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Getting to the heart of decision making

Whitehall's Financial Management Reform

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In partnership with:

CIMA Chartered Institute of Management Accountants

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Contents

Executive summary 4

1. Introduction 6

2. Context 7

The 2013 *Review of Financial Management in Government* 8

Financial management reform since 2014 9

A framework for taking stock of the FMR 12

3. Taking stock of the FMR 14

Clarity around the reform's idea and purpose 14

Leadership style 17

Connecting with government and departmental objectives 18

Understanding the context and environment in which the reforms are taking place 19

Having dedicated resources to drive the vision and the model 20

4. Conclusion 22

Appendix: Case studies of three activities carried out under the FMR 25

References 28

Executive summary

In 2014, HM Treasury launched the Financial Management Reform programme (FMR). This is widely seen as one of the most successful and mature of the UK's functional reforms. The purpose of this joint paper by the Institute for Government and the Chartered Institute of Management Accountants (CIMA) is to allow those interested in improving finance functions in other complex organisational settings (especially centres of government) to see what is happening in the UK, and to understand the way this change has been undertaken. Similarly, this paper is an opportunity for those involved in other functional reforms occurring in the UK to understand what is happening in Whitehall's finance function.

> "The Financial Management Reform programme has delivered significant progress in a relatively short period of time."

The FMR has delivered significant progress in a relatively short period of time. It is a story of success, especially compared with the experience of many earlier cross-government reforms. It was launched in 2014 following the Treasury's *Review of Financial Management in Government*, published in 2013.[1] The roles of head of the finance profession and the Treasury's director general for public spending were combined into a single post. This gave a clearer sense of leadership and accountability, and also demonstrated the seriousness attached to leading the finance function.

The FMR has subsequently delivered, and continues to deliver, a variety of activities:

- **Value mapping**. Each government department has participated in peer-reviewed value-mapping exercises to identify knowledge gaps around both spending and scope for efficiencies.
- **Costing projects**. Fourteen cross-cutting costing projects run jointly by the Treasury and departments have developed new understanding around inputs, outputs and outcomes in particular policy and spending areas.
- **Career development**. The finance function is benefiting from better career development through a cross-government approach to talent management and a more joined-up approach to resourcing, including more managed moves across Whitehall.
- **Professional development**. The Government Finance Academy has been established and finance staff are benefiting from the training it offers.
- **Management information**. The collection of management information has been developed and streamlined, with common standards being used more effectively to measure and capture departments' operational expenditure.

Our stocktake of the FMR on which this paper is based drew on interviews, workshops and surveys with FMR participants. It revealed that, taken together, these activities have:

- created a stronger sense of community among finance leaders
- established new processes for understanding spending within and across departments
- improved professional development for finance staff
- led to progress towards more coherent financial information within departments and flowing to the centre of government.

The stocktake highlighted that the following factors underpinned these successes:

- The high-level ambition of finance at the heart of decision making is clear and has support across the finance function.
- Leadership across Whitehall is seen as committed to the reforms and the collaborative style has played a significant role in achieving support, including from the Financial Leadership Group (FLG).
- The FMR has gone with the grain of wider government reforms and focused on how the finance function can contribute to cross-Whitehall objectives around controlling costs, identifying efficiencies and professionalising the workforce.
- Finance leaders are alert to how the relationship between finance and other functional reforms, and tackling the issue of shared services, impact on the finance profession and are important considerations for the success of the FMR.
- The FMR has benefited from the extra resources dedicated to it in 2015 and there is no appetite for retrenchment. The signalling effect of the Treasury's involvement has bolstered the profile and level of departmental engagement with the FMR.

