CIPFA

Managing public finances to achieve fairer outcomes

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Content

Introduction

Public financial management (PFM) is the system by which financial resources are planned, directed and controlled to enable and influence the efficient and effective delivery of public service goals.

"PFM drives the performance of the public sector through the effective and efficient use of public money. Good PFM ensures that public money is used well and is made to stretch as far as possible. In the international context it can help to change the lives of very poor people. It provides leaders and managers with information to raise finance, to know if they are using resources effectively and to make decisions. Managing finances in the public sector is about much more than accountancy – it is integral to a country's financial health and to making critically important services available to people."[1]

Understanding how public finances can best be managed is integral to addressing regional inequalities. A whole system approach to PFM recognises the interconnectedness of organisations at a global, regional, national and sub-national level. Policy outcomes are strengthened when there is deliberate co-ordination that seeks to optimise total performance rather than the individual parts. This involves linking the management of public resources to service delivery, with mechanisms in place for checks and balances.

Political, economic, social and demographic factors have a direct bearing on public spending and revenue generation decisions. PFM operates in an environment where funding envelopes may be set independently of expenditure pressures or with variable reliability. When there is a divergence between the objectives of funders and local priorities and circumstances, this can challenge administrative efficiency and the implementation of expenditure programmes. Indeed, the complexity and risks to understanding financial implications is heightened when financial responsibility has been devolved.

1 www.cipfa.org/policy-and-guidance/reports/whole-system-approach-volume-1

Introduction

(continued)

Three objectives of PFM are:

- the maintenance of fiscal discipline
- the strategic allocation of resources
- operational efficiency in the delivery of public service goals.

These are aided by regulation, codified standards of practice, advice, support and capacity building. According to the World Bank, financial management refers to “the budgeting, accounting, internal control, funds flow, financial reporting, and auditing arrangements by which [governments] receive funds, allocate them and record their use.”[2] Economic conditions, technology and the level of managerial capacity are complementary factors that help to form a contextual framework in which to assess financial effectiveness.

2 www.worldbank.org/en/programs/financial-management

Performance tracking holds spending to account

Tracking the performance of – and pressures facing – public services is crucial to improving outcomes. Since 2017, CIPFA and the Institute for Government have examined publicly available data in the UK to understand the expenditure and demand for individual public services, including the inputs purchased and outputs created over the past ten years.[3]

When complemented with qualitative insights from interviews with civil servants, this type of analysis has helped to identify emerging risks and opportunities – especially as they relate to shocks such as COVID-19. Besides holding government to account for its spending choices, such annual appraisals provide an opportunity to influence thinking and policy formation.

By modelling the reduction in activity that occurred during the pandemic to estimate the size of the backlogs in each public service, the Performance Tracker places spending decisions and allocations into context. This can inform the amount of funding required to maintain pre-crisis standards or, equally, the prioritisation of government goals to provide support where it is most needed.

Irrespective of whether services such as hospitals, social care, schools or the criminal courts are delivered centrally or locally, utilisation rates across communities will vary. By appropriating funds to target some services more than others, governments also affect the quality of life and life chances in uneven ways.

Backlogs in key public services

60,692
cases outstanding in the crown court at the end of Q2 2021

5.72 million
people waiting for elective care in August 2021

6.36 million
fewer referrals from GPs to hospitals between March 2020 and August 2021

17 weeks
of in-person teaching missed; primary pupils were two months behind in reading and three in maths at the end of 2021 Spring term

