



Better Government Series

A CFO at the Cabinet Table?



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Strengthening UK government finances for the future

Foreword



The role of the Chief Financial Officer and Group Finance Function provides financial discipline in the business world. While the private sector is not without its faults, we believe that public sector structures can benefit and learn from the best of some of its processes.

We face tough decisions in the coming decade.

According to the Office for National Statistics (ONS), public sector net debt was £1,161.5bn at the end of February 2013, equivalent to 73.5% of our country's gross domestic product (GDP). Partly because of sluggish growth, the debt and deficit programme which began under the Coalition Government will take successive Parliaments to deliver.

The UK is a global leader in public sector transparency. HM Treasury (HMT) produces an annual set of consolidated accounts (the Whole of Government Accounts (WGA)). The National Audit Office scrutinises public spending on behalf of Parliament and the Office for Budget Responsibility provides independent analysis on the state of public finances. It is important that policymakers consider how we retain our global positioning. Even as the economy begins to strengthen, public finances will take longer to stabilise and better match receipts and spending. It is therefore important for government to consider best practice, not only from the best structures within other governments but also from the best structures within other sectors.

It is vital that decision-makers use financial information collected as part of the WGA process to inform the comprehensive spending review in the Summer. In the current economic climate, we cannot afford for such information not to be used fully. Public spending decisions made today will shape the future of government services. This publication recommends a public spending architecture that will empower policymakers to shape these future services efficiently.

The role of the Chief Financial Officer and Group Finance Function provides financial discipline in the business world. While the private sector is not without its faults, we believe that public sector structures can benefit and learn from the best of some of its processes.

One example is the role of HM Revenue & Customs (HMRC) which is comparable to a credit control department of a business. It is the most important

part of any government. It collects taxpayers' money which pays for public services. It also provides a service to wider society and must strike a sensitive balance in what it requires of society.

As an ICAEW Chartered Accountant I believe that without a long-term public finance strategy informed by financial information, the UK will exacerbate an already difficult period of economic instability and uncertainty. Financial management will have significantly more weight than before because of the size of the debt. The voice of finance therefore needs to be taken more seriously.

This publication maps out a three-stage reform process to accelerate financial discipline across Whitehall and calls on politicians from all political parties to:

- transform the role of HMT into a modern and more proactive finance ministry and enable it to perform a group finance function;
- create a Group Chief Financial Officer (CFO) role to take overall responsibility for financial disciplines across government; and
- empower finance directors in government departments and elevate their status.

The role of financial information, frameworks and leadership is important. Sustainable public finances will remain an elusive goal until policymakers can work together with finance to coordinate a resilient system for managing public finances in our country's long-term interests. We encourage policymakers from all political parties to consider our recommendations closely.

Michael Izza,
Chief Executive
ICAEW

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Executive summary

Sumita Shah, Regulatory Policy Manager, Public Sector, ICAEW



Managing public finances isn't easy. Ministers are expecting the public pound to be stretched further than ever before and each pound to be spent wisely. The quality of public spending matters as much as the quantity.

The UK has been at the leading edge of public sector financial management for many years because of the work of HM Treasury (HMT). It is one of the few countries in the world that has properly kept track of public spending and is taking steps to manage its overall public finance debt. However, the UK already has one of the highest fiscal deficits among the G20 countries with no real sign of it reducing.

It is important for government to consider the state of the economy in the long term. Structural changes and decisions need to take into account the UK's ageing population which impacts heavily on the long-term need for social care, health and pensions. The government has changed the key debt targets (of reducing net debt as a percentage of national income) that were first announced in 2010. Current high borrowing figures and lower tax receipts have rapidly reduced the UK's chances of reaching the original target.

In the 2013 Budget, the Chancellor opted for a budget that would attempt to stimulate growth in the UK economy, reducing corporation tax to encourage inward investment, boosting the infrastructure budgets to encourage investment and increasing the target for doubling exports. Is this going to be enough or does more need to be done?

The elusive search for economic growth means that financial skills for managing decreasing resources are needed more than ever. The building blocks for good financial disciplines are in place: roles of permanent secretaries/accountable officers; qualified finance directors; the corporate governance code; advisory boards; and non-executive directors (NEDs). However, some of these building blocks need to be strengthened. For example, although NED roles exist, government departments are failing to use the skills they offer.

What is now needed within government is an understanding and acceptance that strong financial disciplines and a strong finance function should be a growing, important and integral part of the process for managing public finances and meeting the key targets.

The current system faces the following challenges.

- a. Although HMT allocates funds and resources, it has very little responsibility for managing overall government funds and how they are spent. We believe this traditional model is no longer fit for purpose. A better approach would be to give HMT responsibility for managing overall public finances (with departments having delegated responsibility for managing their allocated funds).
- b. Overall expenditure (including performance, efficiency and service delivery) needs to be actively managed (without simply focussing on over and under spends). Driving long-term value at the lowest cost is increasingly becoming part of the role of a modern finance function.

To tackle these challenges, the following changes need to take place.

- c. HMT and the Efficiency Review Group (ERG) need to work together to manage public money more efficiently and effectively.
- d. The government lacks a permanent (civil servant) financial leader responsible and accountable for financial management who can lead on strategies for financial resources across government.
- e. The role of NEDs needs to be reviewed to provide strategic advice, support and scrutiny to the financial management structures within government.
- f. Finance directors do not currently have sufficient authority and influence within the public sector (in comparison to their counterparts in the private sector).
- g. Conversely, key policy decisions do not always have a thorough financial analysis and long-term impact assessments carried out before implementation.

