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UMR SURVEY OF PUBLIC SECTOR FINANCIAL MANAGEMENT CAPABILITY

1. In July 2008, Treasury commissioned UMR Research Limited to conduct a survey of all public sector departments' CEOs and CFOs. This note summarises the survey's findings and Treasury's subsequent actions. The full report from the survey is available on-line at:

<http://www.treasury.govt.nz/publications/informationreleases/surveypsfmcapability>

Findings

2. The combined response rate was 93%, giving a high degree of confidence in the findings. The survey was followed by 2 focus group meetings with CFOs and 10 one-on-one interviews with CEOs.

3. The survey raises important concerns in a range of areas which we have summarised below under the headings of demand, role clarity, capability and relationships.

Demand for financial management

- Financial advice can be under-valued by Ministers and senior managers when they make decisions on policies and resources.
- Whether Treasury could do more to assist agencies either directly or by supporting agencies as they build financial capability.

Role clarity (what financial management activity entails and the quality standards that apply)

- The need to meet compliance obligations can crowd out supplying information to support important decisions, there is only limited investigation of efficiency opportunities.
- There can be tension between value for money objectives and public sector rules that can encourage wasteful “use it or lose it” approaches.
- There are difficulties in achieving genuine cross-sector engagement and prioritisation.

Capability (barriers to agencies’ meeting expectations)

- Concerns with staff skills particularly in the advisory aspects of the role.
- A range of public sector systems and processes need strengthening.

Relationships with Treasury

4. Departments have commented that stronger relationships with Treasury would assist in raising their performance and have offered some suggestions for specific steps that Treasury could take, such as identifying opportunities to reduce compliance.

In response

5. The survey has produced a thorough view of the barriers to achieving strong financial management across the public sector, and a good sense of both the opportunities and the frustrations that arise.

6. Since the survey was completed there have been significant changes in departments’ financial management environment, such as government policy changes, the economic recession and the associated deterioration in the Crown’s financial position. These and other factors have already raised the focus on financial management in agencies. Particular changes have included:

- Individual CFOs now more regularly attend Ministers’ meetings
- The CFO network is engaging with the Minister of Finance
- Implementing new policies increasingly requires offsetting cost reductions with choices informed by financial analysis
- Agencies’ costs are under much greater scrutiny.

7. These developments indicate that in future Ministers will increasingly rely on financial management skills as an important part of the policy mix.

8. Steps that Treasury and agencies have taken or will take in response to the survey, the changing external pressures and the views of CFOs are as set out below. While the various items are inter-related, for convenience we have grouped them to reflect the four main themes emerging from the survey, namely the advantages of an increased demand for financial management activity, clarity of roles, necessary improvements in capability and a call for stronger relationships between departments and Treasury.

Developments already underway

9. Demand for financial management is increasing, significantly, for example through:

- Line-by-line reviews;
- Value for money exercises and Performance Improvement Actions; and
- The focus on price, quantity and standards of agency services.

10. Role clarity is supported by some increased support available for departments through guidance, training and regular interaction. Improvements to the monitoring of major Crown entities are a current example. Early signalling of priority areas for next year's budget should assist.

11. Departments are taking steps to improve their financial management capability. Work on the performance improvement actions and capital asset management are specific areas where central agencies are offering increased support.

12. Relationships with Treasury should be assisted by:

- Reductions in departments' compliance load which should flow from improvements to CFISnet and a review of the departmental internal control evaluation (DICE) process.
- Treasury's support for coordination processes that operate between departments. Initiatives here include procurement, shared services and capital asset management.

Developments under consideration

13. The survey recommends that Treasury supply analytic and advisory services to departments through a dedicated support unit. We do not support that recommendation because it would add to Treasury's costs and could cut across normal accountabilities. In particular, if Treasury is actively engaged in preparing departments' financial management information, our ability to comment could be compromised. There is also the risk that if such services were available from the centre, departments would see an opportunity to reduce their own efforts and their costs.

14. Treasury is currently looking at ways to achieve a step-shift in the support it provides for improving management of financial resources across government and, where appropriate, improving the financial capability of CFOs across the state sector and the financial capability of Treasury analysts. Treasury intends to engage in more detail on this in the next couple of months.

Conclusion

15. Treasury would like to take this opportunity to sincerely thank all respondents for their contributions to the survey, and UMR Research Limited for their efforts. The findings are an important contribution to the development of financial management capability in the public sector.

16. The steps summarised above are very much work in progress, and we encourage departments to continue engaging with Treasury on the issues identified in the survey and the steps to address them.

Ken Warren
for Secretary to the Treasury