

CENTRAL GOVERNMENT PANEL NEWSLETTER

ISSUE NUMBER TWENTY ONE

November 2006

Welcome to the CIPFA Central Government Panel e-newsletter.

The Panel is committed to providing quality events, publications, services and invaluable insights into the challenges facing CIPFA members in Central Government Finance. This newsletter is a summary of current developments at CIPFA and in central government finance and it is hoped that it will be of interest to all finance practitioners working in the sector.

If you have any comments or suggestions regarding future editions please email Lesley Lodge: lesley.lodge@cipfa.org

This issue contains some information about recent developments in central government, including the impact of capability reviews on the finance function and transforming the Home Office finance function. There is also the text of CIPFA's input into the revision of Government Accounting, a call to fill vacancies on the Accounting and Auditing Standards Panel and some information on Public Management and Policy Association (PMPA) events.

CENTRAL GOVERNMENT PANEL EVENTS

The Panel plans to hold three events in 2007: a seminar on Recent Developments in Central Government Finance, an Introduction to Central Government Finance and the annual conference in the autumn.

Further details will be available in the CIPFA Online Shop in the New Year at:

<http://secure.cipfa.org.uk/cgi-bin/CIPFA.storefront/>

This year's annual conference, *Injecting Pride, Passion, Pace and Professionalism* attracted 57 delegates, tackling the initiative put forward by Sir Gus O'Donnell on instilling pride, passion, pace and professionalism in the finance role. The day included:

- a perspective from the Public Services Directorate in HM Treasury
- improving leadership in the Civil Service
- the Departmental Capability Review
- the role of commercial advice in government procurement and decision making
- case study on operational delivery of the 4Ps
- comment from David Walker.

Key points from some of the plenary sessions at the conference are summarised below:

A PERSPECTIVE FROM THE PUBLIC SERVICES AND GROWTH DIRECTORATE IN THE TREASURY

Sarah Mullen, Joint Director Public Spending at HM Treasury, described the roles of this newly-formed directorate:

- a "finance ministry" role in setting affordable spending plans in the spending reviews and ensuring that departments stick to them
- an "economics ministry" role ensuring that resources are being used sensibly and that the incentives are right
- and roles as a "challenge ministry", a "joining up ministry" and a "strategy ministry" etc.

The public spending framework has two main aims: to control spending within the fiscal rules and to incentivise value for money. A framework also needs to be transparent, well understood and simple to operate. The framework is one key driver for risk-based intervention; information is another. Good data is essential for managing the public finances and spending risks. There is a big focus currently on improving data quality on COINS and ensuring it is consistent with the management information that boards see. Spending teams also need to be well-informed about departments' policies, business models and risks. Skills represent a third driver and staff in the Public Services and Growth Directorate need a range of skills - economic, financial, stakeholder management, communication. There is a bigger emphasis now on financial skills, with improved training for all staff. The new Treasury workforce staff strategy encourages staff to stay longer and build expertise. The aim is to slow the current high turnover pace to an average four years in post (where it is currently two years).

Engagement with departments is now based on "one version of the truth" - shared numbers. It is systematic not ad hoc, with a clear understanding of key issues and processes for the Treasury. There is now earned autonomy and risk-based intervention, with less oversight where departments are performing well. Putting all this into practice is to involve Financial Management reviews of individual departments and follow-up plans. There will be shared board reports, regular bilaterals and early communication on the comprehensive spending review parameters.

IMPROVED LEADERSHIP IN THE CIVIL SERVICE

Simon Fryer, Deputy Director of the Leadership Development & Strategy Directorate, Cabinet Office introduced the Professional Skills for Government (PSG) initiative. PSG aims to ensure that civil servants have the skills and experience needed to design and deliver 21st century services. There are three career groupings: operational delivery, policy delivery and corporate services delivery.

For every civil servant aspiring to Grade 7 and above, core skills are required:

At Grade 7 level:

- people management
- project and programme management
- financial management
- analysis and use of evidence.