There have been several moves to make the role of finance stronger within government. Organisations such as the National Audit Office continue to specify the need for good financial management being at the heart of well-run organisations. The need for high quality finance capability is widely recognised, but progress has been slow in building the leadership capabilities to embed and drive the changes.

Lessons can be learnt from the private sector. Global companies would not exist without a CFO sitting alongside the chief executive and the board. Major decisions would not be made without the advice of the CFO. Regardless of whether an organisation is in the private or public sector, and regardless of whether it is a global organisation or a government, strong financial disciplines should prevail. Strong financial leadership is therefore needed in this current environment when it is important to manage public finances effectively and sustainably. **A senior civil servant needs to take responsibility for this financial leadership and be accountable to the cabinet.**

To make the changes we propose will require political will and organisational responsiveness. It may also

require some constitutional change. And it will almost certainly require a change in behaviour and thinking by both Ministers and civil servants. The tone from the top will be more important than ever.

Fiscal transparency is an absolute must, but if the government doesn't use financial information intelligently, then it will be more difficult to make the right long-term decisions.

Change needs to happen, perhaps quite radically if the UK is to manage its finances sustainably over the coming years. The UK is seen to be a leader in many respects and this paper highlights a radical and innovative three-step approach, which will enable it to remain a world leader.

Our policy proposals are three-fold:

1. Turn HM Treasury into a modern and proactive finance ministry

HMT currently manages economic policy, consolidates the government's accounts, and monitors spending. But it should also perform the value for money function (currently devolved to the Cabinet Office), and have the power to manage government spending and costs, as well as monitoring. With this stronger 'group finance' role, HMT would strengthen standards, improve balance sheet management and drive value for money across government. Crucially, it should provide strategic advice to policy makers and financial direction to individual departments beyond parliamentary cycles.

2. Create a Chief Financial Officer (CFO) role to report to Cabinet

An influential finance function will need a strong voice at the top table of government. None of the top three senior civil servants hold a specific strategic responsibility for finance. A new CFO within the new group finance function, reporting to HMT's Permanent Secretary and with a reporting line to the Cabinet Secretary, should be responsible for the financial disciplines across government departments. The new CFO – a top official, not an elected representative – would provide authoritative, definitive and informed advice. The CFO would be responsible for the network of departmental finance directors, holding a permanent and independent role. The ideal candidate would have significant global experience in finance, leadership and business, with the status to exercise financial leadership across government departments and influence the Cabinet's decisions.

3. Empower departmental finance directors

The UK needs a stronger finance function right across government, not just HMT. Finance directors in government departments need the authority and responsibility that CFOs have on company boards. They should be central to all policy and spending decisions, while remaining objective and impartial. Our recommendation is that for this to work, the finance director role would need to be elevated to the role of second accounting officer level, working closely with the Permanent Secretaries (who would be the equivalent of a chief executive in a private company), and reporting to the Secretary of State.

What we recommend

For the UK Government to move forward and manage its finances sustainably, change is needed. ICAEW makes the following recommendations.

- For government to manage its public finances effectively, the 'managing performance' part of ERG's role should be part of HMT. This would enable HMT to become the finance ministry for government and provide a modern group finance function, managing the overall finances and performance of government, setting standards, monitoring, challenging and holding departments to account as well as providing strategic advice to government and strategic direction to individual departments.
- The modernised HMT should have a CFO responsible for financial management across government departments providing authoritative and definitive (but informed) advice; leading in the development and implementation of strategies for improving the management of financial resources across government; and improving the quality of HMT's own management accounting and financial capability processes to support the proposed role. This would be the equivalent of a Group CFO.
- This new permanent post would have significant (perhaps global) experience (finance, commercial, business, leadership) and sufficient power and status to exercise financial leadership across government departments.
- This Group CFO role would report to HMT's Permanent Secretary and would have a reporting line to the Cabinet Secretary.
- Finance directors in the public sector need to be given the same status that a CFO would have in the private sector. They should:
 - be elevated to a second accounting officer level (working hand in hand with the first Permanent Secretary) reporting directly to the Secretary of State for the department, giving them a level of accountability and responsibility for the financial leadership of the department;
 - report on a 'dotted line' basis to the new group CFO (heading up the modernised HMT);
 - together with the CFO, form a strong government-wide senior finance team (similar to that which a global organisation would have in place);
 - take joint/collective responsibility for the financial management of government departments, and collectively provide support to each other;
 - individually (with their Ministers and first Permanent Secretaries) and collectively, be responsible for providing financial and policy advice on key policy decisions made by the Cabinet; and
 - together and with the support of each other, they could help government to manage expenditure more effectively.
- Leadership skills of the senior finance team need to be enhanced to take on the increased challenges that the above recommendations would bring.

Changing the culture

What's happened so far

It is a challenging time for government. Our public finances are under pressure and the culture within the public sector is changing. The role of the finance director (or Chief Financial Officer (CFO)) and the role of the finance function within government is therefore more important than ever to help support this process.

Cost cutting over the last two years has focused on reducing the level of services and reducing staff numbers. However, without a clear understanding of the drivers of cost, many government departments have found it difficult to ascertain where and how to make savings beyond the most obvious discretionary spend items.

Furthermore, although some of the resultant cost cutting, such as staff, may have alleviated the short-term pressures, it may have had a damaging impact on the departments' underlying capabilities. These are the exact same capabilities that will be required to take advantage of any recovery in economic conditions in order to restart growth.

Departments are focused on costs, but they now increasingly need to show a level of sophistication and move to one that can be characterised as 'cost optimisation' to achieve long-term, sustainable goals.