Looking forward, one interviewee likened the FMR to "a boulder being rolled up a hill that needs to be held in place, but if it doesn't maintain momentum it will just roll back down the hill".[2] The FMR was set up to strengthen the impact of the finance functions in their ability to better support government departments in meeting their objectives, including the decisions that need to be taken in this challenging environment. The stocktake showed that the reforms are at a transition point: they can provide the opportunity for the Government's finance function to meet world class standards, supporting the creation and preservation of value by focusing on delivering services effectively and efficiently. This is an opportunity to refresh and extend the FMR to prevent it from withering away – as has been the case with a number of other cross-Whitehall reforms. To take this opportunity, the overall ambition of the FMR needs to be spelt out more concretely. The FLG should be used as the forum to develop, and ensure buy-in to, the next phase of the FMR. The FLG needs to ensure that full-time dedicated resources continue to match the high-level ambition. The FMR should connect more fully with the priorities of departmental leaderships, moving from a 'nice to have' to being a critical part of delivering departments' core objectives.

1. Introduction

Previous work by the Institute for Government and the Chartered Institute of Management Accountants (CIMA) entitled *Financial Leadership in Government*, published in 2013, highlighted the importance of financial leadership and strengthened performance management at the top of government departments.[3] The paper looked at how financial leadership and performance management are structured within the UK Government, other national governments and large corporate groups. It concluded that, compared with corporate institutions and foreign governments, 'the centre of Whitehall plays a weaker role supporting the strategic functions of finance'.[4]

Reflecting this challenge, HM Treasury has led the Financial Management Reform programme (FMR) across Whitehall since 2014. In mid-2016, the Institute for Government and CIMA, at the invitation of the Treasury, undertook a stocktake of the FMR, drawing on their experience of civil service reform programmes, financial management in Whitehall and beyond, and the wider functional reform agenda. This paper reports on the findings of the stocktake, which drew on 26 interviews, three workshops and surveys of participants in both of these.