At SCS level

- strategic thinking
- communications and marketing.

Job-related professional expertise will be defined by the head of each profession and centres of excellence. An example for finance professionals would be:

- membership of a professional body
- for SCS, two years experience in different business environments
- principles of corporate governance
- risk management
- evaluation of investment in spending options
- etc.

A new leadership model was launched by the Head of the Civil Service in March. Its emphasis is on face-to-face communication and there is no detailed guidance on behaviours. The priorities on leadership emerging from the Capability Reviews include

corporate/collective leadership, taking tough decisions about priorities, managing complexity and ambiguity, organisational performance management, being clear about customers and impact, and people management.

One in five SCS are appointed from outside the civil service now and one in four of those at board level will have been appointed from outside the civil service. Performance management is now sharper with the drive to increase the rigour of objective setting, to cut down on paperwork and to reinforce consequences through pay. A consistent framework for succession plans for director-general posts has been introduced, together with a director-general assessment framework yielding a consistent picture of DG leadership capability. There is also a high potential development scheme.

In conclusion Simon summarised leadership as being about:

Learning – core skills, professional expertise

Ownership of challenges

Working collectively

Providing challenge in support

Bringing on the next generation – leaders as teachers; building capacity.

THE ROLE OF COMMERCIAL ADVICE IN GOVERNMENT PROCUREMENT AND DECISION-MAKING

Chris Nicholson, Head of Public Sector, KPMG, discussed in his session the increasing profile of commercial advice in departments and its tie-in with the professionalisation agenda. There was an increasing need for independent professional advice due to the increasing role of the private sector in public services provision, the greater complexity of public sector relations with the private sector, the greater complexity of financing and the increased rigour in business case assessment and financial analysis.

THE IMPACT OF THE CAPABILITY REVIEW ON THE FINANCE FUNCTION

Jon Thompson, Director General, Finances, DfES, set out four big themes which emerged from the DfES capability review:

- strategy
- the interface between the “DfES Group” and delivery
- people management and
- leadership development.

For finance specifically, the “level 2” issues were:

- business planning
- corporate performance reporting
- professionalisation
- Risk management.

Jon reported that in response, the department has subsumed the capability review outcomes into one wider “Improving Finance Project”, part of a wider “Corporate Services Transformation Programme” and, more generally, gone back to some first principles. Jon emphasised that those who develop policy should understand financial issues and should own them. The capability review is a major strand of development and improvement. Those in government organisations should use it to their advantage to learn – but it is not the totality of the agenda. What is important is to integrate as much as possible, to lead and to prioritise.

TRANSFORMING THE HOME OFFICE FINANCE FUNCTION

Helen Kilpatrick, Director General, Financial and Commercial, Home Office, opened this session with a description of the complex landscape in which the Home Office operates. The Home Office group and police service combined consumer around £18.5 billion resource per annum and employ around 250,000 people. The Home Office group has to tackle some of society's most difficult problems: crime, terrorism, drugs, immigration, prisons and the probation service. The delivery landscape is also complex with directly managed services (e.g. immigration), executive agencies (e.g. HM Prison Service), and NDPBs, plus 43 independent local police forces. The coherent overall objective can be summarised as public protection.

The Home Office has had many successes. For example crime is down by 35% since 1997. The risk of becoming a victim of crime is the lowest since 1981. No category A prisoner has escaped since 1996. More people with unfounded asylum claims are being returned than are arriving. There is a 97% customer satisfaction rating for the Passport Service. The context however is changing in the face of globalisation, the weakening of communities and the rising expectations of public services. There have also of course been some well-publicised problems, such as those of foreign national prisoners, the employment of illegal immigrants in the Home Office buildings and the fact that the National Audit Office disclaimed the 2004-05 accounts.

The Home Office is implementing an improvement programme and the recommendations of the 2003 and 2005 financial management reviews. Budgets are now in place before the start of the year. There are better relationships in between central finance and business units. There is a recognised challenge role for finance, a new Oracle based IT system installed and improved training.

