used to set budgets, are closely aligned with the fiscal rules, which are in turn based on the European System of Accounts. These correspond closely to the Parliamentary resource and capital controls framework. There are, however, some important differences of emphasis because of the way some of the key fiscal indicators are calculated. For example, Public Sector Net Borrowing (PSNB), one of the key fiscal indicators, is calculated by adding up resource and capital expenditure, and then subtracting depreciation. This means that depreciation is effectively excluded from the calculation of the PSNB.

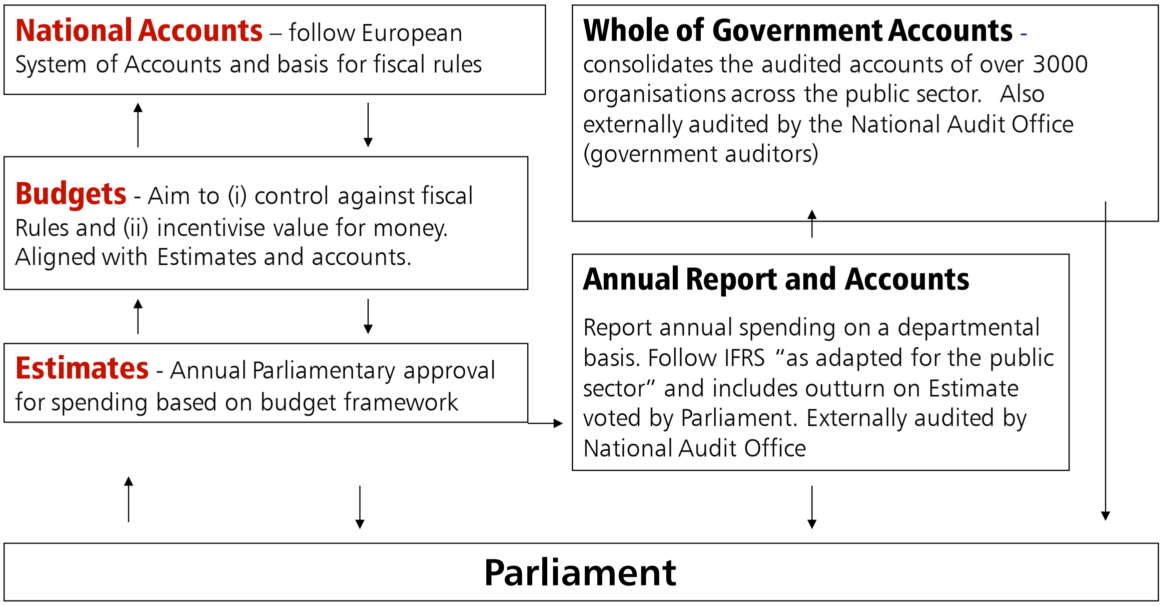
C.8 Government departments are required to report expenditure to Parliament in accordance with the standards set out in the *Government Financial Reporting Manual*,[5] which reflects international accounting standards, adapted where appropriate for use in the public sector. The Government has made a concerted effort in recent years to align the reporting framework with the Parliamentary budgeting framework, but a small number of differences remain. This means that the accounts that departments present to Parliament include a table to reconcile the reported spend to the amount voted by Parliament. Departments' accounts are audited by the National Audit Office, which is accountable directly to Parliament.

C.9 The Treasury combines departments' accounts with around 3,000 other public sector bodies to produce the *Whole of Government Accounts*.[6] These provide a consolidated set of financial statements for the UK public sector, showing the liabilities built up in the past and the financial pressures the Government faces in the future. The Whole of Government Accounts are also audited by the National Audit Office.

[5] HM Treasury (May 2013)

[6] HM Treasury, 2011 to 2012

Chart C.1: Relationship between Treasury and parliamentary controls and the reporting framework



Source: HM Treasury

Managing expenditure in year

C.10 The Treasury and departments work together to ensure that spending is managed within allocated budgets and the macroeconomic context and outlook for public spending is understood. Departments report monthly to the Treasury on their spending to date and forecasts to the end of the year. Departments enter figures into a central Treasury database (called OSCAR) which consolidates the figures to produce an overall forecast. Most departments also share the financial reports that go to their Boards with the Treasury to give visibility of financial risks and emerging cost pressures.

C.11 The Treasury holds back a relatively modest reserve for significant unanticipated spending pressures, but departments may access it only after they have demonstrated they cannot manage those risks in part, or in total, by reallocating within their overall budgets, and only then with explicit Treasury approval. As recommended in Treasury guidance,[7] departments are increasingly also holding back a proportion of their budget to deal with unanticipated cost pressures.