In 1998, the then Labour government introduced the concept of WGA with subsequent legislation enacted in 2000. In 2009, *It's your money*, a Conservative policy paper, outlining a new plan for disciplined spending in government, was launched. It proposed to strengthen the role of finance within government, implement clear financial targets for senior civil servants and create strong incentives for better financial disciplines.

In 2010, HMT published *Managing Public Money* which highlighted the need for embedding good financial management and launched its finance transformation programme. The National Audit Office reported in 2011 that good financial management is at the heart of an effective, well-run organisation. CIPFA's discussion paper on shaping the finance function to meet new and future challenges, published in March 2012, states that top-performing organisations must have top-performing finance functions.

In its publication, *Above the parapet* published in 2012, PwC outlined that 'The role and leadership of the finance function ("Finance") in government and the public sector is of critical importance. Finance is increasingly in the spotlight and has a leading role to play. The scale of challenge for Finance has never been greater. The need for a high quality professional finance capability, to enable government and the public sector to deliver its programme and do its day job effectively, is recognised widely.'

The *Civil Service Reform Plan* also acknowledges that 'Change must start at the top. Successful reform will require firm political and corporate leadership across the Civil Service. The Prime Minister and Deputy Prime Minister have signalled their strong support for the modernisation and reform of the Civil Service, and the Minister for the Cabinet Office has direct Ministerial responsibility for the programme.'

Progress is being made but more needs to happen and quickly. We believe that the reform plans now need to go further and include financial leadership as well as strong financial disciplines as part of the modernisation and reform of the Civil Service.

**The next cuts are the deepest:
ministers go to war with the Treasury**

The Times, 23 April 2013

The role of the Finance Function – a possible model?

‘ Many government departments manage budgets that would place them in the FTSE 100 if they were public listed companies.’

In the private sector, a **strong finance function** is core to the success of an organisation. Most activities and processes within a business have some financial aspect to it. Historically, finance departments were organised around activities such as processing transactions, maintaining accounting records and delivering month-end reporting. In recent years, the finance function has evolved to move beyond its traditional activities. The modern finance function is now much more embedded throughout the business (rather than sitting as a standalone function) and helps to deliver enhanced value to its stakeholders. As the finance function has evolved, CFOs are re-defining their roles to be business advisers and business partners, to support their strategic plans as well as rationalise systems and processes throughout the organisation. The finance function has responsibility for ensuring that investors’ and shareholders’ money is safeguarded.

In the public sector, a modern finance function could be a strong adviser to elected members on economic, financial and regulatory policy. Although the public sector is different with more complex outputs, it still faces the same challenges as the private sector. It still needs to manage costs, resources and get value for money for each pound. Each activity and process will benefit from a financial analysis to it with all staff understanding how to deliver quality services at the lowest cost. FDs within the public sector can be partners to help deliver overall government policies throughout their departments.

A possible model for a modern finance function could include the following:

Accounting – it will record the financial consequences of the activities of the organisation;

Compliance – it will meet the requirements of legislative and regulatory bodies;

Management and control – it will produce and use financial and related information to inform, monitor and instigate operational actions to meet organisational objectives;

Strategy and risk – it will inform and influence from a financial perspective the development of strategy and how to manage risk; and

Funding – it will inform and engage with relevant stakeholders, both current and potential, to obtain and maintain the necessary financial resources for the organisation.

Group Finance Function:

A global organisation will have a group finance function coordinating these activities in each of its subsidiaries. The group finance function will reduce complexities, focus on strategic activities to meet the organisation’s goals, and increase the development of finance personnel, so that they are able to drive productivity and service improvements to meet the challenges of today’s business requirements.

Many government departments manage budgets that would place them in the FTSE 100 if they were public listed companies.

ICAEW published *The finance function: A framework for analysis* (available at icaew.com/fmfac) which details a model for a finance function. There are aspects of this that may be relevant for government to consider, recognising that the public sector is complex and there are no one-size-fits-all structures.



Changing structures (1)

A case for a group finance function

TURN HM TREASURY INTO A MODERN AND PRO-ACTIVE FINANCE MINISTRY

HMT currently manages economic policy, consolidates the government's accounts, and monitors spending. But it should also perform the value for money function (currently devolved to the Cabinet Office), and have the power to manage government spending and costs, as well as monitoring. With this stronger 'group finance' role, HMT would strengthen standards, improve balance sheet management and drive value for money across government. Crucially, it should provide strategic advice to policymakers and financial direction to individual departments beyond parliamentary cycles.

The UK is the global leader on fiscal transparency. It is the first country in the world to consolidate the whole of its government's accounts. HMT led in this development. Now it's time to use the HMT to help government manage the UK public finances sustainably. HMT needs to be the lead adviser to government on economic, financial and regulatory policy.

Role of HM Treasury and Cabinet Office

HMT's role is steeped in history. It is currently the economic and finance ministry of the UK. The last major reform of government finances managed by HMT came through with the Government Resources and Accounts Act 2000. Traditional cash accounting for income and expenditure was replaced by 'resource accounting and budgeting' which introduced commercial-style budgets and accounts into government. These effectively replaced procedures which had been in place, with some modifications, since the Exchequer and Audit Act of 1866.

Constitutional history

The legal framework within which government operates is important. Parliament votes funds to government departments for specific purposes, and departments are obliged to report back to Parliament retrospectively on how they use their resources. As a consequence, they have evolved almost exclusively to be able to report their expenditure.