The Capability Review identified five key areas for action:

- to strengthen the Home Office Board with external challenge from non-executive directors
- leadership and empowerment
- variety, appropriateness and complexity of business models and impact on delivery chain
- corporate services and how they support the business
- Prioritisation of resources around what is important.

The Home Office has a Reform Plan involving a new business model, systems and processes, prioritisation and resources and people strategy. There is also a high-level route map through which the Home Office aims to consolidate, stabilise, sustain and build to excellence by September 2007 and beyond.

The Home Office Group's people strategy for improving capability includes:

- reducing reliance on agency and contract staff by developing in-house capability
- new accountancy training scheme
- finance fast streamers
- CPD programme for qualified staff
- developing a cadre of Adelphi super users to improve the exploitation of the finance system.

The group will continue to use the financial management competence framework for equipment and development and will be providing competence based financial management training for budget managers. There will be role-based finance guides to support best practice procedures.

IS THERE TROUBLE AHEAD?

David Walker, editor of the Guardian's PUBLIC magazine, opened his session with a few words about Public, a magazine published monthly by the Guardian for senior executives. Anyone wishing to register for free copies should apply at: www.guardian.co.uk/public/apply

David described current environment as "a season of mists and jargon" and to illustrate his point, he asked if anyone in the audience could answer the question what is a "channel strategy"? He suggested that there was perhaps too much change though perhaps we could not have probity, risk, enterprise and trust all at the same time. After a rapid tour of the macro economic environment including UK public spending now and previously and a "quick whiz" around the rest of Europe, he quoted the Capability Review for the DfES:

"A lack of contact between finance directors in NDPBs and the department, combined with a lack of financial management expertise in DfES reduces assessment of value for money and effective scrutiny of finances, prioritization of resources and delivery."

and Sir Michael Lyons, acting chair of the audit commission, in July 2006:

"It is crucial the board and management get the basics right. Financial failure is often a reflection of wider organizational failure."

Addressing the audience he commented that "if a department is not financially sound – not just you, but also your non-financial colleagues, then that department is in trouble". To what extent, he asked, is there a meeting of minds between finance and general management?

REVISING GOVERNMENT ACCOUNTING

CIPFA welcomes the Treasury intention to rewrite the existing Government Accounting. Drawing on our own experience CIPFA, has submitted a number of comments on revising Government Accounting. These are set out below:

Comments on Revising Government Accounting

- 1 CIPFA welcomes the Treasury intention to rewrite the existing Government Accounting. Drawing on our own experience – uniquely among the professional accountancy bodies in the UK, CIPFA has responsibility for setting accounting standards for a significant part of the economy, namely local government - CIPFA would like to offer the following comments.
- 2 In CIPFA's view, while existing Treasury guidance is comprehensive overall, it is currently to be found in too many different source documents. These include (but not exclusively):
 - government accounting
 - the Financial Reporting Manual
 - guidance on asset management
 - guidance on budgeting
 - fees and charges guide
 - the whole Treasury Managing Resources or "Rainbow" series of booklets.
- 3 For the most part, these documents have been developed over a number of years in response to perceived needs as and when required. The consequence has been that there has been significant overlap and little cross-referencing. The new Financial Reporting Manual defines, for example, what can be classified as capital in the accounts, while the recent guidance on budgeting sets out what

professional fees can and cannot be regarded as capital. A revised version should therefore set out where guidance can be found and ensure consistency with principles and rules and cross refer to the relevant Standards, to GAAP and to the FREM.