C.12 Individual projects that exceed departments' delegated spending limits have to be approved by the Treasury and, in some cases, the Major Projects Authority to ensure that they are consistent with government policy, represent value for money and are deliverable. The Treasury sets out rules and guidance for making major investment decisions in a publication known as the Green Book.[8]

How financial management has developed in recent years

C.13 The review builds on a long succession of reforms and innovations within financial management. Most recently government has introduced reforms to the budgeting and spending

[7] HM Treasury, Consolidated budgeting guidance from 2013-14 (March 2013)
[8] HM Treasury, The Green Book: appraisal and evaluation in central government (April 2013)

framework in the form of Budget Exchange[9] to reward effective financial forecasting, and improvements in the approach to monitoring, managing and providing oversight and scrutiny of public spending. The Finance Transformation Programme, launched in 2011,[10] has focussed on improving financial capability in central government departments. Greater oversight has been applied to specific categories of expenditure, via these controls that the Treasury has delegated to Cabinet Office. The culmination of several years' work saw the first ever Whole of Government Accounts[11] published in 2011 as a means of improving transparency and increasing accountability. Going back further, the goal of having qualified finance directors in all major departments was achieved in 2008 and the shift to Resource Accounting and Budgeting in April 2001[12] represented a major change in the way that central Government approached financial management.

C.14 This review marks the beginning of another important step in the evolution of government financial management.

The Finance Profession in Government

C.15 The Government has made a sustained effort in recent years to reduce the size and increase skills of the finance profession. Since 2006, the size of the finance community has fallen by over eight per cent to about 21,000. At the same time there has been a continued drive to increase the number of people qualified, or training to be qualified, as professional accountants. This now stands at about 9,000, over 40 per cent of the number of people working in finance, and three times more than it was in the year 2000.[13]

C.16 The Head of the Government Finance Profession is currently Richard Douglas, who is also the director general finance at the Department of Health. He chairs the Finance Leadership Group, whose membership includes senior departmental finance managers from across government.[14] Since 2004[15] there has been a requirement for directors general finance of major departments to be professionally qualified accountants.

C.17 The Finance Leadership Group established the Finance Transformation Programme in 2011 to develop skills and capabilities of finance professionals, and to better incorporate financial management within broader strategic decision-making processes. Its scope includes senior civil servant leadership development, talent management of finance staff in lower grades, departmental workshops on finance and professional training for graduate entrants. This review will build on the achievements of the Finance Transformation Programme.

[9] HM Treasury, Consolidated budgeting guidance from 2013-14 (March 2013)
[10] HM Treasury, Managing taxpayers' money wisely: commitment to action (January 2011)
[11] HM Treasury, Whole of Government Accounts, 2011 to 2012
[12] Government Finance Profession in association with CIMA, Government Finance Profession – A celebration of 30 years
[13] Finance Survey 2013
[14] FLG was set up in 2005. Membership currently consists of: DWP, DfT, BIS, CLG, DfE, HO, DH, DFID, HMRC, MoD, MoJ, Wales, Scotland, director public spending (HMT) and the Head of the Finance Profession.
[15] Government Finance Profession in association with CIMA, Government Finance Profession – A celebration of 30 years

D Private sector comparators

Approach

D.1 High quality financial management is clearly as vital for the private sector, as it is for the Government. Despite important differences between the private sector and the Government (Box D.1), the Government faces many similar issues to those of the complex private companies. Both come under public scrutiny (taxpayers for the Government, shareholders for the private sector), both need to take into consideration the impact of their decisions on society and the environment and both need to increase productivity, innovate and become leaner in the current economic climate. Therefore there are a number of lessons government could learn from the way private companies operate.

Box D.1: Comparison between private and public sector

- Parliament votes on what funds can be used for and sets constraints on how they can be spent in the public sector. Beyond the original Articles of Association (which are generally very broad) private sector enterprises are not similarly constrained, although the market will also act as a constraint;
- once the money has been distributed, Ministers and Accounting Officers are directly accountable to Parliament, as well as to the central finance function, on value for money and probity of their department's spend. Divisions in private sector companies are generally only accountable to shareholders through the Chief Executive Officer (CEO) and the Board;
- most government expenditure decisions are intended to deliver policy outcomes that are difficult to reliably quantify in financial terms. In the private sector, most decisions are about maximising financial returns;
- Government is vast – at £715 billion in 2011-12 UK government expenditure was 2.5 times that of the largest FTSE100 company – Royal Dutch Shell at £285 billion[1] and almost 80 times larger than one of the smallest FTSE100 companies – Vedanta Resources.[2] This has significant implications for governance and control;
- Government is very diverse, operating across a wide range of sectors, many of which have no private sector equivalents. Only one of the world's twenty largest corporations is a conglomerate; and
- in practice, government often has no choice about which activities it undertakes, and will either provide or, in effect, underwrite risk of provision of services considered to be essential (tax collection, law and order, defence, refuse collection, energy supply, transport, etc.).

[1] 2012 total revenues (as proxy) of $467,153 million. Exchange rate of $1:£0.61 as at 3 December 2013

[2] Based on constituents of the FTSE100 as at 23 September 2013. 2013 total revenues of $14,990 million. Exchange rate of $1:£0.61 as at 3 December 2013.

D.2 The review team held meetings and workshops with a range of private sector organisations, (Annex B), which have attributes similar to the public sector, including:

- employing a large workforce across multiple locations and managing corresponding logistical challenges;
- delivering multiple, interdependent functions including a customer facing role;
- affording different parts of the organisation a degree of operational autonomy, but sharing financial risk;
- operating in an environment that is sensitive to public opinion;
- managing a large and complex asset base;
- being regularly required to make decisions about major, long-term investments in infrastructure and technology; and
- having gone through a finance re-structure.