Parliament looks to HMT to make sure that departments use their powers only as intended, that revenue is raised and resources are spent, only within agreed spending limits. HMT controls public expenditure, so all legislation with expenditure implications, both primary and secondary, must have the support of HMT before they are introduced.

Ministers

Ministers in charge of a department are responsible for the department's policy and business as part of the broader sweep of government policy determined in Cabinet. Within the department, Ministers may delegate defined areas of the department's business, including associated parliamentary work, to junior ministers. Ultimately the role of Ministers is to define policy and provide direction.

The senior Minister in the department, not junior ministers, may give directions to the Permanent Secretary, who is a civil servant and responsible for the organisation of officials in their department. Ministers have wide powers to make policies and to issue instructions to their officials. However, specific legislation is required to authorise expenditure of public funds to pursue their objectives. In addition, only Ministers can propose to Parliament to raise public revenue through taxation, or commit or spend public funds to pursue their policy objectives.

Accounting officers

Permanent Secretaries are accountable to their Ministers and to Parliament as a whole for ensuring that the department spends money granted by Parliament appropriately. The Permanent Secretary usually chairs a department's management board which consists of executive members (other civil servants in the department) and non-executive directors. In some departments Ministers may chair the board. This is significant progress that has been led by Lord Browne in the civil service reforms. But the reforms have not quite succeeded and need to go further. NEDs skills are not being sufficiently used. Their role needs to be reviewed to provide strategic advice, support and scrutiny.

Whitehall shuns business gurus

Financial Times, 6 May 2013

However, it cannot be left up to the NEDs to provide a challenge to financial activities. Although Permanent Secretaries are accounting officers and have the ultimate financial responsibility, until recently none of them have been qualified finance professionals.

Whole of Government Accounts

More recently, HMT has been at the leading edge of public sector financial disciplines for many years. In 2011, after pulling together the financial information of some 1,500 public bodies, HMT published the first set of WGA. The release of the audited WGA marked the first step towards the first full public disclosure on the health of UK public finances. The second set of WGA provided comparative information which enabled government to view the wider picture of the UK's public finances from one year to the next.

But reporting the numbers is not enough anymore. HMT is actively working towards improving the processes and timing for WGA and once some of the issues highlighted by the NAO in its audit of WGA are ironed out, WGA will be a useful policy tool to help inform future public expenditure planning and decisions around the growth agenda. It will help policymakers manage national debt. In particular, the WGA should be used in the development of the comprehensive spending review.

The role of HMT is therefore integral in pulling together all the relevant financial information from around government to manage government's overall financial strategy and financial health. In the private sector, a group finance function would do exactly this; pull together and manage the financial information across the group to develop the group's financial strategy. A CFO in a large corporation would build their overall financial strategies on the nature of markets and products and use their balance sheets to review the consequences of their decisions. Information contained within the balance sheet is therefore relevant to how they manage their business.

The Treasury doesn't reward civil servants for being positive with depts, it rewards those who crunch and fight. There's an anarchic culture in the Treasury.

The Times, 23 April 2013

Current HMT dilemma

Although HMT allocates funds and resources, it has limited responsibility for managing these funds and how they are spent. This is the responsibility of individual departments. Departments focus on managing budgets (within agreed spending limits) rather than managing costs. **If departments underspend on the budgets, they are criticised by Ministers. If they overspend, they are criticised by the Public Accounts Committee. This creates a dis-incentive to proactively manage costs and deliver services, because the focus is on monitoring the budget to ensure that there is no over or underspend.** HMT's remit stops short of managing costs on an overall basis for the whole of government.

One consequence of a more proactive HMT delivering a modern finance function would be to overcome the overspend/underspend issues. This approach would strengthen HMT's credentials as a finance ministry that is managing the overall budget and not just seen to simply be acting as an economics ministry. Government therefore needs to consider the role of HMT and whether in the current environment it is still fit for purpose, or whether it needs to modernise and evolve to help government achieve its targets.

Role of the Efficiency and Reform Group

The Efficiency and Reform Group (ERG), which sits within the Cabinet Office, has two key priorities:

- making government more efficient: reducing operational overheads to give taxpayers better value and allow resources to be focused on key priorities; and
- radically reforming the way public services are provided to ensure they meet rising public expectations: using transparency to improve accountability; shifting power to people and creating the Big Society.

In the private sector, these roles would be integral to the modern finance function.

One of ERG's key priorities is to make government more efficient by reducing operational overheads. However, there doesn't appear to be a direct link to HMT which has overall responsibility for managing spend. For the overall management of public finances, the two (managing cost and performance) need to operate and work together. Decision-making and affordability need to be joined up rather than handled separately.

Challenges for a modern HMT

For HMT to evolve and modernise and to enable it to manage costs as well as spend, we raise the following challenges.

- How can government as a whole manage costs (including performance, efficiency and quality of service delivery) not just budgets (underspends and overspends)?
- HMT allocates funds and resources but has limited responsibility for managing these funds and how they are spent – how can this be changed so that HMT has overall responsibility for government finances, (while individual departments continue to have delegated responsibility for managing their allocated funds)?
- How can HMT move to driving long-term value at lowest cost rather than being principally concerned with in-year spending controls?
- How can the roles of HMT and the ERG be enhanced so that there is more synergy in the way that they operate with each other in order to manage public money more efficiently and effectively?

RECOMMENDATIONS

For government to manage its finances effectively, controlling costs while maintaining quality of service delivery, HMT and ERG need to work together more effectively. We recommend that the 'managing performance' part of ERG's role should sit with HMT. For cost and efficiency to be effective, they must work hand in hand.