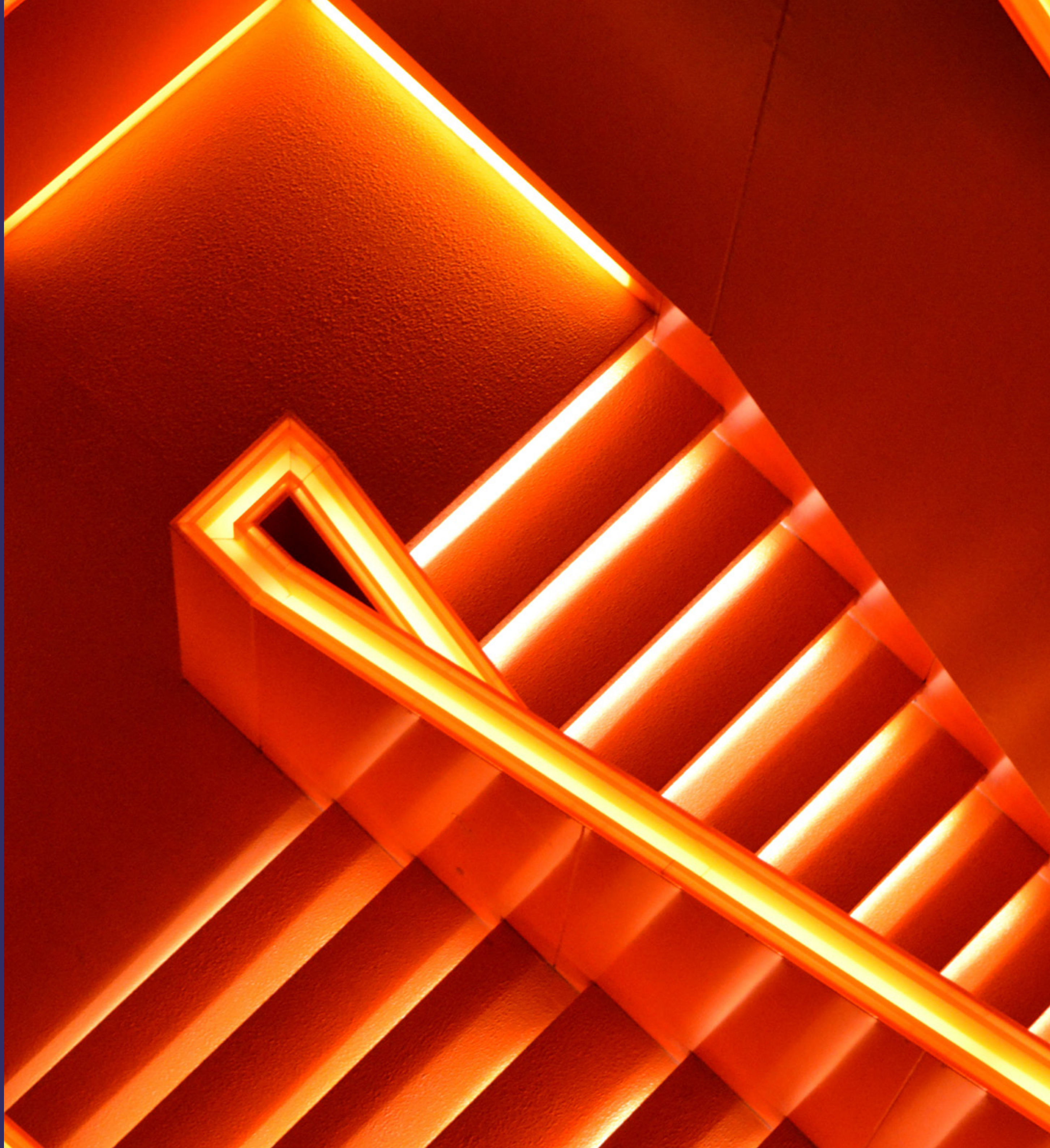
11%
fewer referrals of vulnerable children to local authorities between April 2020 ad July 2021, compared to the same period in previous years

3 www.cipfa.org/policy-and-guidance/reports/performance-tracker-2021

Finance specialists collaborate with public managers who are tasked with delivering service policies and spending plans within a set budget. This is achieved by encouraging the use of financial information when making decisions to manage risks, prioritise resources and improve allocative efficiency.