D.3 The team also consulted and a number of previous industry leaders and considered the experience of a senior partner from EY who, on behalf of Lord Sainsbury, compared government systems to those in the private sector. In addition, the team have carried out a desk-based review of trends in the private sector on the three main areas covered in the review – leadership of the finance function; spending controls and financial management information.

Findings on leadership

D.4 There are numerous leadership models within the private sector. The choice of model depends on the organisational structure of the company and the maturity of the company's business model. There are also a number of profiles for the Chief Financial Officer's (CFO) role, as well as a number of performance management methods.

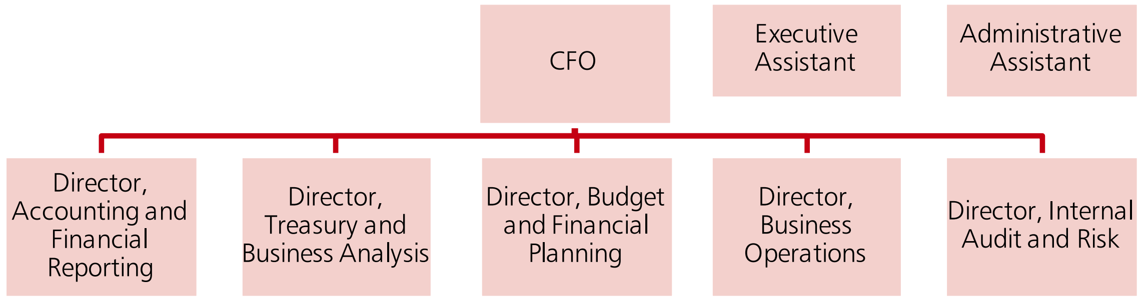
D.5 Typical responsibilities of the CFO[3] would include:

- accountability for the administrative, financial, and risk management operations of a business;
- primary responsibility for planning, implementing, managing and controlling all financial-related activities including the development of financial and operational strategies;
- direct responsibility for accounting, finance, forecasting, strategic planning, deal analysis and negotiations and investor relations; and
- reporting, as a key member of the Executive Management team, to the company CEO, director or President and assuming a strategic role in the overall management of the company.

D.6 CFO is normally supported by a finance team, which reports directly to him/her – a stylised structure is illustrated below:

[3] http://fdrecruit.co.uk/assets/resources/cfo-job-description

Chart D.1: Stylised organisational chart of the finance department in the private sector