This would enhance HMT's ability to manage costs and performance together. It would also enable it to become the finance ministry for government (headed up by the Chancellor of the Exchequer and the Permanent Secretary). HMT would provide a group finance function, managing the overall finances and financial performance of government. It should perform a 'group finance' role, setting standards, monitoring, challenging and holding departments to account as well as providing strategic advice to government and strategic direction to individual departments.



A CASE STUDY FROM NEW ZEALAND BY FERGUS WELSH

Agencies in the wider New Zealand public sector are operating in a challenging environment. They must continue to fulfil demand for high levels of service and delivery of government outcomes. At the same time, increasing fiscal constraints and budgetary pressures around current or future budget baselines mean that government agencies are unlikely to receive more overall funding. This leaves agencies with only one option: getting greater value out of the resources available to them.

Such an environment requires a continued focus on strong financial management and being clear about priorities and resource trade-offs, not just in the short term but also over the medium to long term.

The provision of accurate financial information and associated advice assists a better understanding and management of current and future financial pressures and issues. Scrutiny plays an important role. New Zealand is internationally recognised for leading the way in transparency and financial reporting, but we need to make sure we also have the right information to drive change and to demonstrate to taxpayers that we can and do live within our means.

The quality of an agency's financial reporting complements and supports strong financial management, but this alone won't do it. Successful organisations need their finance functions to look beyond the traditional core functions of Finance; they have to use their financial acumen and insight to drive new value and higher levels of business transformation and performance. Today there is a real opportunity for senior financial professionals to take much more of a leadership role in their organisations.

Ministers and central agencies such as the Treasury expect financial management by entities to go far beyond ensuring the provision of accurate financial information and strong internal controls to much more active management of resources.

CFOs have a responsibility to assist their agency to better understand and manage the financial pressures and issues that the agency faces and to develop financial strategies and actions that will enable the agency to continue to finance its strategic priorities in the medium to long term.

The New Zealand Government's budget process is driving its multi-year focus into agencies. Agency four-year plans, designed to provide assurance that

both financial and service targets will be met, are now the central component of the government budget process. These plans are the main vehicle for communicating an agency's multi-year intentions, and are the centre of departmental planning processes. This requires an emphasis on a long-term perspective.

Effective decision making needs to be guided by a clear understanding of the business objective, strategies and performance drivers (both current and future). An agency's long-term financial strategy is an important part of the strategic planning toolkit that ensures action taken in the short to medium term has the desired long-term effect.

CFOs must be actively involved in, and able to bring influence to bear on all material business decisions whenever and wherever they are taken.

The adoption of four-year plans means that CFOs are being asked to assume a greater leadership role in their agency's strategic and business planning processes, and to assist their agency to better understand and manage longer-term financial pressures and issues. They are also being asked to play a much more proactive role in decisions around creating value for money and leading strategic financial management disciplines within their respective organisations; that is in the analysis and decision-making around investment and disinvestment taking account of the rationale for spending; the mix of inputs; the efficiency of delivery; the right-sizing of overhead and the effectiveness of purchased outputs.

Fergus Welsh is a Deputy Secretary and Chief Financial Officer/Chief Accountant, at the New Zealand Treasury, responsible for Crown financial accounting and reporting responsibilities, and the State Sector Productivity work programme including back office benchmarking. As Chief Accountant his role includes providing professional leadership, and supporting the development and implementation of strategies for improving management of financial resources across government.

This case study is provided to illustrate the role of a CFO in the New Zealand public sector context and is not intended as an endorsement of the policy proposals in this publication.

Changing structures (2)

CFO at the Cabinet Table

CREATE A CHIEF FINANCIAL OFFICER (CFO) ROLE TO REPORT TO THE CABINET

An influential finance function will need a strong voice at the top table of government. None of the top three senior civil servants hold a specific strategic responsibility for finance. A new CFO within the new group finance function, reporting to HMT's Permanent Secretary with a reporting line to the Cabinet Secretary, should be responsible for the overall financial disciplines across government departments. The new CFO – a top official, not an elected representative – would provide authoritative, definitive and informed advice. The CFO would be responsible for the network of departmental finance directors, holding a permanent and independent role. The ideal candidate would have significant global experience in finance, leadership and business, with the status to exercise financial leadership across government departments and influence the Cabinet's decisions.

Global companies would not exist without a CFO sitting alongside the chief executive and the board and major decisions would not be made without the advice of the CFO. The public and private sectors are reliant on each, more other than ever before. Regardless of whether it is a global organisation or a government, strong financial disciplines should prevail. Strong financial leadership is needed in this current environment when it is important to manage finances effectively and sustainably. A senior civil servant needs to take responsibility for this financial leadership at the top of government.

The role of a Chief Financial Officer of HMT is an important and integral part of this reform process.

One of the objectives of the Civil Service reforms is for government to run more like a business. There is a Chief Operating Officer to the Cabinet Office to oversee the efficiency and reform agenda. There are also three senior civil servant roles that have significant responsibility within government: the Head of the Civil Service, the Cabinet Secretary and the Permanent Secretary of the Cabinet Office. Having these senior posts is a good step; however, none of these posts have a specific statutory responsibility for managing finance and financial disciplines. There therefore needs to be a further senior civil servant who would take responsibility for financial leadership and accountability.

A good CFO will put pressure on everyone, not only to reduce costs, but to review performance at the same time, to ensure that they are still getting the best quality of service delivery. He or she will understand the business and support those within it to get people to create innovative opportunities for growth and communicate these plans to the right stakeholders. Fiscal transparency is essential, but the government must use financial information in the right way. A good CFO can explain what the information is and how it needs to be used.