- 4 Existing Treasury guidance also has some overlap with Cabinet Office guidance, for example, that for the annual reports of next steps agencies, trading funds and non-departmental public bodies and the updated Public Bodies: A Guide for Departments. There is some overlap also with the ONS, eg, on issues of classification.
- 5 CIPFA suggests therefore that an early task for the steering group could be to agree a new framework for Treasury guidance.
- 6 In CIPFA's view, Government Accounting currently aims to convey not only some basic rules, but also both guidance on the interpretation of the rules and some good practice points. Such a mixture could lead to a risk of lack of clarity about what is permitted and what is not. CIPFA suggests that the new Government Accounting should set out the high-level principles and essential basic rules and their interpretation only, while guidance on good practice could be set out elsewhere. The new Government Accounting would need therefore to be explicit about regularity and propriety.
- 7 Whole of Government Accounting should be covered.
- 8 CIPFA supports the proposal that the new Government Accounting should cover all central government bodies rather than the limited range at present.
- 9 CIPFA's Central Government Panel comprises expert members from Central Government departments, agencies and NDPBs and its remit includes:
 - consideration of finance and policy issues as they affect central government
 - responding to consultation/discussion papers and exposure drafts issued by Government, professional and other bodies
 - developing, promoting and maintaining best practice, standards and guidelines and the production and dissemination of relevant advice and material for members and employers, on issues falling within the Panel's areas of responsibility.
- 10 The Central Government Panel would be happy to contribute further to the proposed re-writing process for Government Accounting, eg by commenting on draft sections, if the steering group would like.

POSTGRADUATE DIPLOMA IN PUBLIC FINANCE AND LEADERSHIP - INAUGURAL COHORT DUE TO SIT FINAL EXAMS

The first cohort of senior civil servants on the Postgraduate Diploma in Public Finance and Leadership (PDPFL) programme, run jointly by CIPFA and Warwick Business School, are about to sit their final exams in late November and early December. Successful candidates become fully qualified members of CIPFA as well as receiving a Postgraduate Diploma from the university.

For further information on the PDPFL programme go to:
www.cipfa.org.uk/students/prospective/postgrad.cfm

THE CLIFF NICHOLSON AWARD FOR INNOVATION AND EXCELLENCE IN AUDIT 2007

The Cliff Nicholson Award for Innovation and Excellence is an annual award that is presented for outstanding work in the field of Audit. This award is now in its 17th year, and, year after year attracts a wide variety of entries from a range of sectors including local government, health, housing, education and the private sector.

Find out more at www.cipfa.org.uk/panels/audit/cliff_nicholson_award.cfm

ACCOUNTING AND AUDITING STANDARDS PANEL

AASP has a wide-ranging remit covering accounting and financial reporting, and external auditing standards for all sectors. A substantial amount of the work of the Panel involves responding to exposure drafts, discussion papers and consultation papers on accounting and auditing standards, financial reporting and audit regulation issues. On accounting and financial reporting, this principally includes the exposure drafts and discussion documents of the Accounting Standards Board (ASB), International Accounting Standards Board (IASB) and International Public Sector Accounting Standards Board (IPSASB). On auditing standards and audit regulation issues, the Panel mainly considers guidance produced by the Auditing Practices Board (APB), International Auditing and Assurance Standards Board (IAASB), and the Public Audit Forum.

The previous Chair of AASP (Mike Hathorn) is the UK representative on the IFAC International Public Sector Accounting Standards Board. This enables the Panel and CIPFA to be proactive in influencing the development of International Public Sector Accounting Standards (IPSASs).

The Panel is also responsible for the publication Accounting and Auditing Standards: A Public Services Perspective. The third revision of this booklet is being drafted and will incorporate developments up to the end of 2006. This will be available from the CIPFA online shop in early 2007.

The Panel currently has a number of vacancies and is particularly keen to receive expressions of interest from finance practitioners and representatives from the regions, Scotland, Wales and Northern Ireland. If you are interested in joining the Panel or would like to find out more about what membership would entail, please contact steven.cain@cipfa.org. Both CIPFA and non-CIPFA members are welcome to apply. We look forward to hearing from you. Expressions of interest in membership will be considered at the next Panel meeting.

GUIDE TO CENTRAL GOVERNMENT FINANCE

The central government context is changing fast and the finance function is clearly key to the agenda for change as evidenced by the efficiency and effectiveness reviews currently taking place. This guide, from CIPFA's expert Central Government Panel, provides a clear and concise explanation of the main features of central government financial management as it is today. It aims to give an overview of central government finance, enabling the reader to understand its main features and guiding principles. It gives the background to government accounting and the developments that have taken us to where we are now, and also outlines some of the changes still to come.