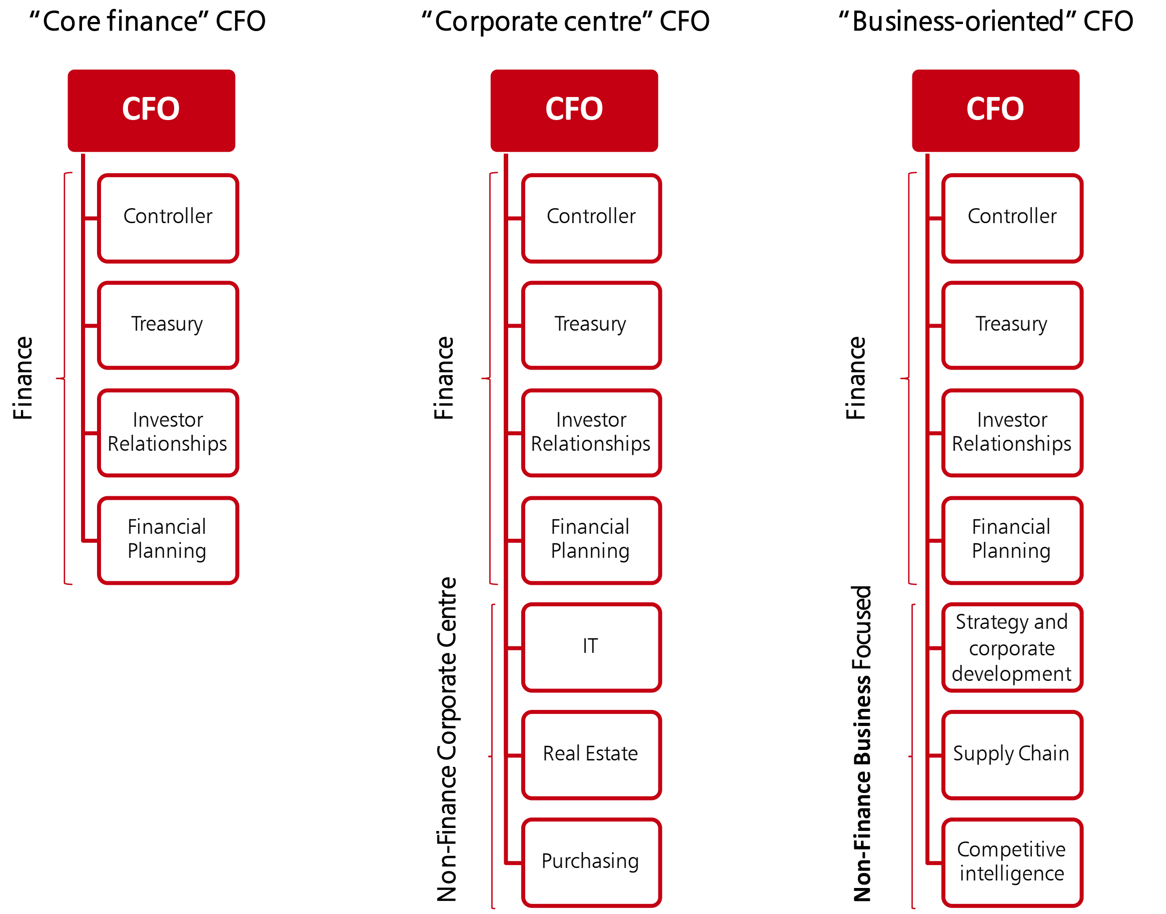


D.7 Many CFOs absorb a lot of additional activities and therefore likely to have direct reports from non-finance functions, like corporate development, IT, real estate, strategy etc. – depending on the model adopted by the company.

D.8 Three most common models for the CFO role in the private sector, are:

- the "Core finance" CFO, with only finance direct reports;
- the "Corporate centre management" CFO, with finance direct reports as well as responsibility for other non-finance corporate functions, like IT or property; and
- the "Business-oriented" CFO with responsibility for non-finance business functions like strategy, supply chain or competitive intelligence.

Chart D.2: Different models for the CFO role



D.9 Over recent years there has been a progressive shift towards "Business-oriented" CFO, which, alongside their traditional mandate to provide financial analysis and insights, is having a greater involvement in supporting and developing strategy, and guiding key business initiatives. Consero's 2013 Chief Financial Officer Survey[4] of Fortune 1000 CFOs found that the vast majority (81per cent) felt they worked at companies that viewed their finance operation as a "strategic business partner," involving the CFO in top-level decision-making.[5] 35 per cent of the respondents to the 2010 EY study "The DNA of the CFO"[6] agreed that they "play a leading role in developing corporate strategy".

D.10 If a company has a number of divisions or business units, typically each will have a divisional finance director, who will report to the divisional head and the CFO. Reporting lines from divisional finance directors to the CFO could either be "solid" or "dotted".

- the "solid-line" reporting relationship is similar to a traditional line management role. The "solid-line" manager tends to look after the objective setting and performance evaluation processes and in the event of a dispute is the manager to whom the individual will tend to defer;

[4] http://consero.com/2013-chief-financial-officer-data-survey-2/
[5] http://www.forbes.com/sites/kathryndill/2013/08/02/cfos-have-bigger-roles-than-ever-before-and-they-like-it-that-way/.
[6] http://www.ey.com/GL/en/Issues/Managing-finance/The-DNA-of-the-CFO---perspectives-on-the-evolving-role

- the "dotted-line" manager still has a formal right to some part of the individual's time and attention and will usually set some goals, but it is not a strong relationship as a "solid-line".

D.11 Typically "solid-line" reporting is used when CFOs are concerned about maintaining strong controls in response to either lack of confidence in finance function's capability or increased regulations. "Dotted-line" reporting is found in organisations where CFOs want to maintain close alignment between finance and business functions, by setting common reporting frameworks and establishing boundaries.

D.12 Companies which choose dual reporting structures (i.e. "solid-line" to one part of the business and "dotted-line" to another) typically emphasise different goals for different reporting lines. Amongst the benefits of this approach are stronger alignment and more frequent contact between group CFO and divisional finance directors on issues of finance strategy and business support.

D.13 In addition to the responsibilities set out above, private sector CFOs often have an objective to talent manage not only finance directors of individual divisions, but finance professionals more broadly – CFOs may be responsible for the talent management of around 50-60 people in their organisations.[7]

D.14 While there is no set template for what constitutes a good CFO, typical qualities of a successful CFO include[8]:

- over 10 years in progressively responsible financial leadership roles;
- strong interpersonal skills, ability to communicate and manage well at all levels of the organisation;
- strong problem solving and ability to make decisions based on accurate and timely analysis;
- high level of integrity and dependability;
- strong delegation skills; and
- ability to show and exercise strong judgement and to make and implement crucial recommendations.

D.15 There has been a long-standing discussion about whether a CFO needs an accountancy qualification to master the numbers, compliance and systems; or whether the CFO's role is to employ good accountants, not to be one.

D.16 Despite this debate, in 2012 the majority – 82 per cent – of FTSE100 finance directors held at least one accountancy institute membership or fellowship, and seven per cent had an MBA. The majority of finance directors without an accountancy institute qualification were in the mining or gas exploration sector.[9][10] Internationally, this picture varies significantly.