It could be argued that the Chancellor of the Exchequer fulfills the role of a government-wide CFO as he reports to the Cabinet on public finances, is responsible for ensuring that funding is in place and his department monitors government spending. However, the role of the Chancellor is a political appointment rather than a permanent post, and would not necessarily be a qualified CFO. The Chancellor would continue to set financial policy and the budgetary framework. But a Group CFO, who would be a civil servant, would lead in the development and implementation of strategies for improving the management of financial resources across government, as well as improving the quality of HMT's own management accounting and financial capability processes to support the Group CFO role. The Group CFO would work closely with the Chancellor and HMT's Permanent Secretary and have a reporting line to the Cabinet Secretary (who sits at the Cabinet table).

Challenges

For a new CFO position to be created, some fundamental challenges exist for government to consider:

- who would the CFO be accountable to?
- what would the CFO be responsible for?
- what are the skills needed for such a position?

**Four men with four plans for growth ...
Cabinet Secretary reveals tension at top**

The Times, 22 April 2013

RECOMMENDATIONS

The modernised HMT should have a CFO who would be responsible for financial management across government departments. The ultimate management of public finance and development of policies rests with the Cabinet. The new CFO, reporting to HMT's Permanent Secretary, with a reporting line to the Cabinet Secretary, would provide authoritative, definitive and informed advice and challenge. This CFO would lead in the development and implementation of strategies for improving the management of financial resources across government, as well as improving the quality of HMT's own management accounting and financial capability processes to support the proposed role. This would be the equivalent of a Group CFO role.

This new post should be a permanent post (with sufficient power and status) – equivalent of a FTSE 100 CFO. The ideal candidate would have significant (perhaps global) experience (finance, commercial, business, leadership etc) and sufficient status already from their career history, to exercise financial leadership across government departments.



WHAT SKILLS DO YOU NEED TO BECOME A SUCCESSFUL CFO? SHANE FITZSIMONS, CFO GLOBAL GROWTH & OPERATIONS, GE

GE's breadth of activities is huge – spanning energy, healthcare, technology, transportation and finance – but Shane has never been fazed by this. 'The biggest difference is short-cycle or flow businesses versus long-cycle big equipment businesses, plus also equipment versus service businesses. So you do end up with different financial models in terms of how each business operates. But otherwise finance is pretty fungible – certainly in terms of skillset because it's a way of thinking as much as anything else.'

It was in 2011 that he was invited to become CFO for the company's new Global Growth and Operations Group – tasked with overseeing financial activities throughout GE's non-US markets. The role meant relocating to Hong Kong to put him at the heart of the company's fastest-growing territories.

His role has two aspects: 'growth' and 'simplification'. On the growth side, he and financing teams across the globe work with GE's commercial team to support sales and project financing efforts, helping customers to find competitive financing for large-scale projects from building turbines to airplanes.

Simplification refers to GE's shared service model which aims to lower the cost of execution and optimise operational efficiency. 'The simplification journey has been a huge part of the role,' says Shane. 'Given that we had conducted over 400 M&A transactions and entered new markets and territories, there was a huge opportunity to take a fresh look at our processes and see if we could do more to make our approach effective and efficient. So we've worked with teams in corporate in the US, and across the different businesses, to redesign enterprise standards and develop an implementation plan which we are in the process of executing right now.'

Being visible

Non-US markets account for 60% of GE's industrial revenues – and keeping on top of such a vast remit across so many markets is a skill in itself. 'You recognise pretty early on that transactions happen at a country level not a regional level and so you need to be very good on the ground in each country in which you operate – which means hiring good senior people to be there. Also, as a leader, you have to recognise that you

can't be everywhere but you do need to be very visible. You have to be able to manage your team from the road and you almost have to over-communicate. People have to know what you're doing – because if they don't, they'll make their own assumptions.'

To manage communication, Shane's team has its own internal blog which is followed by 3,000 people across GE: 'It means everyone in the team gets to hear everything at the same time – plus teams back in the US can see what's happening in our growth markets.'

Small and connected

Nineteen years on, working for GE continues to inspire him. 'The things I really like about GE are the people, the way it operates and all the great support you get from senior management. It's a huge company with over 300,000 employees worldwide, but it feels small and connected. Plus the company keeps investing in you, no matter how senior you are. So for example, in each of the last two years I've been able to take a week out for training and development in areas like leadership explorations, and that continues to improve how I approach things.'

Ultimately, he says, one of GE's biggest strengths is its ability to develop operational finance leaders. 'Here talent will start on the financial management programme, join the corporate audit staff, spend some time in finance and then move onto something more operational. Our finance people aren't in a backroom – they are out there, understanding different markets and getting transactions done. That's the secret of success.'

The full version of this case study can be found in *No ordinary business minds*

www.charteredaccountantsworldwide.com/profile/shane-fitzsimons

Changing structures (3)

Role of finance directors across government

EMPOWER DEPARTMENTAL FINANCE DIRECTORS

The UK needs a stronger finance function right across government, not just in HMT. Finance directors in government departments need the authority and responsibility that CFOs have on company boards. They should be central to all policy and spending decisions, while remaining objective and impartial. Our recommendation is that for this to work, the finance director role would need to be elevated to the role of second accounting officer level, working with the Permanent Secretaries (who would be the equivalent of a chief executive in a private company), and reporting to the Secretary of State.