Supporting financial literacy across all levels and areas of government can improve budget forecasting and public service demand management as well. Indeed, during periods of financial stress, this can enable corrective actions or facilitate exit strategies.

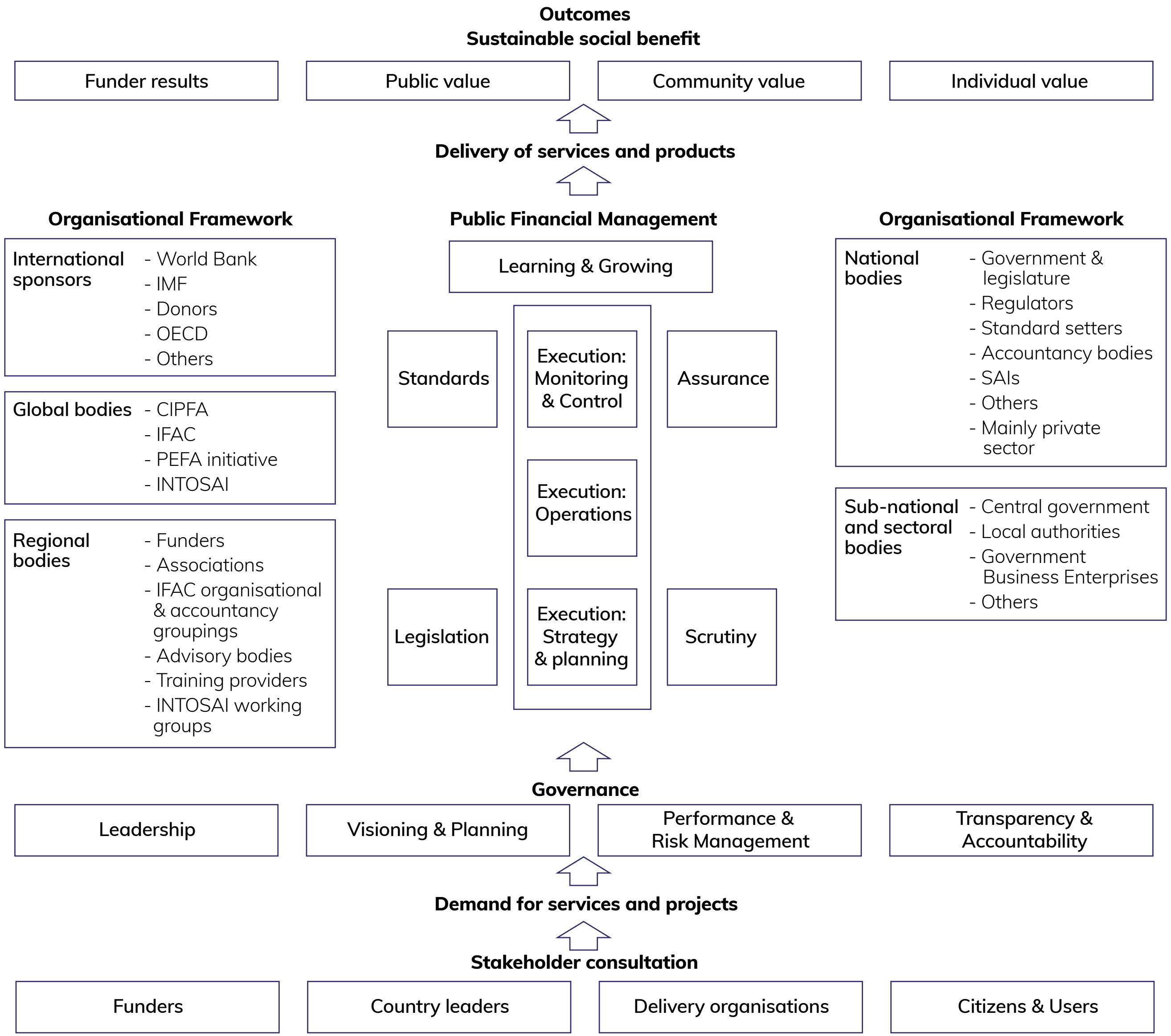
Pursuing value for money



Sustainable social benefit is the targeted outcome for PFM. Through co-ordination and collaboration across PFM's organisational architecture, funding is linked to service delivery in a way that can make money go further (see Figure 1).