Findings on spending controls

D.17 Private sector companies tend to agree budgets and delegate delivery to business units. In return business units offer transparency on delivery of their delegated authority through regular

[7] Based on the discussion at the workshop with Shell, Diageo, Unilever and Tesco.
[8] http://fdrecruit.co.uk/home
[9] http://www.financialdirector.co.uk/digital_assets/5256/The_FTSE_100_FD_round-up_1.pdf
[10] http://www.financialdirector.co.uk/digital_assets/5257/The_FTSE_100_FD_round-up_2.pdf

reporting. To aid delivery, central finance functions set out clear finance best practice, which the rest of organisation is expected to follow. Non-compliance is treated seriously. This allows the centre to focus on higher risk matters in terms of impact and deal with the rest by exception.

D.18 If controls are imposed on individual elements of spend it is usually to address a particular problem (e.g. overspend on marketing) and therefore they are normally applied for a finite period of time or, in time, the importance is thought to be down rated. Those interviewed set out that setting controls for a long time results in a higher chance of people trying to game the system, or the process of compliance becoming too time consuming.

Findings on financial management information

D.19 The most widely used sources of financial information to monitor performance of individual divisions in the private sector are the monthly/quarterly management accounts and cash flow information in various forms. Each division will prepare a set of summarised accounting data (balance sheet, cash flow, and income statement) specifically for a firm's management. The objective of management accounts is to provide timely and key financial and statistical information drawn from a single dataset required by managers to make day-to-day and short-term decisions.

D.20 Private sector companies therefore spend significant time and effort to ensure that all spend is classified in the same way – a common chart of accounts, and tightly control the information collected and presented to Boards. CFOs would expect each divisional finance director to have access to much more detailed information than the one presented to the Board, but would not expect to review such information in detail, apart from in exceptional circumstances.

D.21 In addition, listed private sector companies must prepare half-yearly and annual accounts from the company's financial records. These are available to the shareholders and the general public. If the company is not listed it is required to produce an annual report and file it with the Companies House.

D.22 The review team's research has shown that, in the private sector, performance is in general monitored by a series of Key Performance Indicators (KPIs) matched against key risks. An average process involves the central finance function setting a number of KPIs, which are then negotiated and agreed with various business units. Once agreed, 100 per cent compliance is expected. If KPIs create adverse incentives, or no longer have the desired impact, the KPIs are changed.

D.23 Large organisations, which operate in a variety of markets, in general will benchmark performance of their individual divisions with the performance of the relevant comparable companies.

E Public sector comparators

International comparators

E.1 The review surveyed a total of 20 other countries, for 15 of those, written returns were received from the British Embassies (Australia, Austria, Belgium, Croatia, Czech Republic, Denmark, Greece, Holland, Ireland, Luxembourg, New Zealand, Portugal, Romania, Slovakia and Spain). Additionally, the review conducted meetings with five countries – Canada, France, Germany, Sweden and the US – to explore their approach to financial management in more detail. Most countries surveyed are going through a phase of constraining public expenditure, and so face similar challenges to the UK. Although most countries have different systems, at both the parliament and executive level, there are common themes and lessons from across a range of countries. Table E.1 highlights some of the key differences between the countries surveyed.

Table E.1: Key similarities and differences between selected countries

Country	Public Sector % GDP/ $Bn	Central Govt as a proportion of: Spend/ Tax	Multi-year Budgets	Performance Metrics
UK	49/1,109	70/90%	Binding for each Ministry	Variable
Canada	43/600	30/65%	Indicative for each Ministry	Variable
France	56/1,295	35/65%	Binding for each Ministry	In place
Germany	44/1,430	15/30%	Indicative for each economic category	Variable
Sweden	51/ 199	55/40%	Binding in aggregate	In place
US	42/6,524	55/55%	Binding in aggregate	In place

Sources: OECD, Government at a Glance 2013 (November 2013), International Monetary Fund, Public Financial Management and its Emerging Architecture (2013)

International institutions

E.2 The International Monetary Fund (IMF) recently published *Public Financial Management and its Emerging Architecture*, which reports that:

"A unifying public financial management framework must cover major policy questions, such as the fiscal position of government, as well as operational issues, such as the provision of specific

services. The framework must be useful to practitioners but must also provide a basis for scholarship and research."[1]

E.3 As set out in Annex C, UK financial management is underpinned by a well established legal framework. Many of the improvements the UK has made in recent years have focussed on ensuring that budgeting and reporting frameworks are coherent and that strong leadership of the finance function across government is in place. As recommended by the IMF, this review aims to further strengthen leadership, and makes recommendations on standardising and integrating financial processes.

E.4 The International Budget Partnership assigns a budget transparency score based on questions that focus on whether the government provides the public with timely access to comprehensive information contained in eight key budget documents. The Open Budget Index measures the overall commitment of countries to transparency and allows for comparisons among countries. The UK is ranked third among 100 countries covered by this index, behind New Zealand and South Africa.[2]

Other countries: common themes

Management information

E.5 Most countries are reducing public spending, and are therefore focussing more sharply on efficiency. Most are developing, or have developed, output indicators – to varying degrees of specificity – that will allow them to improve efficiency and ensure that resources are effectively targeted. There is widespread recognition that this is challenging, because of the complex nature of governmental activities and outputs. Some countries handled this by focusing on outputs in only priority areas. There was also recognition that having adequate mechanisms in place to analyse and interpret the data is important.