Finance professionals have over the years been required to take on new roles that add greater value to their businesses. They do not, therefore, work in their 'finance' silo, but work with other professionals across the organisation, and engage with the board. They provide business leadership to and partnership with other professionals within the business. They provide help in determining strategy, communicating internally and externally and regularly review their company's portfolio of businesses. They are involved in two aspects: the business management and the performance management. In the private sector senior finance professionals have a pivotal role in leading organisations.

Finance and the finance role within the public sector have improved in the last few years. There are more qualified finance directors now than three years ago. They have seats on boards. The Finance Transformation Programme is in place with a number of work streams. The finance director's role is to maintain oversight and control over the department's spending and in theory, they have a wide remit. The UK is one of the leaders in having qualified finance directors at the top of each of its government departments.

However, in practice, the perception of finance within government still needs to be improved. Some finance directors are treated as financial controllers rather than finance directors and economic policy appears to take priority over financial decisions (rather than being complementary to each other). The finance director role is therefore diminished in some departments. In the private sector, finance directors would be taking the board through all aspects of the financial statements and providing key financial information to inform key decisions.

With the current austerity drive, finance needs to be embedded within and across government. A detailed financial health check needs to be carried out on the feasibility and viability of key policy decisions. A strong finance voice needs to be part of any advice and information that is provided to Ministers. In

this current environment, it is crucial to involve finance directors in policy development including identifying what is achievable and where they face risks. Such structures will also strengthen government's responsibility to carry out effective cost impact assessments for new policy proposals.

Challenges

Government needs to overcome the following challenges.

- How do finance directors' roles change to give them sufficient profile or influence within government?
- There is sometimes a tension between the economists' view and the accountants' views within policy-making. How can this be reconciled to enable finance directors to manage finances (including management information) in an effective and meaningful way?
- What needs to change to enable key policy proposals to have proper assessments, financial health checks and design of delivery carried out on them before they become policy decisions?

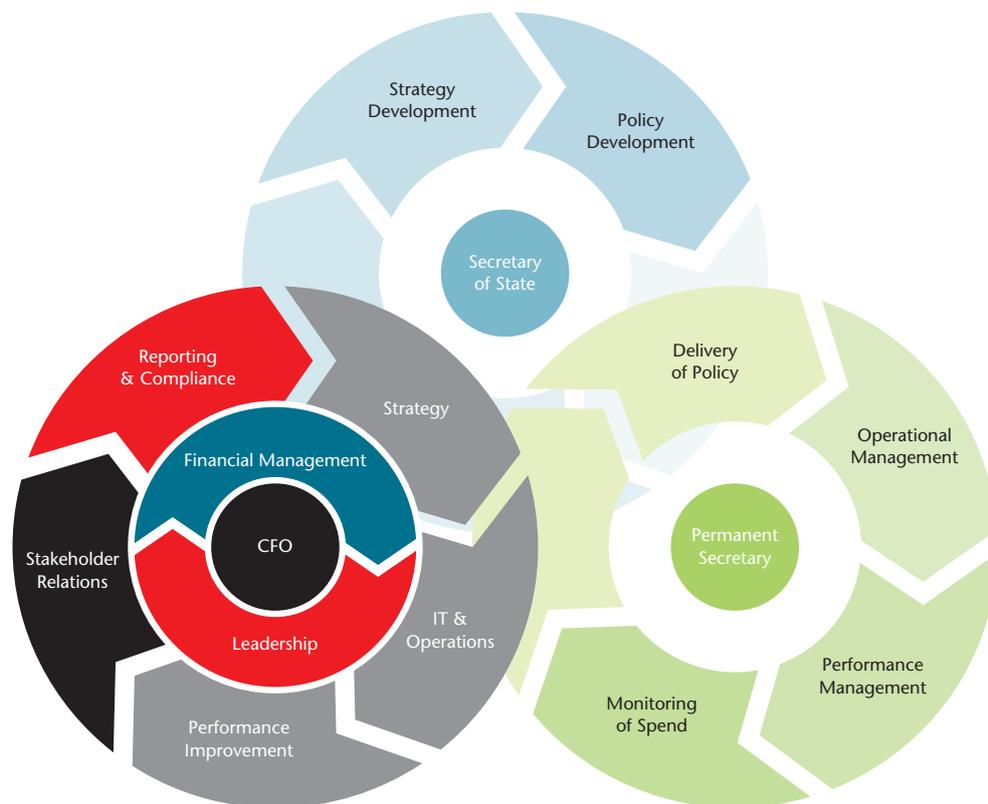
Civil service reforms indicate a need for more business, commercial and leadership skills. In the past, the civil service has tried to recruit individuals with the right skills. However, the support network for these individuals has not existed and individuals with the right skills became frustrated and left. Turnover at senior levels within the civil service has been high.

Ministers and Whitehall mandarins need to get a grip

Our government system is a mess because of the high turnover of senior civil servants

Telegraph, 30 January 2013

Diagram 1: illustrates the concept of a departmental CFO within government. The role would report to and work alongside the Permanent Secretary (who would be the equivalent of a chief executive officer within the private sector) and the Secretary of State.



RECOMMENDATIONS

Departmental leadership that understands finance is crucial to delivering the best value for money. Finance directors in the public sector should be centrally involved in all policy and spending decisions. Their involvement at board level should be as active and equal participants in challenging and shaping the department's financial and economic strategies and policy decisions that are made. The role of finance directors should be the same across government.

Our proposal is to change the reporting structures of finance directors within government to help with the management of the financial health of each department and the UK finances as a whole and also to provide finance directors with a support network.

