

Written evidence for the Public Administration Select Committee's Inquiry: building civil service skills for the future

About ACCA

ACCA is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people around the world who seek a rewarding career in accountancy, finance and management.

ACCA has 162,000 members and 428,000 students in 173 countries, and works to help them to develop successful careers in accounting and business, with the skills required by employers. We work through a network of over 91 offices and centres and more than 8,500 Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote appropriate regulation of accounting and conduct relevant research to ensure accountancy continues to grow in reputation and influence.

The expertise of our senior members and in-house technical experts allows ACCA to provide informed opinion on a range of financial, governance, regulatory, public sector and business areas, including: taxation (business and personal); small business; pensions; education; and corporate governance and corporate social responsibility. The public sector is an important sector for ACCA and our focus is on building effective public financial management by strengthening financial skills and capacity.

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Executive summary

ACCA welcomes the opportunity to respond to the call for evidence by the Public Administration Select Committee for its Inquiry: Building Civil Service Skills for the future.

Over a number of years ACCA has worked closely with the Government's finance profession and central government departments to enhance financial capability and capacity across Whitehall and seek improvements in public financial management for the taxpayer.

With spending cuts only set to increase in the coming years we believe that there must be a greater emphasis on the role of the finance function across government departments together with achieving strategic financial leadership. This is particularly important as Whitehall has to plan for a future where financial resources for services will continue to contract for a number of years ahead.

ACCA welcomed the introduction of the Capabilities Plan for the Civil Service (the Capabilities Plan) and its recognition of a historic lack of finance skills across Whitehall and commitment to continuous improvement. However, in our view the Capabilities Plan does not go far enough in setting out a road map for embedding strong financial management skills across the civil service. For example, there is a lack of recognition that many non-finance professionals who are also budget holders and project managers are in need basic financial management skills.

The biggest obstacle to building an effective finance profession in central government is how finance professionals are perceived and valued by their colleagues in an organisation which is largely made up of generalists. We believe that a culture change is necessary whereby economists and generalists value the potential contribution that financial management can make to government decision-making. The 'how to' achieve culture change is the piece that is missing from the Capabilities Plan.

The continuous churn of civil servants and increasing departures of senior civil servants poses significant problems to the delivery of good governance and corporate memory. It inhibits the ability to learn from mistakes and stifles the dissemination of best practice. This is also not helped by the skills gaps relating to procurement, project and financial management that still persist across

Whitehall. There should be a renewed focus by government on addressing these skills gaps

We have found it difficult to identify the true cost of consultancy in central government and the public sector more widely. In part, this is because of uncertainty about the scope of the term 'management consultancy' and the lack of accurate financial information.

ACCA's study 'Management consultants and public sector transformation (2009)', found issues when assessing the relative merits of external consultants; firstly; terms such as contracting out and interim management are often conflated with the term management consultant. Secondly and relevant to the first point, there is an insufficient amount of data and metrics with which to measure success and value for money achieved from the use of management consultants. Unsurprisingly results of commissioning management consultants are mixed.

The study also concluded that there will continue to be some debate about the effectiveness of management consultants, who continue to be criticised for management fads and for stating the obvious. What is certain, however, is that by providing knowledge, experience and skills to help improve capability, management consultants play a vital role in the public sector.

Their contribution is also important for helping the public sector to innovate and create efficiencies. However, it is critical that civil servants achieve a better understanding of management consultants and learn the lessons from poor procurement, management and evaluation, to ensure that added value is achieved. Equally it is critical that management consultants understand their clients and the context in which they are working, provide more transparency about their costs, and set out how they will manage the risks of project failure.

1. The extent to which the Civil Service Capabilities Plan (published in April 2013) address both current and future demands of Government.

Over the last two decades central government has made significant inroads in enhancing financial skills, but there is still much more to be done. These developments have culminated in a number of milestones being met, such as the recognition that all major spending departments should have a qualified accountant as the Director of Finance to strengthen financial management and governance, as well the introduction of structured career paths for accountancy professionals working in government. Therefore, ACCA welcomed the introduction of the Capabilities Plan for the Civil Service (the Capabilities Plan) and its recognition of a historic lack of finance skills across Whitehall and commitment to continuous improvement.

However, we believe that the Capabilities Plan does not go far enough in embedding strong financial management skills across the civil service. There appears to be a lack of recognition that many non-finance professionals who are also budget holders and project managers are in need basic financial management skills. In a time of austerity when on average 25% is being stripped out of central government budgets, we believe that efficiencies of this scale can only be achieved if civil servants across the board have at least some basic financial acumen. A previous review conducted by the National Audit Office (NAO) in 2010 highlighted that the biggest barrier to continuous financial management improvement was the lack of awareness and financial acumen of non-finance staff. We believe this still to be the case and would urge the government to re-visit this part of the Capabilities Plan with a view to equipping civil servants with at least some basic knowledge of finance.