E.6 Table E.2 shows that 85 per cent OECD countries gather performance information of some kind from a range of sources. But only the French always use this as part of their budget setting process, and they rarely use financial data in the same negotiations.

[1] International Monetary Fund, Public Financial Management and its Emerging Architecture (2013)

[2] International Budget Partnership, Open Budget Survey 2012 (January 2013)

Table E.2: Performance budgeting practices at the central level of government (2011)

	Existence of standardised performance budgeting framework for central government	Use of performance information in negotiations with CBA						Consequences for poor performance		
		Financial data	Operational data and performance reports	Spending reviews	Statistical information	Independent performance information	Performance evaluations	Organisational or programme's poor performance made public	Intensified monitoring of organisation and/or programme	Budget decreases
Australia	No, Line Ministries/Agencies have their own	●	○	○	❍	⊙	○	⊙	○	❍
Austria	Yes	x	x	x	x	x	x	⦸	⦸	⦸
Belgium	No, Line Ministries/Agencies have their own	●	⊙	⦸	○	❍	❍	⦸	⊙	⦸
Canada	Yes	●	●	○	○	⊙	○	❍	○	❍
Chile	Yes	●	⊙	x	⊙	⊙	○	●	⊙	⦸
Czech Republic	Yes, but optional	❍	❍	x	⦸	⦸	x	⦸	⦸	⦸
Denmark	Yes	●	❍	⊙	❍	❍	⊙	○	⊙	●
Estonia	Yes	●	⊙	⦸	❍	❍	❍	❍	⦸	⦸
Finland	Yes	●	❍	○	❍	⦸	❍	○	❍	○
France	Yes	❍	❍	❍	⊙	⊙	●	⊙	○	❍
Germany	No, Line Ministries/Agencies have their own	❍	❍	x	⦸	❍	❍	⊙	○	⊙
Greece	No, Line Ministries/Agencies have their own	●	●	●	●	●	x	❍	❍	⊙
Hungary	No, Line Ministries/Agencies have their own	●	⊙	⦸	❍	❍	⊙	⦸	❍	❍
Ireland	Yes	●	⊙	●	⊙	❍	○	⊙	⊙	❍
Italy	Yes	●	⦸	⊙	⦸	⦸	❍	⦸	⊙	⦸
Japan	Yes	⊙	⊙	x	⊙	⊙	⊙	●	⦸	⊙
Korea	Yes	○	○	○	⊙	❍	○	○	○	○
Luxembourg	No, Line Ministries/Agencies have their own	●	❍	❍	❍	❍	❍	⊙	❍	⊙
Mexico	Yes	●	●	●	●	⊙	○	●	●	❍
Netherlands	Yes	●	⊙	○	○	○	⊙	❍	⊙	⊙
New Zealand	Yes	○	❍	⊙	⊙	❍	❍	○	⊙	❍
Norway	Yes	⦸	⦸	x	⦸	⦸	⦸	❍	⊙	❍
Poland	Yes	⊙	⊙	⊙	⊙	x	x	⦸	⦸	⦸
Portugal	No, Line Ministries/Agencies have their own	●	❍	⦸	❍	⊙	⦸	⦸	⦸	⦸
Slovak Republic	Yes	●	●	●	●	⊙	⊙	❍	⊙	⊙
Slovenia	Yes	●	●	⦸	❍	⊙	⊙	○	❍	❍
Spain	Yes	❍	❍	⦸	⦸	⦸	❍	⦸	⦸	⦸
Sweden	Yes	●	○	❍	⊙	⊙	⊙	⊙	⊙	⊙
Switzerland	Yes	●	○	⊙	●	●	⊙	❍	⊙	⦸
Turkey	Yes	●	⊙	❍	○	⦸	⊙	❍	❍	❍
United Kingdom	No, Line Ministries/Agencies have their own	●	○	●	⊙	○	⊙	●	⊙	❍
United States	Yes	x	x	x	x	x	x	..	..	..
Russian Federation	Yes	●	○	⊙	○	⊙	○	⊙	❍	❍
Total OECD										
● Always		21	5	5	4	2	1	4	1	1
○ Usually		2	5	5	4	2	6	5	5	2
⊙ Occasionally		2	9	5	9	10	10	6	12	7
❍ Rarely		4	9	4	8	9	8	8	6	11
⦸ Never		1	2	6	5	6	2	8	7	10
x Not applicable (information not produced or negotiations do not take place)		2	2	7	2	3	5	0	0	0

Source: OECD, Government at a Glance 2013 (November 2013)

E.7 The focus on output measures allows for better performance management of lower level budget holders and agencies. Most countries surveyed have processes in place by which the people responsible for delivering policy have regular conversations with departments or Parliament about their overall costs and performance. Few attempted to control centrally how the money was spent, although many set a limit on wage costs.

E.8 There was a difference in the level of detail of financial information that Finance Ministries receive. In one case (France), there is an IT system that allows the Ministry of Finance to follow individual financial transactions as they are made. In other cases, Finance Ministries (or relevant agencies such as the Office of Management and Budget) ask for data from Ministries and Agencies as it is required, but would not have routine access to information at the transactional level. This system is more similar to that operated in the UK.

