



HM TREASURY FINANCIAL SKILLS ADVISORY PANEL

DOING THE BUSINESS

EMBEDDING FINANCIAL MANAGEMENT
SKILLS IN GOVERNMENT

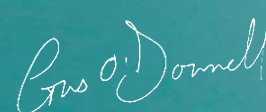
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We are grateful to the members of the many professional advisory firms and bodies who gave their time to work with the Cabinet Office and HM Treasury to deliver their collective views on Embedding Financial Management Skills in Government.

Improving performance and financial management is a key part of the current public sector reform – and vital in enhancing the delivery of cost-effective public services. We know that organisations across the public sector will find the contents of this publication helpful in their work to enhance their performance.



Sir Gus O'Donnell
Cabinet Secretary and
Head of the Home Civil Service



Nicholas Macpherson
Permanent Secretary
HM Treasury

Foreword

Good financial management is like fresh air, exercise and a healthy diet. Organisations need it every day to stay fit and to live a full and active life.

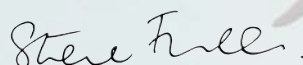
The very best organisations have understood this need and taken steps to develop financial management skills throughout their operations so that every business decision is underpinned by a proper understanding of its financial implications.

In Government Departments – the central focus of this publication – there is lots of scope for further progress and improvement in this area. Focusing on the professionalisation of the finance function has been a very logical place to begin to strengthen financial management capacity but increasingly Departments now need to promote and develop stronger skills and awareness at Board level and throughout the management structures of the organisation.

These are significant challenges, however. Embedding really strong financial skills throughout large, complex organisations takes time and commitment. In return the benefits are potentially huge. At the end of the journey we envisage high performing organisations which are confidently led, focused on delivering excellent results and passionate about maximising value for taxpayers' money.

So we should not make the mistake of regarding good financial management as the province of technocrats. Rather we should see it as the toolkit of leaders and managers who want to improve their organisations and make a real difference to the functions and services they deliver. We hope that this publication will help and encourage them in their efforts.

Finally I must add a word of thanks to all of the members of the Financial Skills Advisory Panel, as well as respondents and interviewees, for the time they have generously made available to this project. In particular, special thanks go to Roger Russell and colleagues at Veredus who have played a particularly key role in the conduct of research and in the production of this publication.



Steve Freer
Chair,
Financial Skills Advisory Panel.

Financial Skills Advisory Panel

In June 2006 HM Treasury held a Conference of Financial Management Advisors to Government to explain the key elements of the Department's financial management change agenda. The event represented a valuable opportunity for specialists currently engaged in providing services to Government Departments and the public sector more generally to act as a sounding board in relation to the proposed strategy and to offer reactions and advice accordingly.

Four key themes emerged from discussions at the event. These reinforced observations previously made by HM Treasury about what the key drivers for enabling change in this area might be. The themes identified were:

- best practice;
- corporate structures;
- performance management; and
- financial skills.

Following the conference, four focus groups, or 'advisory panels', were established with the aim of exploring each theme in greater depth.

The role of the Financial Skills Advisory Panel has been to focus on identifying the key challenges concerning embedding appropriate financial skills throughout Government Departments. In addressing these issues the Panel has drawn on its collective expertise in this field and conducted research with Chief Finance Officers and others in both the public and private sectors. The views expressed in this publication represent a synthesis of these inputs.

Details of the membership of the Advisory Panel can be found at Appendix 3.



Introduction

Background

Financial management skills, along with a number of other areas, has been earmarked for significant improvement under the Professional Skills for Government (PSG) agenda and the finance transformation programme led by HM Treasury.

The drive to increase capacity and promote the importance of professional qualifications has already led to a number of new senior finance appointments, from both public and private sector backgrounds.

Initial change programmes have focused on the finance function within Departments. However, an equally important challenge is to develop greater financial skills, awareness and capability within the wider organisation where levels of financial acumen continue to require attention.

While the finance team is an obvious starting point in any drive to improve financial management skills, it is important that the change programme also addresses the need to develop financial competence and capability in the organisation's "non-financial" leaders and managers. Indeed if organisations are really serious about *embedding* financial management skills and disciplines, it is absolutely critical to engage Board members and general/service/business managers throughout the business.