With spending cuts only set to increase in the coming years there must be greater emphasis on the role of the financial function across government departments and a need for stronger strategic financial leadership and governance. Whitehall has to plan for a future where financial resources for services will continue to contract for the foreseeable future. Better financial management will be required as well as new solutions to the provision of services. The lack of public money will mean that a greater focus will be placed on considering how existing funds are being used and how changes can be made to cope with funding reductions. The challenges for finance managers are immense, as most have worked in a period of growth and not resource constraint. Senior finance staff must not only have technical financial skills and wide experience but must also demonstrate strategic leadership skills through

both formal training and experience and the Capabilities Plan should make provision for this.

We are more than aware of the catalogue of issues relating to the lack of financial management skills across government as highlighted by a succession of public accounts committee inquiries, and more recently the Institute of Government report on 'Financial Leadership for Government' (2013).

Inadequate financial management was also raised as a prominent theme at a recently hosted ACCA roundtable that focused on audit and governance. Participants included politicians, finance professionals, journalists, academics and auditors. There was general consensus that we need civil service reform that focuses on creating an intelligent central financial management function right at the heart of government that is capable of sharing best practice. Participants welcomed the Government's recent financial management review, but it was generally felt that it remains to be seen whether the proposals will be successfully implemented across Government, particularly, when there remain divisions between the three key departments; Number 10, the Treasury and the Cabinet Office. It was agreed that a shared political consensus around the need for reform could see much greater success.

Similarly, the absence of strategic financial leadership skills was also highlighted in an ACCA publication *'The importance of strategic financial leadership in the UK public sector in a time of financial austerity'* (2013). The research identified that most leaders interviewed had spent their careers in a period of growth and used to leading their services to improved quality and better service outcomes, and some were less comfortable with managing change to cut back on services. Both austerity and the ability to flex leadership styles were barriers to innovation. Linked to this was evidence that a number of leaders had little in the way of training and experience in strategic leadership, which ultimately meant that they were fulfilling a managerial role. It is therefore important that government continue to work closely with the accountancy profession on its plans to improve strategic financial management skills across government. This should include an increased priority on attracting and developing innovative leaders of finance across Whitehall.

We also believe that within central government the biggest obstacle to building an effective finance profession is how finance professionals are perceived and valued by their colleagues in an organisation which is largely made up of generalists. We believe that a culture change is necessary where economists and generalists value the potential contribution that financial management can

make to government decision-making. The 'how to' achieve cultural change is the piece that is missing in the Capabilities Plan. The Capabilities Plan should set out a roadmap of how it proposes to develop skills and imbed a culture in which finance is seen strategically and operates at a multi-agency level.

Drawing upon our experience of the private sector, a modern finance function must be dynamic and not passive. The director of finance needs good communication skills and the ability to involve service managers at all levels. We would like to see a greater emphasis on this approach in the training of civil servants. In the private sector we have seen strategic finance managers developing effective working relationship with service managers following what has been termed a business partnering model rather than a traditional accounting and financial control model. This is based on a transformation that been recognised for over a decade in the private sector but to date has only evolved in parts of the public sector, such as local government.

When compared to other parts of the public sector local authorities appear to be further down the road, whereby they are transforming the finance function and maximising efficiencies through shared service models, outsourcing or making internal efficiencies. This is resulting in a more strategic role of the finance function will become much more dominant. Much stronger roles are being seen for strategic finance managers in relation to matters such as cost analysis, performance analysis, and financial forecasting, rather than just traditional financial reporting. In this way, finance as seen less as a necessary overhead and more as an important management discipline that promotes added value from scarce resources.

Overall, ACCA would like to see a greater emphasis placed on financial capabilities at every level across Whitehall. Austerity is set to continue in government and as such different and more finely tuned skills are required to ensure the sound stewardship of public funds.

2. The importance of “corporate memory” in the delivery of good governance.

The continuous churn of civil servants and increasing departures of senior civil servants poses significant problems to the delivery of good governance and corporate memory. It inhibits the ability to learn from mistakes and stifles the dissemination of best practice.

At ACCA's recent roundtable, referred to earlier in this submission, some participants believed that the civil service operational structure can also be a barrier to implementing successful policies, particularly as people move around government departments quickly and are often not in place long enough to see a policy or project through or be held to account when the project goes wrong. The consequences of this are that there is no incentive for the person to ensure the long-term success of a project or develop a set of appropriate skills as he/she will likely move on before the project is completed.