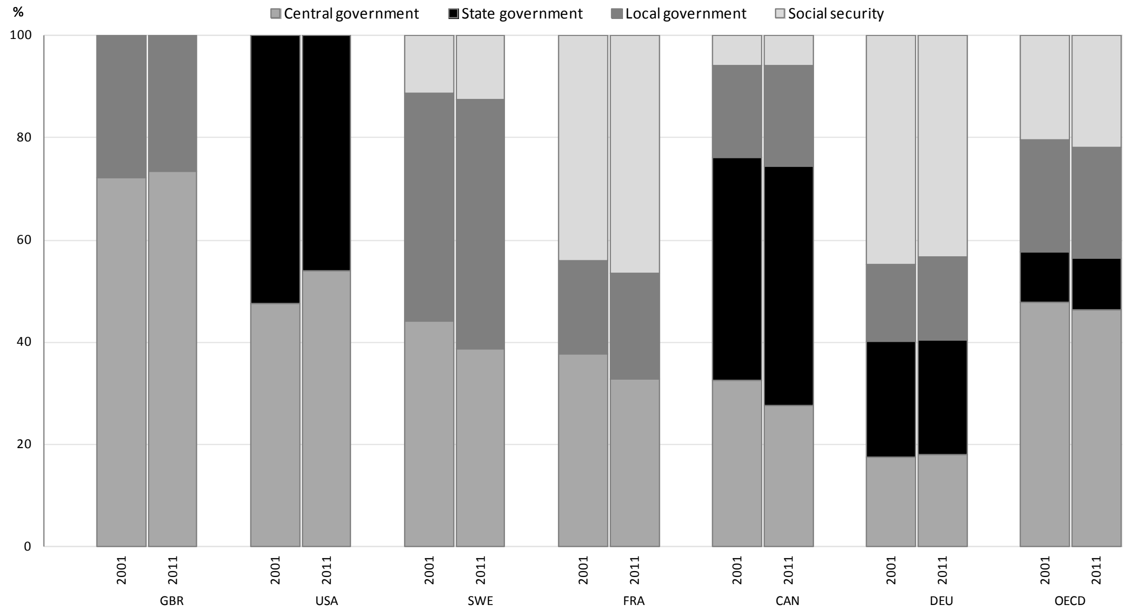
Controls

E.9 None of the countries surveyed set firm budgets for departments or programmes for more than one year, although most set the overall spending limit for three years. The European countries are bound by the European Stability Pact, which sets limits in legislation on public borrowing. Many countries would like to move towards multi-year budgets at lower levels, and expressed significant interest in the UK model.

E.10 In most of the countries examined, parliament specifies budgets at a much lower level of detail then in the UK. In the UK, Parliament votes on about 50 separate lines each year, as opposed to several hundred in several other countries surveyed. These budget lines usually specify the purpose for which the expenditure can be made.

E.11 Chart E.1 shows that the UK central government accounts for over two thirds of public spending, as opposed to half or less for other countries. The differences for taxation are even higher, with the UK at 90 per cent and other countries at less than half. The latest available comparative data is from 2011.[3]

Chart E.1: Countries surveyed: central government expenditure as a proportion of total public expenditure (2011)



Source: OECD, Government at a Glance 2013 (November 2013)

E.12 In many of the countries surveyed more policy decisions are driven by the government collectively rather than within departments – partly driven by countries that more often have coalition governments. The UK system emphasises the role of departmental Ministers as being responsible for the design and implementation of policies in their areas, and Parliament will hold them responsible for their effectiveness. This is underpinned by the direct responsibility that departmental Accounting Officers have to Parliament.

E.13 These differences affect the budget setting process. In the UK, this broadly consists of series of negotiations between departments and the Treasury to allocate funding for existing or new policy priorities within an overall spending total calculated by the Treasury. Once this is agreed, it is usually approved by Parliament without significant amendments. In most other countries, policy and funding are decided by the government collectively and presented as a package to parliament. There is then often a series of negotiations between the Government and Parliament on individual budget lines.

E.14 Tables E.3 and E.4 show the extent to which countries use multi-year budgeting, and whether they allow spending to be transferred between years. 88 per cent of countries surveyed operate some form of multi-year budget control at an aggregate level. Separate work carried out by the IMF,[4] found that only the UK and France set budgets for departments for more than

[3] OECD, Government at a Glance 2013 (November 2013)

[4] International Monetary Fund, Public Financial Management and its Emerging Architecture (2013)

one year. About two thirds of countries allowed departments to transfer unspent funds from one year to the next. Like the UK, just under half of these imposed a threshold on how much revenue expenditure can be carried over.