Financial skills equip managers with the ability to evaluate the short, medium and long run resource implications of different courses of action. This in turn increases levels of ownership of spending decisions,

ensures tighter control of financial resources and encourages better decision-making. In Government, the best courses of action will generally be those which best demonstrate economy, efficiency and effectiveness over the long term and which therefore offer best value for money (VfM).

Developing effective engagement and communication between finance professionals and their colleagues and other stakeholders is also a key step. Better use of financial information and stronger financial disciplines are more likely to be implemented if there are good working relationships, effective communications and a shared understanding of perspectives between finance specialists and other key players in the organisation.

Strengthening skills across finance and more widely, will lead to real and tangible benefits in relation to the achievement of efficiencies and VfM. Such improvements support public accountability by demonstrating confident, robust and transparent management of public funds.

Increasing the current level of financial acumen and embedding financial skills throughout Whitehall will lead to major improvements in the way that financial systems and information are currently utilised. It will support a more businesslike approach to running Government and public services. It has the potential to be a major contributor to efforts to turbo-charge change, improve performance and transform services and the organisations which deliver them.

Issues and Challenges

Prior to undertaking research to test its own views, the Panel made a number of observations about the quality and profile of financial management within Government and about some of the key challenges which, if tackled successfully, would lead to significant improvement.

These included:

CHALLENGES	BENEFITS OF ADDRESSING THE ISSUE
The need to raise levels of financial awareness within Government Departments (including at Board level);	More robust business planning, decision making and performance resulting in improved services and more consistent delivery.
The need to better understand the role of, and make best use of, the Chief Finance Officer;	Permanent Secretary and the Board better supported in developing and delivering long term strategy and better able to manage shifts in policy direction and to ensure effective delivery.
At Board level, a reluctance to challenge in relation to high-level finance matters;	A more robust process of constructive challenge leading to better and more informed decision making and improved governance.
The tendency to emphasise new policy developments and service delivery at the expense of, or with little regard for, financial control;	Resources better matched to service need and efficiency gains delivered.
The reluctance/failure to prioritise, to stop some activities in order to create headroom and release resources for new initiatives;	Resources focused on today's and tomorrow's priorities; realistic work programmes which can be delivered within budget.
The need to strengthen fundamental disciplines such as month-end procedures and forecasting and ensure that these are sufficiently robust to cope with, for example, machinery of government changes;	Better management, mitigation of risk and improved value for money.
The need to broaden the focus and understanding of the numbers which matter within the business to include, for example, fundamental cost drivers and comparative unit costs;	Better management and greater financial accountability at operational level.
The need to ensure that the finance function is positioned as an accessible advisory/support service which can help the organisation conduct its business more effectively and deliver better results;	Reliable performance management information enables better operational management and early remedial action to address under-performance.
The need to identify and access best practice in other organisations and to import it effectively into Departments;	Avoidance of wasteful reinvention of solutions which already exist. Implementation of solutions which are proven. Growth of a culture of continuous improvement and learning.
The need to overcome difficulties concerning the recruitment and retention of high quality finance professionals;	Increased capability, capacity and continuity within the organisation to manage resources, set strategy, plan and monitor performance and achieve objectives.
The need to develop business leadership, engagement, communications and listening skills amongst finance professionals who are technically competent in their own specialist areas but need to develop and strengthen engagement skills to be effective in the wider organisation.	Increased effectiveness in working corporately. Finance skills drawn more effectively and more routinely into decision making.

For many organisations within the public sector, embedding financial skills and raising levels of financial awareness will involve significant cultural reform. Culture change has already started as part of the drive for greater professionalism within the Senior Civil Service but there is a distance still to travel.

The 2007 Comprehensive Spending Review places continuing emphasis on the need to improve productivity and performance levels, and to meet challenging efficiency targets. This agenda is helping to stimulate a higher level of awareness of the importance of financial management and the key numbers which matter to the business. In turn, it is driving growth in customer demand for financial support and advice within Departments. These conditions create a timely opportunity to capture hearts and minds and to secure powerful corporate commitment to embed financial management skills more widely within Departments.

In order to seize this opportunity, today's finance teams must take a more active and confident role in the organisation. They must do more than simply account for the Department's decisions and actions. They must provide the right information, advice and support at the right time and work more closely with the Board and managers to ensure that these inputs are used effectively to manage a high performing business which delivers the right outputs and contributes to good outcomes.