Value for money (VfM) analysis allows public bodies to demonstrate the 'value' of their expenditures using actual or estimated financial data. This can be informed by data on costs and key performance indicators that can then be compared with those of similar authorities to generate ideas for improving efficiency. An example of this would be CIPFA's VfM Toolkit, which draws on 142 metrics from 49 different sources including government departments.[4]

Figure 1: CIPFA's Whole System Approach to PFM



4 www.cipfa.org/services/value-for-money-toolkit

In addressing regional inequalities, policy makers face trade-offs. While outcomes need not be a zero-sum game, choices must be made as to where and how to allocate limited funding.

CIPFA has worked with academics at the University of Oxford to create a VfM toolkit extension that is similar to feasibility analysis or preparing a business case.[5] Using forward-looking information, the toolkit provides a universal framework for thinking and learning about the economic validity of programmes that focus on outcomes. As a mechanism designed for public managers to self-assess expectations, the toolkit promotes thinking about the longer-term effects of interventions.

Indeed, a more standardized approach to evaluating the merits of publicly-funded projects or programmes will better ensure the uniformity and durability of policy outcomes. Practitioners can develop more compelling business cases by adhering to the Five Case Model supported by the HM Treasury's Green Book. As an accredited Better Business Cases training provider, CIPFA supports the development and then appraisal of a range of options to arrive at the best possible decision.[6]

Meanwhile, in an environment where demand pressures from service users often exceed available resources, it is crucial that sourcing strategies deliver the maximum benefit for communities. To optimise the impact of, and to leverage additional value from procurement and partnering, governments should identify critical success factors and pressure points throughout their supply chains. Early and systematic preparation to improve procurement performance can strengthen the overall ecosystem and promote resilience.

Procurement accounts for nearly half of local authority revenue and capital spending in the UK.[7] Leveraging additional value from even 1% of this £100bn could realise tangible benefits that have the potential to be re-directed toward strengthening local capacities where the resource pipeline may be otherwise constrained.

To facilitate this process, CIPFA is working with a consortium of partners to develop a procurement impact tool.[8] Increased data utilisation and data analytic capabilities will accelerate innovation and improvements in practice, performance and strategic decision making.

5 www.cipfa.org/services/go-lab-cipfa-value-for-money-toolkit
6 www.cipfa.org/training/accredited-training/better-business-cases-foundation
7 www.instituteforgovernment.org.uk/sites/default/files/publications/IfG_procurement_WEB_4.pdf
8 www.centreforpartnering.org/covid-19-and-beyond-lessons-from-the-crisis/

Financial resilience pays dividends

Objective advice on how to co-ordinate and sequence reforms for the better use of public funds relies on an understanding of future financial resources.[9] This would be supported by funding streams that are generally less fragmented, more flexible and longer in duration. For public service organisations to have confidence in their finances, and to be able to plan for the future, a commitment to multi-year settlements is essential.[10]

If the goal is to reduce regional disparities in economic outcomes, then the government should ensure that access to such funds does not favour larger or better resourced local authorities. The selection criteria and process will need to be clear and free of undue political influence as well if public trust is to be cultivated. Moreover, the funding itself should be proportionate to the task and responsibilities at hand – financial liabilities that cannot be maintained are counterproductive to good policy.[11]

Ultimately, it is the resilience of local communities and regions that will allow for more effective engagement with whatever funds are available. Investment activities will be restricted if public leaders are unable to balance their budgets due to financial difficulties or uncertainty. The capacity to anticipate future shocks or cope with them when they arise will affect governments' ability to maintain good financial performance or satisfactory performance of service provision. The accounting and finance profession can better equip governments to withstand such challenges by identifying possible areas of financial vulnerability.