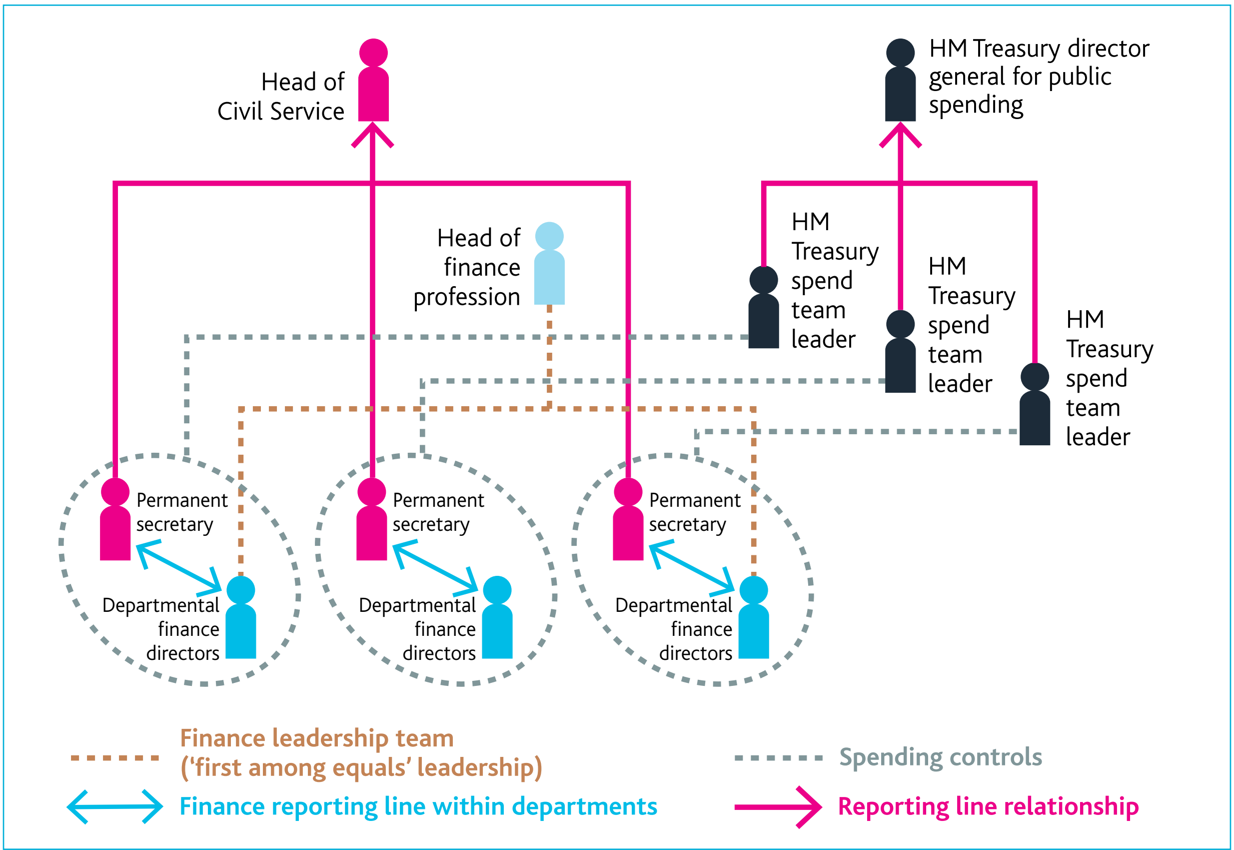
2. Context

Prior to 2014, financial leadership in Whitehall was structured around:

- leadership of the finance profession in government, embodied in a part-time head of profession, playing this role alongside their full-time departmental job
- the Treasury's expenditure control role, largely organised around spending teams reporting to the director general for public spending
- Cabinet Office central controls in areas such as information technology and major projects.

Leadership of the finance profession in government was split from key decision making. The head of the finance profession was a finance director general from a major spending department with a very small team to support that role. They chaired the Finance Leadership Group (FLG) of departmental finance directors general as the first among professional equals. Responsibility for setting the overall fiscal envelope, maintaining departmental spend and financial reporting frameworks was held by the Treasury's director general for public spending. Neither directly managed departmental directors or finance directors general. Instead, the head of the finance profession operated through influence and by consent, and the director general for public spending through instruction and guidance that carried the authority of the Treasury's permanent secretary.[5] See Figure 1 for a stylised structure of Whitehall's financial leadership before the FMR.

Figure 1: Stylised structure of Whitehall's financial leadership pre-FMR[6]



Whitehall's financial leadership therefore performed a more limited set of activities than those typically performed at the centre of a corporate group. In particular, it played a weaker role in supporting the strategic functions of finance, including performance management and leading the finance profession.[7]

For our previous joint paper entitled *Financial Leadership in Government*, published in 2013,[8] we conducted a cross-country comparison of the role of finance leaders and this highlighted the weakness of the UK's position (see Table 1).

Table 1: Cross-country comparison of the role of finance leaders[9]

	Title	Full-time	Location	Reports to	Input into decisions	Role in appointments
New Zealand	Treasury chief finance officer and chief accountant	✓	Treasury	Chief executive of the Treasury	Strong	Some
Canada	Comptroller general	✓	TBS (OCG)	Secretary of TBS	Some	Some
USA	Federal financial controller	✓	OMB (OFFM)	Head of OMB	Some	None
Australia	Deputy secretary financial management group	✓	Department of Finance	Secretary of finance	Some	None
UK	Head of finance profession	✘	Department of Health	–	None	None

Note: OMB (OFFM) = Office of Management and Budget (Office of Federal Financial Management), TBS (OCG) = Treasury Board of Canada Secretariat (Office of the Comptroller General)

By 2013, the Treasury recognised the need to review financial leadership responsibilities in Whitehall. In a period of ongoing fiscal consolidation there were concerns about the weakness of the strategic finance functions in government – especially compared with the Treasury's strength in pure expenditure control terms. The Treasury's *Review of Financial Management in Government* (the *Review*), published in the same year,[10] considered the leadership model for finance and how performance could be improved in terms of value for money and the outcomes achieved from government spending.

The 2013 *Review of Financial Management in Government*

The *Review* 'considered the quality and flow of management information, the effectiveness and operation of Treasury spending controls … and the leadership of the finance function'.[11] Drawing on best practice in both the private sector and comparable public sector organisations, the *Review* set out a series of recommendations focused on:

- strengthening financial leadership across government
- developing an improved understanding of cost and ensuring that this better informs decision making
- enhancing the skills and capabilities of the finance workforce
- developing greater commonality of standards, management information and reporting frameworks.