Research methodology

The Panel wished to test its own initial views by tapping into the experiences of senior practitioners throughout both public and private sectors.

It achieved this by canvassing the views of around 65 senior professionals in finance and other related roles within Government Departments, wider public sector organisations such as local government and health, and the private sector.

A simple questionnaire was designed to encourage respondents to identify gaps, synergies, expectations and options for growing finance capacity and capability within public sector organisations. A number of face-to-face interviews also took place during May to July 2007.

By approaching a number of Finance Directors from companies within the FTSE 250, amongst a wider sample of experienced public and private players, the Panel was seeking in particular to gain external perspectives on financial

management practice in the public sector and to access best practice which might be transportable to Government Departments.

However, while there is some excellent practice within the private sector, where performance management systems are well established, nevertheless levels of performance within companies are as variable as they are in the public sector. This provides helpful insight into the challenges faced by organisations in all sectors. Accordingly, while private sector practice remains an interesting source of ideas, it should not, in the Panel's view, be regarded as a panacea.

In addition, research highlights many examples of good practice within the public sector from which other Government organisations could learn. The challenge in this area is to identify good practice more systematically, communicate it more widely and develop capacity to import it more efficiently into organisations.



Observations and Conclusions

The Panel has grouped its observations and conclusions under three headings: the Board, the Business and the Finance Department. These attempt to focus on prerequisites for success, the fundamentals which must be in place if appropriate financial management skills are to be successfully developed in these three key areas and embedded within Government Departments.

Quotations highlighted in this section are drawn from interviews conducted during the research phase of the Panel's work.

The Board

Pre-requisites for success:

- recognise financial management as a strategic enabler within the organisation;
- sponsor transformation and capacity building rather than short term fixes;
- lead by example by demonstrating good financial management at the Board.

"It is important for all managers, including Boards, to ensure that short-term pressures to perform on aspects of our work do not prevent a full and rounded consideration of policy and operational issues."

Financial management is a discipline that must be driven with energy and commitment from the top of the organisation. The Board should have a clear view of the style of financial management which it wants the organisation to subscribe to and evidence in its day-to-day business, and it must have a strategy for making it happen. It should set clear targets in relation to the financial skills which it wants to develop in the organisation and the financial results which it aims to achieve.

The Board itself must have the skills and experience to identify risks and rewards inherent within a particular course of action. It must have the ability to analyse and learn from past decisions and actions which may or may not have delivered expected results.

The Board's agendas and meetings should be organised to ensure a clear strategic focus on the organisation's financial performance. It should receive regular, timely information interpreting financial results, trends and forecasts in the context of the service and business performance of the organisation.

"There is no training offered at Board level...the assumption is that people at this level within the business will have the requisite financial management abilities."

Ideally, Board members should be financially literate and trained to an appropriate level of financial competence before they join the top team. They should have, or should quickly develop, an understanding of the key financial drivers and risks facing the organisation and of its internal control framework. In the event that Board members lack these competencies, urgent steps should be taken to provide coaching or training for the individual(s) concerned.

Although accountability for financial control and assurance systems rests firmly with the finance department, responsibility for sound and effective financial management should not be perceived as belonging solely to the Chief Finance Officer or the Accounting Officer for the purposes of Parliamentary scrutiny.

All managers should, by definition, be accountable for the financial implications of the decisions which they take or on which they give advice. Robust and transparent financial

management must be regarded throughout the whole organisation as a pre-requisite for good decision making and successful delivery of planned outputs and outcomes. It should be a major interest for all members of the Board and it should be a significant driver of the day-to-day business in both policy development and service delivery.

In short, there needs to be a much stronger appreciation of the fundamental importance of finance to decision-making at all levels in the business from strategy-setting through to detailed operational management. Only when this exists can other crucial aspects of high performance, such as the drive to achieve a continuous stream of efficiency gains, be made to feel relevant to the objectives of all teams and members of staff.

The Departmental Board should understand these connections and recognise its responsibility to champion the value of good financial management and its place at the heart of the business.

Financial information must be related to the business if it is to be properly utilised within the organisation. At Board level for example, the financial implications of alternative options must be carefully considered and modelled around different assumptions at appropriate stages of strategy development. Skilled finance professionals must be involved from the outset in strategy and policy development and must work side by side with a range of other players – policy and delivery experts, other advisors, etc – in an effective team. The team should be committed to developing strategies and policies which can be implemented successfully and which will deliver desired results.

