

1 Public

Joe

Welcome to the ACCA, Association of Chartered Certified Accountants podcasts on commercial awareness. In this session we are going to use the tools discussed in the introductory episode and apply them to Public sector.

Clare

In many ways the public sector is similar to the corporate sector with the diversity of operations being delivered. The public sector is essentially made up of organisations that deliver services by and for the government for the public benefit, be it national, regional or local. These services include health, education and social care. Organisations that are classed as charities, not for profit or non governmental organisations (NGOs) are also categorised as being in the public sector.

The public sector is big enough to provide opportunities in all key competence areas, including financial management, management accounting, financial accounting, tax and internal or external audit. It is important to understand that organisations within this sector can operate differently from each other.

For example, although NHS Trusts all have a remit to deliver health care, they will vary from one another, with different missions and values. Local councils are another example.

Also, a major difference for the public sector is the variety and range of stakeholders, for example in the health sector, patients, the local community, nurses, care-workers, non-executive directors, as well as the electorate, politicians and the media all have an interest in operations.

Therefore it is important that as well as understanding the overall challenges in the public sector you also research the issues relevant to the particular organisation that you are applying to.

Joe

To start, let's look at how the public sector is financed. The Government plays a key role in the economy both as an employer and as a consumer. Their spending is funded by taxation and if there is any shortfall this is met by borrowing.

The national debt is currently over £1 trillion but government predictions suggest this could rise to £1.5 trillion by 2016. This money is borrowed from overseas governments, some UK institutions and some individuals.

The bail out packages following the collapse of some of the major banks was funded through the sale of gilt-edge stocks. Gilt-edge stocks are when you lend money to the government which then pays you regular interest payments, and pays you back the nominal value of the gilt at a specified future date.

Privatisation is also a way in which the government can raise funds. Privatisation in its purest form is about selling off state-owned industries. During the 1980s in the UK many state-owned monopolies including telecommunications, utilities and transport were privatised. The reason for this was that the private sector could input the money needed to modernise and improve these services more quickly.

The cost of these modernisations used to be kept off the state's balance sheet, but now it is included on the balance sheet, so the privatised banks are now included in the whole of government accounts.

And a less extreme version of privatisation is where the state enters into a joint venture with the private sector. This is known as a public-private partnership (PPP) or private finance initiative (PFI). The private sector is commissioned to build either a school, a hospital or a bridge and then the state pays them for its use over its economic life. The advantage of this is that it allows the government to undertake several projects at once, offering the public more services.

Finally, in the voluntary sector income is generated through voluntary donations and other income sources. Voluntary income includes donations from either the general public or by a company. This could be money raised through fund-raising, donations, legacies, the Lottery or the sale of donated goods. Other income includes rent, investments, grants from public bodies, trading fees and contracts.

Clare

So, now we are going to look at a range of public sector organisations and evaluate their mission statements and core values to understand how they operate. Let's start by taking a look at the mission statement for the Wales Audit Office.

The Wales Audit Office is the public service watchdog for Wales. They undertake financial and value for money audits of the Welsh Assembly Government, its sponsored Public Bodies and the NHS. The Wales Audit Office is responsible for the annual audit of some £20 billion of taxpayers' money.

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Their mission statement says that they “*promote improvement so that the people of Wales benefit from accountable, well managed public services that offer the best possible value for money.*”

But what does this mean?

According to the Auditor General for Wales, the key phrases within this statement are: promote, the people of Wales, accountable and value for money.

The word *promote* is very important. They are not just responsible for striving for improvement in services; they also want to promote the improvements. Following on from the theme of improvement, Wales Audit Office also want to ensure that their work focuses on the customer, the people of Wales, so that they benefit from these improvements.

Being accountable means that the role of the Wales Audit Office is to examine the day to day operations, and any things that have gone wrong, and to explain why in an authoritative and conclusive way. And finally, to ensure that the public services being delivered offer the best value for money, the Wales Audit Office has to evaluate them on economy, efficiency and effectiveness.

Clare

Now we'll look at the core values of a very different organisation – Oxfam, which is a charity. All of Oxfam International's work is for the public benefit and so they are committed to working towards five aims:

1. the right to a sustainable livelihood
2. the right to basic social services
3. the right to life and security
4. the right to be heard
5. the right to an identity.