The *Review* recommended restructuring the finance leadership model, and combining in a single role the head of the finance profession and the director general for public spending. This person needed support from departments to succeed, so the *Review* also recommended strengthening the FLG, to be chaired by the new role of director general for public spending and finance. Individual members of the FLG were responsible for making finance communities in their respective organisations stronger and ensuring that finance is well placed to promote and champion a culture of effective financial and performance management throughout central government.[12]

Financial management reform since 2014

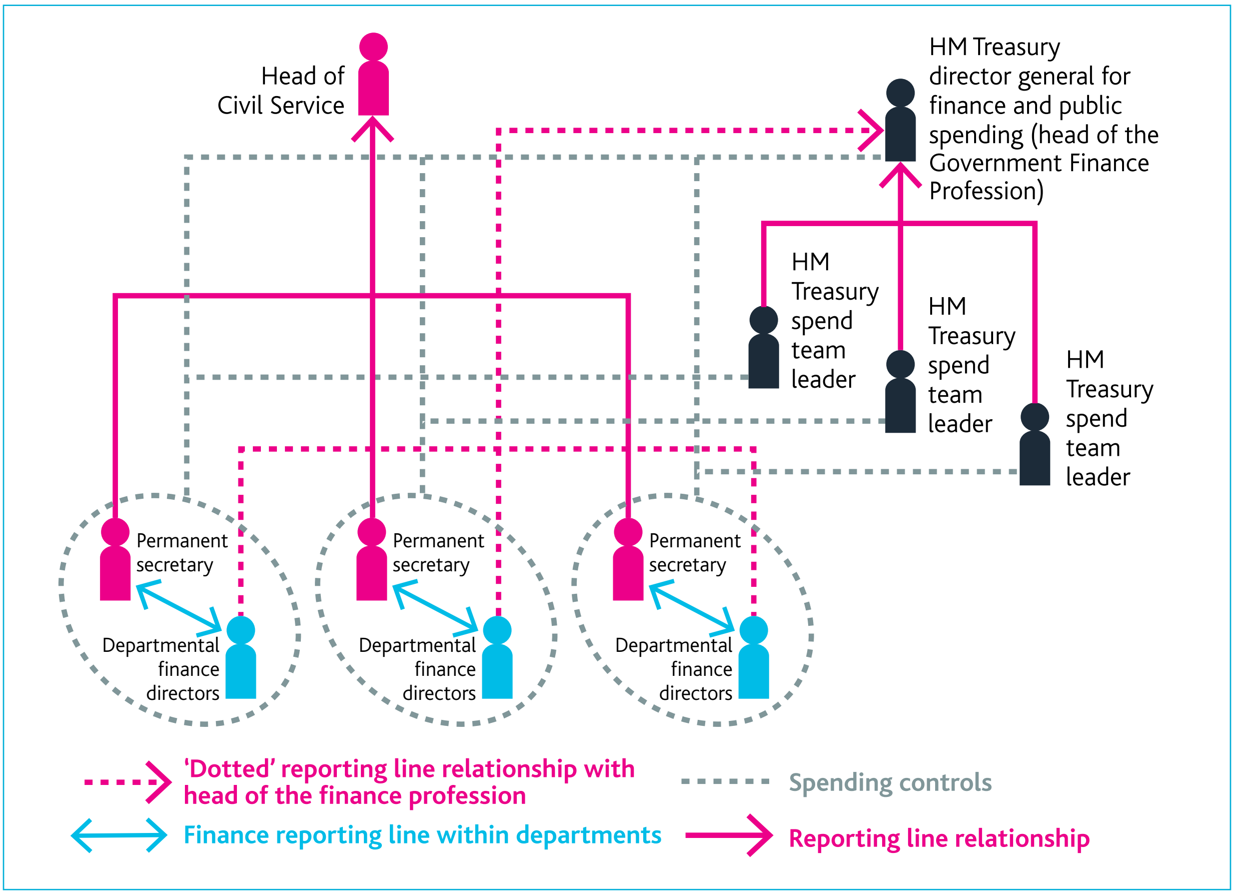
Following publication of the *Review*, the FMR was launched in 2014 to implement its recommendations. Since then there have been a number of key developments turning the Treasury's *Review* into reality (see Table 2).