“A key problem for me is that my organisation can’t differentiate between cost and value.”

One of the common problems associated with finance is that it can be viewed as an exact science and an end in itself.

On the contrary, financial management is an enabler. It is not just about accounting for historical events; it is about the management of the business moving forward. It is about creating the right incentives for the resources at the Department’s disposal to be used wisely and in a way which represents good value for money. As well as providing the right historical and predictive information to enable the Board and the management to steer the organisation effectively.

Finance (and finance professionals) has to be respected throughout the organisation. There are some major perception issues to be addressed in this area. Historically, the finance function has been poorly understood and poorly regarded within large parts of Government. It has also been underused and undervalued.

Confronting and dealing with these perception problems is key to success. But there is a challenge here which finance teams must rise to. The function must earn a higher profile and respect in the organisation by actively demonstrating its knowledge and understanding of the business and the value which it can add. It cannot simply assert its importance or assume entitlement to a privileged position in the organisation.

Non-executive Board members – particularly those who are financially qualified – can play a major role in encouraging Boards and the organisation to tackle this agenda. For example, they can ask the ‘hard-nosed’ questions which test the numbers and which send the message that the Board does not take decisions

unless it is confident that recommendations have been framed having regard to robust financial data and analysis.

Non-executives can also steer the Board towards engagement with the wider and long term cultural changes which will embed financial management within the bloodstream of the organisation.

The Board should also ensure that the organisation is investing appropriately in building capacity in the area of financial skills and understanding which are key to the business.

Crucially, the Board must not abdicate its responsibilities on the pretext that all of these matters are the sole and exclusive responsibility of the Chief Finance Officer.

He or she is a key player in all of these areas, but responsibility rests with the Board as a whole and should be actively managed by them.

Overridingly, the Board must remember that managing the numbers – rather than being managed by them – is critical to success. Good financial management must therefore extend to all aspects of the organisation’s responsibilities all of the time. It must not be set aside or suspended to fast-track a pet project or announcement. On the contrary, if necessary, good financial management must be fast-tracked to ensure that urgent decisions are soundly and wisely made.

The Business

Pre-requisites for success:

- promote the benefits which better financial management will bring to the organisation;
- invest in skills development;
- reflect appropriate financial management measures in performance targets.

“Generally there is a lack of financial awareness among senior managers and....[therefore]....all managers will be given a course on finance for non-financial managers. Financial risk is a huge area that non-financial people really do need to understand in greater depth”.

Developing financial acumen and skills in non-finance staff who are responsible for managing the business represents a major opportunity for improving organisational performance.

Embedding financial skills in the wider organisation must start with education about the practical benefits of good financial management. This is highly relevant in Government, where there is a clear premium on public accountability and value for money.

An understanding of good financial management and a matching skill-set can help managers to demonstrate good stewardship of resources, good decision making and good value for money. It can facilitate systematic measurement and better management of performance. It can promote a better understanding of the risks facing the business and the development of effective strategies for change management which factor in risk.

Building financial capacity should flow naturally from the alignment of development plans with wider strategy.

Strong financial management must include the capability to identify and deal effectively with poor performance. This means developing early detection

systems and taking decisive action to address ineffective policies and inefficient operations, including closing down or instigating major re-engineering where necessary.

It is also about benchmarking and identifying best practice. Key processes and metrics need to be more effectively identified across Government and compared with relevant benchmarks from other public and private sector organisations. Best practices from both sectors need to be identified and made readily accessible to relevant staff within Government.

However, this is about more than information. It is about attitudes to finance and about developing a passion to deliver value for money. This must start from the top of the department where the importance of finance should be championed not only by the Chief Finance Officer but also by the Board and by the Permanent Secretary. It must also be cultivated within individual units. One response to this might be to create “finance champions” within each unit, to emphasise the importance of ‘the numbers’ and the value of the finance team as a supportive business partner.

The Board should help to shape a vision and strategy for finance to underpin the strategy and mission of the Department. They must ensure that the strategy is widely and positively communicated. Securing the buy-in and support of all Board Members – particularly the Permanent Secretary – is critically important. They set the tone for the whole organisation. If they are not convinced about the fundamental importance of good financial management the wider organisation is likely to receive mixed and confusing messages.