So what work has Oxfam been involved with that demonstrates their commitment to these values?

In 2012, Oxfam responded to several emergencies. Since November 2012, they reached 123,000 people in Democratic Republic of Congo with clean water, sanitation services and protection support. In the Sahel region, they provided assistance to over 1 million people throughout the year, and over 600,000 Oxfam supporters worldwide joined them in campaigning.

They continued their global development programs in more than 90 countries with disaster risk reduction, income generation and cash-for-work

programs among many others. They also launched the GROW Method, five practical ways to ensure we all have enough to eat, always.

In other episodes we have talked about the BCG Matrix and how it can be used to gain a better understanding of the product life cycle. Could we apply this in the public sector too?

Joe

In the public sector, you almost need to reverse the model for it to work. So a cash cow would be a service that is relatively low cost to deliver but Benefits the maximum amount of people. An example of this would be public parks. The amount of money that needs to be invested isn't very high but it is something that everyone benefits from using, especially in the summer.

A star would be a new product that has been developed to help save money and allocate resources that can be better utilised elsewhere. NHS direct is a perfect example. This service was designed so that people could call this helpline and speak to a nurse to identify their symptoms and advise the best course of action. NHS Direct has helped to reduce the amount of people visiting GP surgeries and A&E departments, leaving these services available to those who most need it.

A failing product is still the same in the public sector. But rather than selling it off you'll find that services or departments are sometimes merged with others to make them more efficient. An example of this would be the Inland Revenue and Customs & Excise - two departments that had a cross over in delivery of service but weren't talking to each other, making the whole process difficult for the public. So these two departments were merged in 2005 to become Her Majesty's Revenue and Customs, which could be classed as a question-mark product.

Now we will take a look at the key drivers within this sector.

Because the public sector operates differently to the other sectors you'll find that many of the key drivers that we've looked at in previous sessions don't impact in the same way. Instead, the different areas within this sector will have specific drivers that only apply to them.

One example of a key driver is the employability of young people. This driver is one of the reasons why diplomas were introduced alongside traditional GCSEs and 'A' levels. Although the diplomas were rolled out in 2008, the take up hasn't been very high and the current UK coalition government have ceased the development of any new diplomas. The recruitment and retention of teachers is also an ongoing issue despite government campaigns to encourage more people to enter the profession.

Another driver is standards. The NHS is experiencing pressure as it strives to meet government deficit-reduction targets; it has been told to make £20

billion savings in productivity improvements by 2015. Unfortunately, this has had a huge impact on hospital waiting times.

A strong driver for the public sector is providing value for money. Many public sector organisations have large budgets which come from people's taxes, so accountability is key. You need to ensure the proper, effective and efficient use of public money.

But what about the voluntary sector? Recruitment and skills are key drivers within this sector. Research conducted by the Charities Aid Foundation identified that NGO's are suffering from shortages of skilled staff in fundraising, marketing and IT. Also it is difficult for charities to attract talent into the organisation. Many students are leaving university with high debts and the salaries offered are not high enough to tempt them.

Clare

Before we finish, we must mention risk management. This is also very important within the public sector, from the risk of a terrorist attack through to losing personal data on individuals. Each organisation within the public sector will undertake elements of risk management be it internal audit, governance or protecting IT systems.

As we mentioned earlier, the Wales Audit Office is there to ensure that public money is spent economically, efficiently and effectively. By having such an organisation in place to develop controls, there is less risk of fraud or mispending of funds.

Joe

This brings us to the end of the ACCA commercial awareness podcast on the public sector. Over these five sessions our aim has been to demonstrate how you can use simple tools to build your own knowledge of the different sectors. There are no hard and fast rules and you'll find that it's easier to apply those tools to some organisations over others. However, the information that we've delivered should help raise your general commercial awareness and give you the advantage you need when applying for those all important jobs.

Clare

Thanks for listening. For more information about ACCA and to find the other podcasts in this series, go to www.accaglobal.com/ukgraduates.

Goodbye

Supporting documents:

- Terminology Guide