Also, the operational structure and culture of the civil service leads to a lack of ability to learn from past mistakes. This is highlighted by this government and successive governments' track record of IT disasters, whereby the same issues come around time and time again.

The structure and culture can also lead to a lack of corporate memory, in particular, a historical understanding of why certain policy decisions were made. For example, a current project 'evaluating the impact of whole of government accounts impact on external users', commissioned by ACCA and being undertaken by Durham University has identified that there was a loss of corporate memory as to why successive governments wanted to introduce the Whole of Government Accounts (WGA). Early findings from the study highlighted a lack of corporate knowledge about the important conceptual justifications that had developed over time which were used to support WGA.

3. The role and purpose of external consultants in Whitehall in addressing deficits in skills; and the effectiveness of external appointment to leadership roles.

The Cabinet Office reported that spending on management consultants for 2012-13 was £503 million. Although this figure represents a significant reduction in expenditure from the £1.5 billion reported by ACCA in 2009, it is still believed to be an underestimate by many commentators.

Generally, we have found it difficult to identify the true cost of consultancy in central government and the public sector more widely. In part, this is because of uncertainty about the scope of the term 'management consultancy' and the lack of accurate financial information. Nonetheless and irrespective of which figure you believe there is little doubt that the size of expenditure is significant and it is in the public interest that the added value that they bring to the civil service should be assessed.

With this government, as with previous governments, the need to make budget cuts inevitably mean that management consultants are the first to go because spending on them is discretionary. In practice, the downsizing of some central government departments is not compatible with a continued need to implement new policy, develop new initiatives, and be seen to be doing new things. The irony is that government departments will need to demonstrate that they are responding to new ministerial requirements, so they will have to purchase capable resources in order to fulfill these. Arguably, if government continues to decrease in size external consultants will be an ongoing requirement of any government.

Austerity has changed the way government operates as highlighted in ACCA's paper '*Management consultants and public sector transformation*', (2009). The study found that it is generally accepted that external consultants can provide central government:

- with knowledge that helps clients take better decisions
- bring experience in project management that helps clients to execute their plans more effectively
- bring skills to help improve the capability and teamwork of managers.

The publication goes on to note several problems when assessing the relative merits of external consultants; firstly; terms such as contracting out and interim

management are often conflated with the term management consultant. Secondly and related to the first point, there is an insufficient amount of data and metrics with which to measure success and value for money achieved from the use of management consultants. Unsurprisingly results of commissioning management consultants are mixed.

Similarly, a NAO review undertaken in 2006 found that ‘management consultants, when used correctly and in the appropriate circumstances, can provide great benefit to clients – achieving things that clients do not have the capacity or capability to do themselves. On the other hand, when used incorrectly, management consultants can drain budgets very quickly, with little or no productive results’.

Findings from our own report showed that when employed correctly there can be great benefit to using management consultants we would suggest that for the relationship to be fully utilised:

- Firms must be asked to demonstrate value. (A Management Consultancies Association (MCA) survey of management consultants in 2010 revealed that only on in three firms have been asked to demonstrate value by government departments). In particular value must be placed on the sustainability of a project; once the consultants leave that there is still the skills to run it.
- Greater emphasis must be placed on financial capability at every level to increase the scrutiny of consultants and ensure there are realistic terms of reference in the agreement.
- Government must act more holistically in the hiring of consultants. In 2006 the Public Account Committee raised the issue that where projects have gone wrong consultants can be found to be employed in another department.
- Senior managers need to take a more active role in commissioning consultants. The MCA survey indicated that only one-fifth of senior managers were involved in decision-making. As a result the inexperience of staff who procure consultancy services has put projects at risk, in particular where initial terms of reference set by the client were inadequate or gave rise to unrealistic expectations about what outcomes could reasonably be achieved.

ACCA's study concluded that there will continue to be some debate about the effectiveness of management consultants, who continue to be criticised for management fads and for stating the obvious. What is certain, however, is that by providing knowledge, experience and skills to help improve capability, management consultants play a vital role in the public sector. Their contribution is also important for helping the public sector to innovate and create efficiencies.

However, it is critical that civil servants achieve a better understanding of management consultants and learn the lessons from poor procurement, management and evaluation, to ensure that added value is achieved.

Equally it is critical that management consultants understand their clients and the context in which they are working, provide more transparency about their costs, and set out how they will manage the risks of project failure.

If the above requirements are met the government, and as a result the tax payer stand to gain as expertise can be brought in on a project basis as and when required allowing for government to make efficiencies savings.