Robust implementation of the Professional Skills for Government (PSG) programme is critical. Investment in making PSG happen is therefore another pre-requisite in

terms of ensuring that the relevant skills are embedded to enable good financial management to be practiced throughout the organisation.

In most circumstances organisations will benefit from growing their own financial skills and awareness internally, rather than defaulting to external consultancy support.

Developing capacity within the organisation, in the process influencing organisational culture, will deliver the best long term results.

“It has been important to instil a considerable amount of rigour and discipline which was more evident in my role in the private sector.”

Appropriate performance management systems and measures must be implemented to drive levels of financial awareness in a positive way. This means developing an approach which encourages the right supporting behaviours including ensuring that financial management features throughout wider departmental, team and individual objectives.

A strong theme emanating from the research was that business and personal performance are paramount. Performance against objectives must be systematically measured and should link to the organisation’s reward systems. In this context it is important that weak performance is swiftly addressed through targeted training, coaching or mentoring to remedy difficulties and drive up standards. Poor performance should not be ignored or compensated.

The Finance Department

Pre-requisites for success:

- engage and proactively support the business;
- get behind the numbers rather than simply report them;
- aim to deliver excellence and to add real value to the organisation and its decision making.

"I ensure that all finance staff actually understand what the numbers mean as opposed to merely reporting the numbers. I want them to understand what the issues are behind the numbers. This enables us to have much more credibility and trust across the organisation."

Increasingly, embedding financial management skills in Government is about supporting and communicating with non-financial managers at a senior level. Senior finance professionals must therefore display clear communication and strong influencing and leadership skills. These help to provide the capability to make an impact at the top table and throughout the business.

If the drive to embed financial management skills throughout the organisation is to gain support, the finance leadership must be credible. The Chief Finance Officer must have style and substance. As well as being technically and professionally competent with a reputation for clear advice and sound judgement, the CFO must also have presence and a range of wider skills. He or she must be engaging, confident, self-aware and politically sensitive with the ability to understand the perspectives of others and to communicate in a way which catches the interest and imagination and wins the support of colleagues.

This broader range of skills, together with an ability to see the bigger picture and to appreciate the complexities of policy and operational delivery, is paramount. It provides a springboard

from which the Chief Finance Officer is well positioned to be a key member of the Board and of the Permanent Secretary's top team, contributing in an influential way to strategy, policy development and the corporate leadership of the Department.

"We have had to work very hard to move the finance function up the value chain from purely an overhead and support operation to a credible, high impact and high value add business partner".

It is evident from our research that Government Departments need to be clear about what they are looking for in a Chief Finance Officer and how the CFO's knowledge and skills are used within the business.

Once appointed some CFOs have become frustrated by their inability to contribute effectively to the development of strategy, being confined instead to a narrow remit which lacks influence and opportunity to deliver real added value for the organisation.

Leadership roles in finance should be better marketed to attract the right talent who can bring this added value. They need to be supported by packages which compete with the external market. While many people choose to work in the sector for reasons other than financial gain, competitive remuneration remains an important unresolved difficulty. In comparison with the private sector, Government offers reasonably attractive pension and leave entitlements but only modest rewards, especially in terms of bonus and other capital accumulation opportunities. 90% of the Panel's respondents perceived this to be the case.

Financial management training should be regarded as essential for all levels of management in the finance function as elsewhere in the organisation. It must also be updated regularly so that skills remain current. In part the

finance team should lead by example, exemplifying good financial management in their own sphere and demonstrating its benefits.

Finance professionals should be able to pursue structured career paths so that their skills are continuously developed and so that key finance skills are successfully retained within the organisation.

Senior entrants from other sectors must be successfully inducted and integrated into the organisation. For many, getting to grips with the technical differences in Government reporting and governance arrangements will not present insurmountable difficulties. It is in the less tangible areas of culture and politics where more support is likely to be required, particularly in developing an understanding of key relationships, how they work and how to take them forward to a more productive level.

Embedding financial management skills in Government: ten steps to success

The Panel has drawn from its work ten steps to success for embedding financial management skills in Government.

1 Act now to kick-start good financial management skills in your organisation.
It is never too soon to start. Whatever the current level of financial management skills and awareness in the organisation there will be potential – almost certainly huge potential – to improve. The drive needs to start at the top: it is critical the Permanent Secretary and Departmental Board and all of its executive and non-executive members, must want good financial management to be at the heart of the business, be committed to it and be consistent in promoting and supporting its application.