Table 2: FMR milestones since 2014

	Milestones
May 2014	Julian Kelly is appointed director general for public spending and finance and begins chairing the FLG.
Summer 2014	Four committees are set up to commence work on different strands of the FMR and they start meeting in the summer of 2014. At this stage, the four committees are People, Finance Operating Model, Performance and Planning, and Data Structures. The number of workstreams and the names of committees will subsequently be refreshed.
November 2014	Government Finance annual conference.
Summer 2015	Head of the Government Finance Academy is appointed. The Academy is formally launched at the annual finance conference in January 2016.
September 2015	First intake of 49 finance fast streamers. A further 63 fast streamers joined Government Finance in September 2016.
2015 Spending Review	Costing Unit established; 14 costing projects completed to date.
Autumn 2015	Workstream structures are refreshed to reflect the Costing Unit and the new Government Finance Academy, with subsequent changes to the titles of the committees, with the exception of the People Committee. The new Government Finance Academy steering group reports into the People Committee. The number of workstreams is increased from four to five. First Government Finance recruitment campaign appoints eight deputy directors to the function.
January 2016	The Finance Operating Model Committee is expanded to include Shared Services. A team is recruited over the course of spring 2016. Government Finance annual conference.
Spring 2016	Under Treasury guidance, departments participate in value-mapping exercises, which are subjected to peer-review panels.

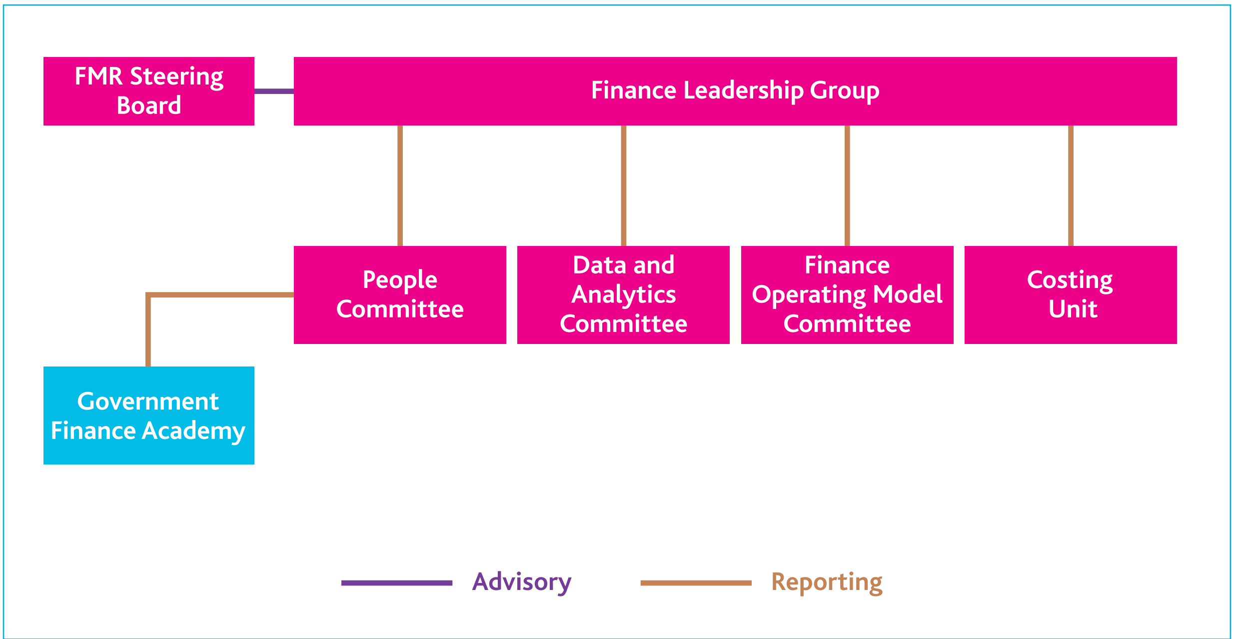
The director general for public spending and finance is now responsible for driving improvement in financial management across government (see Figure 2).