9 https://www.cipfa.org/services/networks/funding-advisory-service/briefings/future-resources-model
10 https://www.cipfa.org/cipfa-thinks/insight/local-government-grants-support-communities
11 https://www.cipfa.org/policy-and-guidance/reports/addressing-regional-inequalities-in-the-uk-levelling-to-where

For example, CIPFA has developed a comparative analytical tool that shows a council's position on a range of measures associated with financial risk. The Financial Resilience Index compares similar authorities across a range of indicators using publicly available data.[12]

By presenting such information in a consistent format, chief financial officers and other decision makers can more fully understand their financial position and set out medium-term financial strategies. While the index has been designed for local authorities in the UK, the conceptual framework is relevant and replicable across other jurisdictions as well.

Money alone will not lead to sustained improvements in performance. Strengthening awareness of organisational capacities that can lead to the more effective management of financial resources during periods of increased uncertainty and complexity can be equally beneficial.

CIPFA is working with a diverse and dynamic network of international academics, policy makers and practitioners to develop practical solutions that enhance our understanding of how financial resilience can be maintained or improved. A global financial resilience toolkit will enable LAs to self-assess their anticipatory and coping capabilities.[13]

12 https://www.cipfa.org/services/financial-resilience-index-2022

13 https://accountingandaccountabilityirspm.wordpress.com/financial-resilience-toolkit-project/

Conclusion

Public financial management is a process whereby the targeting of efficiency gains can free up resources within existing budgets. The global adoption of common standards (eg accounting, auditing or educational) and practices can enable the managers of public services to understand cost drivers and behaviours in a shared language. Information can then be more readily aggregated, interpreted and exchanged to support enhanced transparency.

Cross-sector partnerships can deliver improved economic and social outcomes through peer learning and knowledge sharing. Improving value creation of public expenditure will call on PFM professionals to collaborate more actively with government, academia and the third sector. Capacity building initiatives such as the newly launched peer learning group co-led by CIPFA and the University of Oxford should enable public service organisations to not only become more effective but to sustain these improvements well into the future.[14]

For policies to be successful, governments must recognise that regional inequalities stem from a myriad of differences across income, wealth, education, health and social standing. By ensuring better equality of opportunity, policy makers can reduce poverty while enabling a broader swathe of society to maximise their potential through gains in productivity and efficiency.

Learning and growing through enhanced knowledge exchange can build trust across the PFM system, nurturing developments in legislation, standards, execution, assurance and scrutiny. Strengthening the voice of stakeholders and service advocates can improve transparency and accountability through the identification of practical gaps and weaknesses in the model. Leadership, vision and planning run parallel to performance and risk management in linking demand to the delivery of services and products.

A whole system approach to PFM mobilises financial resources that influence and enable public sector goals such as greater regional equality. Value for money and financial resilience assessments can contribute to improved, sustainable performance across government.

14 https://golab.bsg.ox.ac.uk/community/peer-learning-groups/value-in-public-finance/

Making it count

CIPFA is committed to changing lives for the better.

As a global leader in public financial management and governance, our aim is to make a difference to the world we live in. Our work enables people to prosper, protects the vulnerable and helps sustain the environment for future generations.

As a professional institute, we support our members and students to act with integrity and deliver excellence in public financial management throughout their careers.

By setting standards and advising public bodies and governments, we help ensure the money and resources used on behalf of citizens are raised and spent fairly, transparently, efficiently and are free from fraud and corruption.

Our thought leadership puts us at the heart of the policy debate, while our education and training offerings and range of advisory services support our members, students and other public finance professionals, helping them add value to their teams and the organisations for which they work.

CIPFA is a global body, operating at local, national and international level. Wherever we find ourselves and whoever we are supporting, our goal is to always make it count.

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