2 Ensure finance is at the heart of developing your vision and business strategy.
Without this commitment the Board not only runs the risk of flawed planning and poor decision making but failure to embed sound financial principles into the management of the business as a whole.

3 Start rolling out and embedding good financial management across your business today.
The principles of sound financial management must be integrated into the professional development and performance management of **all** managers. This can be tackled through a variety of means including awareness-raising and training and development.

4 Invest in people development and training needs analysis.
Different financial skills and levels of acumen and awareness are required in different parts of the organisation. Identify the distinctive financial competencies needed in different areas of the business from Non-Executive Directors to non-financial managers, from the Policy Unit to operational front-line delivery, and tailor training, development and support to address them.

5 Remember the importance of communication and engagement skills.
This is about a step change in the quality of engagement between finance and non-finance professionals. It includes skills in relationship building, communication, listening and influencing.



6

Keep it fresh and current.

This means regularly reviewing the skills and competencies needed by and available to the business. It means looking over the horizon to anticipate tomorrow's needs and planning (and succession planning) to meet them. It means scanning for new ideas and for better practice and performance and using these resources to improve the Department.

7

Reward and celebrate good financial management; tackle poor financial management.

To attract and retain the best talent, Government will need to rethink its strategy in relation to pay and conditions. It will need to ensure that senior managers' rewards reflect in an appropriate way their financial management skills and performance. Equally importantly, managers who perform poorly in this area by, for example, failing to consider the financial implications of different policy options, should be made aware of their failings and of the imperative to remedy their shortcomings in the future.

8

Start taking active steps to develop stronger leadership skills within your business's finance function.

The CFO must have a wide range of skills including the ability to lead and develop a finance function which meets business needs and to support the building of financial management skills and capacity elsewhere in the organisation.

9

Keep it simple.

The key to success is being able to get things done. The role of finance and sound financial principles must be easily understood and the benefits clearly defined. Finance needs to be seen as part of the solution not part of the problem.

10

Temper ambition with realism. Recognise that becoming world-class takes time.

Aspiring to world-class performance is commendable. But for most organisations it represents a very challenging target. What is more this type of transformational change is as much about creating a different climate, changing behaviours and culture as it is about changing systems and processes. It requires concerted action and sustained commitment over an extended period.

Looking to the future: How good could we be?

By following the Ten Steps to Success recommended by the Panel, Departments will gradually begin to operate and do business in a different way.

The Board will have a stronger grip on the business and a more confident, assertive view of how it wants the Department to develop and improve. It will be recognised to be leading and driving the change agenda.

Management will have a clearer view of what it needs to deliver. It will have a stronger sense of being in control of the business, understanding and having its finger on the financial pulse of the organisation. It will work closely with the CFO and the finance team and will rely upon and derive confidence from their advice and support. It will be passionate about value for money and about continuous improvement of performance and results.

The Finance Department will be fully engaged with the business at all levels. It will be passionate about helping the organisation to manage its affairs well and to deliver the best possible outputs and outcomes from available resources. It will be committed to meeting the needs and exceeding the expectations of customers – delivering the right information and advice at the right time to enable leaders and managers to steer the organisation effectively and to make the right decisions.

But how would the organisation and its key players and stakeholders feel in these circumstances? The following quotations are not real; they are fictitious. Nevertheless, they represent the Panel's attempt to illustrate how different and how positive the future might be for a range of key stakeholders.

Ministers	"Policy making is now more robust – the perspectives and advice of the Department's financial analysts have helped to ensure that we are choosing the right options. And the financial skills of management reassure me that day-to-day operations and delivery are in safe hands. Overall I am very confident about the value for money we represent to the taxpayer."
Permanent Secretary and Board	"The increased profile and professionalism of finance has added significant value to our planning and performance management. It is helping us to build a more efficient and effective organisation in which line managers are putting hard evidence and rational business analysis at the heart of all of our decision making"
Line Managers	"We now have much greater clarity and timely and relevant information around our key performance measures. Coupled with focused support and advice from our finance colleagues, this has improved our ability to direct and lead the business with real confidence"
Chief Finance Officer	"Our role has been transformed. We're no longer backroom number crunchers. We're out there, supporting and advising management, helping the organisation to deliver ever stronger results, making a real difference. The team is really motivated. We've got a host of talented staff who are developing in leaps and bounds. Recruitment and retention just isn't an issue nowadays."
Finance Team	"The opportunity to work as part of such an empowered and professional team is fantastic. I can feel that I'm developing new skills all the time and that I'm doing a job which really adds value and makes a difference."