Figure 2: Stylised structure of Whitehall's financial leadership post-FMR



The director general for public spending and finance has 'dotted-line' responsibility for the 18 main Whitehall departments' directors and finance directors general, and oversight of the Treasury's FMR team – as well as being responsible for the Treasury's expenditure control function. The FMR team provides a day-to-day programme management role to support the reforms.

Figure 3: Formal governance of the financial management reforms



Departmental finance directors are responsible for delivering the *Review*'s recommendations through the various components of the governance structure. The FMR's current formal governance structure (see Figure 3) has three components:

- **FMR Steering Board**. The FMR Steering Board meets quarterly to provide strategic guidance, challenge and overall programme oversight for implementing the recommendations of the FMR and improving financial management across government. The board is chaired by the director general for public spending and finance, and its members include external non-executive advisers.
- **Finance Leadership Group (FLG)**. The FLG meets monthly to discuss finance function issues, including the FMR. It is chaired by the director general for public spending and finance, and membership consists of 10 finance directors general from the largest Whitehall departments. The FLG is effectively the leadership cadre of the finance function.
- **FMR committees**. Each of the three committees is responsible for driving a workstream/particular strand of the FMR (see Table 3) and is tasked with overseeing progress. Each committee is chaired by an FLG member and is advised by the FMR Steering Board. The Government Finance Academy is the fifth workstream and reports into the People Committee.

Table 3: Financial Management Reform programme committees and workstreams

Committee	Workstream
People Committee	The priority is to develop a pipeline of talent to senior finance roles. The committee have facilitated managed moves of finance directors into critical roles, led cross-government senior recruitment campaigns, developed new finance fast stream and fast track apprentice schemes, and established cross-government talent management forums. The Government Finance Academy steering group reports into the People Committee.
Data and Analytics Committee	The priority of the committee is to improve the quality and timeliness of management information. It is responsible for rationalising the management information landscape to reduce the data burden. Data sprints have been conducted to identify technological, classification and governance challenges around management information.
Finance Operating Model Committee	This committee oversees the creation of centres of excellence (costing, tax, investment appraisal and technical accounting). It has established 19 knowledge networks with a combined membership of over 600. It has completed capability and risk assessments for 10 departments. It has taken control of the finance shared services agenda.
Costing Unit	The Costing Unit oversees costing projects in collaboration with departments and provides strategic oversight of the Costing Unit and value mapping. It oversaw the establishment of a 1% forecasting accuracy benchmark for departmental spending forecasts.

With the leadership and governance in place, the FMR has continued to deliver a broad range of activities in different areas:

- Each government department has participated in peer-reviewed **value-mapping** exercises to identify knowledge gaps around both spending and scope for efficiencies. In the first half of 2016, departments went before peer-review panels to present the outcomes of the exercise, which involved working with finance professionals, economists and policy staff.
- To date, 14 **costing projects** run jointly by the Treasury and departments have developed new understanding around costs in particular policy areas.