- Finance directors should be elevated to a second accounting officer level (working hand in hand with the Permanent Secretary) reporting directly to the Secretary of State for the department. This gives them a level of accountability and responsibility for the financial leadership of the department. In the private sector, this would be the equivalent of the CFO working with the chief executive and reporting to the board.
- Finance directors would also report on a dotted line basis to the new Group CFO (heading up the modernised HMT).
- The Group CFO and finance directors would form a strong government-wide senior finance team (similar to that which a global organisation would have in place).
- This senior finance team would have joint/collective accountability and responsibility for the financial management of government departments. They would also collectively provide support to each other.
- The senior finance team, individually (with their Ministers and Permanent Secretaries) and collectively, would be accountable and responsible for providing financial and policy advice on key policy decisions made by the Cabinet.
- Together and with the support of each other, these finance directors, could help government to manage expenditure effectively.

Leadership skills of the senior finance team need to be enhanced to take on the increased challenges that the above recommendations would bring.



WHAT SKILLS DO YOU NEED TO BECOME A SUCCESSFUL CFO?

ZARIN PATEL, CHIEF FINANCIAL OFFICER, BBC

Zarin joined the BBC in 1998 as Group Finance Controller. Over three years, she was credited with substantially reducing overheads to enable more money to go into programming. In 2001, she was invited to become Head of Revenue Management – shouldering prime responsibility for collecting the BBC's television licence fee income, which now totals over £3.4bn a year. Under her leadership, fee evasion dropped to an all-time estimated low of 5%.

Making an impact

Becoming Chief Financial Officer in 2004 meant taking the helm at a time when the BBC was under pressure to achieve significant cost savings. Zarin embarked on a comprehensive programme to outsource more non-core services and implemented two major efficiency programmes across the whole corporation. This enabled the corporation to return savings into programme-making and consolidate its position as not just a national but a global franchise.

More recently, an achievement she is particularly proud of is the role she played in negotiations with the British Government in 2011 to secure the licence fee settlement, providing the BBC with funding certainty.

Unquenchable curiosity

May 2013 marked Zarin's eighth year as Chief Financial Officer at the BBC – a remarkable achievement at a very public institution that can never be seen to have less than the very best at its helm. So what does she think it takes for a chartered accountant to make their mark as CFO?

'I think there are four skills – other than your financial and business acumen – that you need to really stand out as a CFO. The first is unquenchable curiosity. When you take your seat at the board table as CFO you must have a passion for your own part of the business, but also the curiosity to really understand the part played by every other person around that table too.

'You have to aim to walk in their shoes, to see the business from their point of view, to feel the pressures they feel, to take pride in their successes and understand their failures.

'Second, you have to be able to relate well to people and build strong and supportive relationships with colleagues. When you have to bring difficult news – and CFOs who don't ever bring difficult news aren't doing their job – then it helps a lot if you can present that news in the context of tried and trusted relationships.'

Third on her list is strength of character to resist 'groupthink' and, when necessary, to say the unsayable. 'Finally you have to understand every aspect of your business – the people, the operational processes, the customers and the market. I have driven real change by using my deep knowledge of the BBC to suggest new ways of looking at a business problem and creating value for our audiences.'

The full version of this case study can be found in *No ordinary business minds*

www.charteredaccountantsworldwide.com/profile/zarin-patel

A Group Chief Financial Officer within government: is this you?

Role Profile

This is an outstanding opportunity for a senior business and finance leader to take a key role in the strategic direction of the UK Government's finances.

Reporting to the HMT Permanent Secretary and Chancellor, you should be politically astute with finely tuned communications skills and a hide thicker than a rhino. You'll be working closely with all Government Ministers, Permanent Secretaries and other key stakeholders, spinning plates and cracking heads in order to meet the UK Government's key fiscal targets.

You will take on the role of the group chief financial officer with responsibility for instilling strong financial disciplines across government departments. You will provide authoritative, definitive and informed advice to the Cabinet, (which they may or may not listen to but at least they'll be getting it). You will be responsible for the network of departmental financial directors and lead the development and implementation of strategies for improving the management of financial resources across government. In short, you'll be crunching and analysing the numbers for the people that run the country.

The successful candidate will be a qualified accountant, with significant global experience (finance, commercial, business and leadership), across a range of organisations, and will understand the need for sound financial management and good financial governance. Candidates must demonstrate skills in exerting tough financial discipline across complex organisations, together with a strong track record of achievement in organisational performance improvement. Above all, they must have a strong ethical culture. We're thinking of a cross between Gordon Gekko and Mother Teresa.

This is a demanding role that requires an individual who is driven by exceeding personal objectives and organisational targets and who has the intellect and capacity to embed a sound financial management culture within government. People with a fear of big numbers need not apply.

Competency requirements

- A business leader with demonstrable evidence of deep understanding of organisational and business operations.
- Knowledge of the dynamics of the public sector and its operational drivers of success.
- A visionary, who can be creative, as well as inspire and engage others in the development and implementation of financial strategies.
- Ability to manage and lead change and drive through financial efficiency reforms.
- A powerful and convincing communicator with the gravitas to develop strong stakeholder relationships, be able to influence at all levels and manage conflict.
- A sound decision-maker who is not afraid to use their judgement.
- Strong awareness and understanding of professional and public policy issues.
- Established and strong credibility which enables and encourages integrity, openness, honesty and mutual respect.
- A chartered accountant with a strong financial, technical and professional career history.

Salary

Not much and certainly don't expect big bonuses; it's a thankless task but someone's got to do it.

If you are interested in this position and think you have the right skills and attributes, please apply with your CV to: The Prime Minister, No 10 Downing Street, London, SW1A 2AA.



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