The quotations illustrate a range of interested parties who stand – from Ministers to members of the finance team – to gain from the development of stronger financial management in Government. However, as well as beneficiaries, these are also the players who need to make this progress a reality.

To be truly effective, the commitment to better financial management must be endorsed, owned and driven by leadership teams and by finance and management practitioners throughout Government. Without their support this initiative will have limited impact and a huge opportunity to improve will be missed.

Insights and Pointers to Good Practice

During the course of the Panel's work and research a number of insights and pointers to good practice were identified. A number of examples are given below, where appropriate, with details of the sources from which further information may be obtained.

The Panel recognised that a great deal of good practice existed in private sector organisations and that this was one of a number of sources from which the public sector can learn. Areas of particular strength include embedding financial disciplines in the enterprise, optimising finance operations and managing the finance function.

However, the Panel were also conscious of important differences between the two sectors. These need to be borne in mind in any plans to transport private practice to public bodies. In most circumstances local tailoring will be necessary to enable the private sector approach to fit successfully into a public setting.

Some of the key differences are:

- The role of a Departmental Board in Whitehall is different from the role of a company Board. The former tends to focus on giving advice and overseeing and monitoring performance; the latter is more focused on making decisions.
- The role of Ministers is a unique feature of Whitehall governance. There is no comparable influence in the private sector.
- Similarly a number of Whitehall processes, e.g. the Comprehensive Spending Review, have no parallel in the private sector.
- Government's financial management focus is frequently much longer term than the private sector.
- Measurement of performance is complex in both sectors. However, a foundation stone for most private

sector organisations is profitability of the business as a whole and of different lines of business. There is no equivalent fundamental measure for all public services.

It is clear that there is also a great deal of good practice in the public sector which might be shared more widely to leverage improvement.

The Panel believe that greater efforts should be made to tap these reservoirs of good practice, recognising that few if any public organisations would be guarded, let alone uncooperative, in sharing such practice freely within the sector. Initiatives like peer review and benchmarking are likely to encourage and facilitate such exchanges.

ENHANCING ENGAGEMENT SKILLS BETWEEN FINANCIAL PROFESSIONALS AND OTHERS

A key theme of this report is about enhancing the engagement skills between financial professionals and others. Potential elements within this can include:

- Mentoring from an experienced finance professional who has built up effective networks within government.
- Learning sets involving finance professionals sharing their experiences.
- Mutual mentoring between a finance professional and a non-finance colleague working broadly in the same area who can give feedback to each other about what is working well and what is working less well.
- Introductory courses on making a personal impact within a new environment.
- One to one coaching with an experienced business coach.

Coaching can focus productively on such areas as:

- What will be success after a six month period?
- What are the key priorities that need to be delivered?
- Who is it important to build networks with and how is that best accomplished?
- How effectively am I listening?
- What is the impact I want to have on key individuals?
- How best do I communicate with key stakeholders and customers?
- How do I ensure I get effective feedback on the impact I am having?
- What are the win-win situations I want to create with other key stakeholders?
- How do I best ensure that I am embedding the learning of how best to make the strongest impact within the organisation?

FORECASTING AND BUDGETING

Organisations should scan the business environment for early signals of forthcoming changes. They should ensure that forecasting and budgeting are robust disciplines within the business and that they are used rigorously and dispassionately to model the organisation's financial future. It is also important to ensure that these processes are efficient and effective. They must engage sufficient management time to ensure ownership but they must not take so much time that they distract management from other key responsibilities.

PLANNING AND STRATEGY

Organisations should ensure that work on business planning and strategy is informed by strong financial analysis and awareness. Where possible different options

should be subject to detailed financial modelling to ensure that the full implications of a preferred option are understood compared to alternative approaches.

PERFORMANCE MANAGEMENT

Organisations should ensure that they have established clear performance indicators for each of the objectives set for the organisation/team/individual.