Table E.3: Medium-term perspective in the budget process at the central level of government (2012)

	Existence and legal basis of MTEF	Length of ceilings (including upcoming fiscal year)	Target(s) of expenditure ceilings		
			Total expenditures	Programme or sector expenditures	Organisational expenditures
Australia	❍	4 years	✓		
Austria	●	4 years	✓	✓	
Belgium	⊘	x	x	x	x
Canada	❍	3 years			✓
Chile	❍	3 years	✓		
Czech Republic	⭘	3 years			
Denmark	●	4 years		✓	
Estonia	❍	4 years			✓
Finland	❍	4 years	✓		
France	●	3 years		✓	
Germany	⭘	4 years	✓	✓	✓
Greece	●	5 years			✓
Hungary	⊘	x	x	x	x
Ireland	❍	3 years			✓
Israel	⊘	x	x	x	x
Italy	❍	3 years	✓	✓	
Japan	❍	3 years	✓		
Korea	●	5 years	✓	✓	
Luxembourg	⊘	x	x	x	x
Mexico	●	5 years	✓		
Netherlands	●	4 years	✓	✓	
New Zealand	❍	4 years	✓	✓	
Norway	❍	6 or more years	✓		
Poland	●	4 years			
Portugal	●	4 years		✓	
Slovak Republic	⭘	3 years			✓
Slovenia	⊙	4 years	✓		
Spain	⭘	3 years	✓		
Sweden	⭘	3 years	✓		
Switzerland	●	4 years	✓		
Turkey	⭘	3 years	✓		✓
United Kingdom	❍	4 years			✓
United States	●	6 or more years		✓	
Russian Federation	⊙	3 years	✓	✓	✓
Total OECD			17	10	8
● Yes in a law which stipulates both the existence of a MTEF and budget ceilings	11				
⭘ Yes in a law stipulating the creation of a MTEF which should be based on budget ceilings	6				
⊙ Yes in a law stipulating that spending thresholds should not exceed medium term estimates	1				
❍ Yes in a strategy/policy stipulating the MTEF and/or budget ceilings	11				
⊘ No	4				
x Not applicable (e.g. No MTEF in place)					

Source: OECD, Government at a Glance 2013 (November 2013)

Table E.4: Ability of line ministers to carry over unused funds and borrow against future appropriations (2012)

	Number of sub-limits on line ministries' lump sum appropriations	Ability of line ministries to borrow against future appropriations		Ability of line ministries to carry over unused funds or appropriations from one year to the next	
		Operating expenditure	Investment expenditure	Operating expenditure	Investment expenditure
Australia	0	○	○	x	x
Austria	n.a. (no lump sums)	○	○	●	●
Belgium	2	○	○	○	○
Canada	2	○	○	**○**	**○**
Chile	3 or more	○	○	○	○
Czech Republic	3 or more	○	○	●	●
Denmark	1	**○**	○	●	●
Estonia	1	○	○	**○**	●
Finland	0	○	○	●	●
France	0	○	○	**○**	**○**
Germany	n.a. (no lump sums)	**○**	**○**	○	○
Greece	3 or more	○	○	○	○
Hungary	1	○	**○**	●	●
Ireland	0	○	○	○	**○**
Israel	3 or more	○	○	●	●
Italy	1	○	**○**	○	**○**
Japan	0	○	○	●	●
Korea	3 or more	○	○	●	●
Luxembourg	1	○	**○**	○	●
Mexico	3 or more	○	○	○	○
Netherlands	0	○	○	**○**	**○**
New Zealand	0	**○**	**○**	**○**	**○**
Norway	0	○	○	**○**	**○**
Poland	0	○	○	○	○
Portugal	1	○	○	●	●
Slovak Republic	2	○	○	○	●
Slovenia	1	○	○	●	●
Spain	n.a. (no lump sums)	○	○	**○**	**○**
Sweden	0	**○**	**○**	**○**	**○**
Switzerland	0	○	○	●	●
Turkey	n.a. (no lump sums)	○	○	○	○
United Kingdom	n.a. (no lump sums)	○	○	**○**	**○**
United States	3 or more	○	○	**○**	**○**
Russian Federation	3 or more	**○**	**○**	**○**	●
Total OECD					
● Yes, without threshold		0	0	11	14
○ Yes, up to certain threshold		4	6	10	11
○ No, not permitted		29	27	11	7
x Not applicable		0	0	1	1

Source: OECD, Government at a Glance 2013 (November 2013)

Leadership of the Finance Profession

E.15 There were significant differences between the countries studied in the way they managed finance as a profession in government. Few placed the same emphasis as the UK does on employing professionally qualified accountants, or had a 'head of finance profession' as we do. But the Finance Ministry did sometimes play a greater role in the selection and appointment of finance officers in departments and agencies, including having direct line management of some senior finance posts. This tended to be in countries that take a more centralised approach to financial management.

Local government

E.16 Lessons can also be learned from local government. The review team consulted with a small group of leading local government finance professionals, as well as other public bodies.

While the challenges and scale of their work differed, some of the progress that has been made at the local government level is relevant for the wider public sector. In particular, those surveyed stressed the importance of relationships internally within finance, as well as linking to policy and delivery arms of the business. Medium term planning was also highlighted as an important aspect of good financial management, and in particular taking a risk based approach. Finally, those working in local government pointed out that setting out the powers and responsibilities of the senior financial office in legislation (the 'Section 151' role), gave them more influence than less formal arrangements.

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