Since the first edition was published in 2001, the central government context has changed considerably. Resource accounting and budgeting has become embedded, and HM Treasury has announced the creation of finance director posts to replace principal finance officers at the senior financial positions in government departments and strengthen the role of departmental boards. More recently there have been moves to enhance the professional skills of civil servants, with financial management among the generic competences expected of all aspiring senior civil servants. The finance function

is clearly key to the agenda for change as evidenced by the efficiency and effectiveness reviews currently taking place.

The subject matter also falls within continuing professional development requirements for finance professionals and those with a broader interest in finance.

To buy a copy online, visit the CIPFA Shop at:
<http://secure.cipfa.org.uk/cgi-bin/CIPFA.storefront/>

THE PMPA

Forthcoming events

How can we in Whitehall make best use of specialist knowledge and skills brought in from "outside"?

Venue: CIPFA, 3 Robert St, London

Date: Tuesday 12th December 9:30 - 1pm (includes lunch) £55

Opening speaker: Dr Ruth Levitt

The civil service has long espoused "Interchange" as a way of bringing in skills and experience from the private sector. However, recent research indicates that recruiting 'outsiders' has led to a mix of experience including some 'noisy resignations'; individuals recruited as outsiders 'going native' and losing their specialist perspective, or finding the culture so alien they return to their previous lives and Whitehall loses them for ever. The contribution of "outsiders" needs to be considered as part of a wider debate about ways in which the civil service gets advice and information, how policy-makers can identify the contribution they need, and what we can learn from their experience of working on the 'inside'.

This event is part of a programme jointly developed by the National School of Government and the Public Management and Policy Association (PMPA) together to create opportunities for academics and practitioners in public policy and management to meet informally and compare ideas and thinking on current issues.

PMPA Lectures *

Sir Gus O'Donnell (Cabinet Secretary and Head of the Home Civil Service) will be speaking on ***The Civil Service—The Way Forward*** on 6 February 2007, in London. To book a place, please email sandra.harper@cipfa.org

**Unless otherwise indicated all PMPA lectures start at 5.45pm and will be held at CIPFA, 3 Robert Street, London WC2N 6RL. PMPA events are free to attend, book online at www.pmpa.co.uk or email info.pmpa@cipfa.org for further details.*

The Public Management and Policy Association (PMPA) is a national membership organisation which seeks to provide a forum for public sector managers, academics and those with an interest in public services to meet and discuss the public policy and management issues of the day. Members are drawn from across the public sector (central and local government, NHS, police etc) and from public policy departments in universities across the country.

The PMPA provides a forum for its members to:

- network and learn within and across sectors
- keep abreast of and explore a broad range of cross-cutting issues
- learn from the experience of others and avoid "re-inventing the wheel".

The PMPA is managed by CIPFA and members receive:

- the journal Public Money & Management and the quarterly newsletter Review
- priority booking for PMPA's free evening lectures and a discount at the annual conference
- PMPA Reports, providing analysis or view points on cross-cutting themes.

Annual individual membership rates are £80 for full members; £75 for members of associated organisations and £37.50 for CIPFA students, full-time students, unwaged or retired members.

Corporate membership gives PMPA benefits to five or more employees and starts at £350, and corporate "e-membership" allows organisations to provide the benefits electronically through their intranet or e-bulletin. Sponsorship and partnership opportunities are also available.

For information on partnerships, corporate or individual membership, contact Janet Grauberg, Development Director. Tel: 020 7543 5683; email janet.grauberg@cipfa.org or visit www.pmpa.co.uk

CONTACTS AND USEFUL LINKS

CIPFA

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

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

CIPFA Financial Management Model

For an online "taster" demonstration of the CIPFA Financial Management Model, visit: <http://www.cipfa-fm-model.org.uk/>