Targets should include clear statements about expected service and financial performance. As well as delivering agreed outputs within budgeted resources, targets may often refer to the underlying cost drivers of the business, focusing on defined efficiency or productivity improvements.

SHARED SERVICES

Many organisations are considering use of shared service centres to secure efficiency gains in the delivery of some of the financial support services required by the business. In exploring these options it is important to review each of the activities and services which are aggregated under the banner "Financial Services" and consider the practical merits or otherwise of procuring the service from a shared service supplier. Different issues and questions are likely to arise in relation to say, transactional services as compared to advisory services.

Projects to explore and/or implement shared services as a platform for delivery of services to meet some or all of an organisation's financial management needs must be adequately resourced by appropriately skilled staff and carefully planned and managed. The organisation should also be careful to make provision for the resources which it must retain to manage the business relationship with the shared service supplier and to deliver any residual financial

management services which are not to be procured under the shared service agreement.

RISK MANAGEMENT

Risk Management is a line management responsibility. Formal procedures and processes should be established to ensure that managers throughout the business are identifying risks and taking appropriate actions to mitigate them.

The integration of risk considerations into business planning and performance management processes will help to ensure a robust, systematic approach. It is also important to underpin the organisation's approach by ensuring that relevant staff can access suitable training and development to ensure that their skills are well developed and, from time to time, refreshed.

FINANCIAL INFORMATION SYSTEMS

Financial information systems will have a significant influence upon the feel of financial management services within the organisation. They will also have an important bearing upon the ease with which financial management skills can be embedded throughout the organisation.

Managers are much more likely to develop the requisite skills if they are supported by modern, well-designed systems which deliver accurate, real-time financial information to their desktops at the touch of a button.

Organisations should regularly review the effectiveness of such systems and should have a clear agreed strategy for updating or replacement whether that is likely to be required in the short, medium or long term.

DEVELOPING FINANCIAL MANAGEMENT SERVICES TO FIT THE ORGANISATION

While generic advice is helpful, it is important that organisations

recognise the importance of tailoring financial management services to fit their own unique circumstances.

A new organisation in setting up mode will almost certainly need to place emphasis on fundamental controls and stewardship. In contrast, a more mature organisation may need financial management services to drive stronger operational performance or even to help to engineer transformational strategies which deliver outcomes in a different way.

The Board should discuss which of these styles is most appropriate for the organisation and should set relevant targets for developing financial management services accordingly.

LOVE LEARNING

Love learning or as it is sometimes referred to "Finance Skills for All" was launched by the Chief Secretary to the Treasury in October 2006. It is essentially a learning and development package aimed at raising the financial acumen of the top 30,000 civil servants. It involves a two-step programme together with a Master Class option at the end. Having completed the two stages, participants will be competent in the core skills of financial management identified within the Professional Skills for Government initiative.

Step one is a free foundation level, e-learning scheme comprising 10 modules which can be completed by anyone within the Civil Service in up to eight hours. Every module has a self-assessment tool and if you already have the skills required, you can skip a module and move on to the next one.

Step two addresses the intermediate level. On completion of step one, participants can undertake a series of half-day, face-to-face programmes that build on and reinforce foundation

level knowledge. The intermediate modules are: Resource based management (1); Resource based management (2); Financial planning and control; Business planning; Budget management; Performance indicators; Investment appraisal; Interpretation of accounts; Market economics, and Corporate finance.

Further information can be found at: <http://lovelearning.nationalschool.gov.uk>

FAST STREAM FINANCE OPTION

The In-Service Fast Stream Finance Option pilot was launched in April 2006 as a means of helping the Civil Service to meet future demands including delivering the Government's priorities efficiently and effectively and managing a business which is characterised by a culture of high performance, sound financial management and good governance.

The Fast Stream is a programme designed to identify and develop graduates and or in-service candidates with the potential to be the Senior Civil Servants of the future. The Finance Option is a competitive opportunity aimed at enabling existing Fast Streamers to qualify as finance professionals, increasing the financial acumen of future members of the Senior Civil Service. It also aims to increase, significantly, the number of qualified Finance Professionals destined for the top in all areas of the Public Sector.

FAST TRACK QUALIFICATION

This is a specially designed programme with stringent eligibility criteria, enabling Senior Civil Servants who have a strong background in, and wide experience of, Government finance, to follow an accelerated course to acquire a full CCAB qualification.

Appendix 2

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