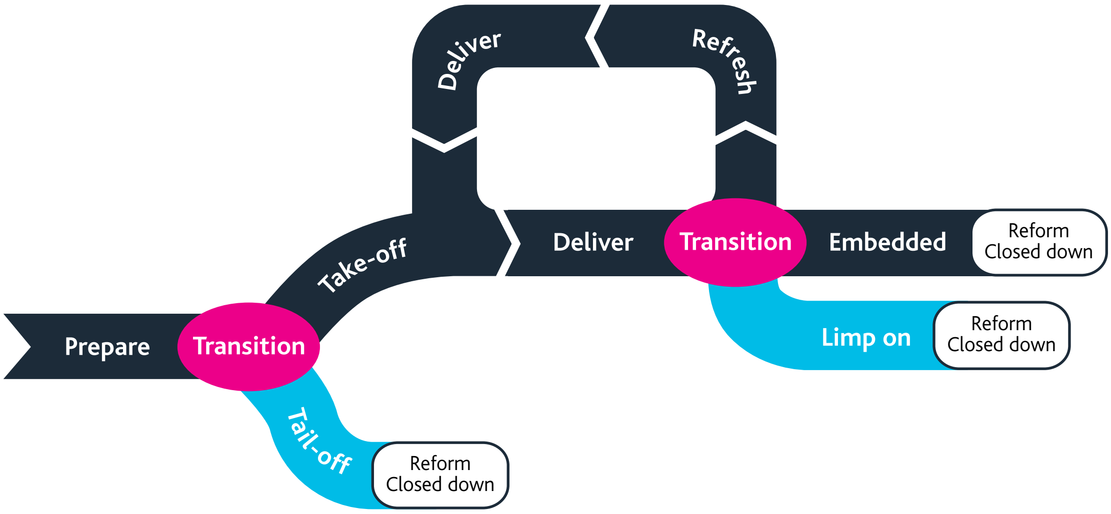
- The collection of **management information** has been developed and streamlined. The Treasury and the Cabinet Office are taking joint steps to improve the consistency of data requests that departments receive, and identifying where there is duplication of effort. 'Town Hall' events have brought together staff from different departments working on management information. At these events, staff have been able to identify common challenges and, in smaller informal working groups, develop solutions in areas such as refining guidance on the Online System for Central Accounting and Resourcing (OSCAR) database.
- The use of information in **benchmarking performance** is being strengthened. There has been a focus on Whitehall's operational expenditure, with the chart of accounts being applied more consistently across departments. Work is now under way to create benchmarking information, to be used by both departmental finance directors and Treasury spending control teams to improve performance.
- Finance staff are benefiting from better **career development** opportunities through establishing senior cross-government talent management forums and taking a more joined up approach to resourcing. This has included more managed moves across Whitehall and two Government Finance recruitment campaigns, which have led to the appointment of senior officials to a range of roles across government. There have been two intakes to the new finance fast stream and the third intake of finance fast track apprentices will join in Autumn 2016.
- The **Government Finance Academy** has been established and finance staff are benefiting from the training it offers. Examples of training offers launched to date are technical updates, Value Added Tax (VAT) and Pay As You Earn (PAYE), business partnering and data visualisation. The Academy also develops training and development opportunities for non-finance specialists. Training tools developed include videos, webinars, toolkits, case studies, face-to-face training, networking events and e-learning.

Our main interviews with FMR participants, who were primarily (but not exclusively) finance directors, covered all of these areas. In addition, through workshops and more focused interviews with people directly involved in certain activities, we looked in more depth at three areas – value maps, costing projects and management information (case studies of each of these are in the Appendix).

A framework for taking stock of the FMR

The Institute for Government has previously carried out research into civil service reforms in the UK to understand why some take off, while others limp on and tail off. Our approach to reviewing the FMR draws on this research, and the framework for assessing reform programmes set out in the subsequent research report *Civil Service Reform in the Real World*, published in 2014.[13] Based on the lessons and insights from past reforms, and what we know about the different stages of a reform during its life cycle (see Figure 4), the present report sets out what observations can be made about implementing the FMR so far – and what the key challenges ahead might be.

Figure 4: Different stages of a reform during its life cycle[14]



The year 2013, covered by the *Review*, was one of preparation for the reforms. The year 2014 was the transition to take-off as the governance structure was settled and committees began their work. In 2015, the reforms underwent a refresh, which saw amendments to the governance structure (for example to incorporate the Government Finance Academy) and more dedicated resources. The reforms are not yet close to being fully embedded, which is unsurprising given the original review envisaged an investment of up to 15 years to fully achieve the FMR's ambitions.

Now two years in, the FMR has an opportunity to build on success so far to consolidate and extend its impact. The context in which the programme is delivered will be affected by Brexit and a new Prime Minister and Chancellor. The FMR can continue to be delivered as it is now but, like other reform programmes, it might ultimately tail off. It cannot be taken for granted that a reform will embed of its own accord.

Research by the Institute for Government shows that reforms at a transition point face 'critical moments when opportunities need to be seized in order to refresh, reinvent and develop the reform'.[15] The continuation of a reform is highly dependent on how successfully transitions are navigated. The lesson from the life cycles of Whitehall reforms is that those that start brightly can soon tail off.[16] The failure to review, refresh and reset when needed has triggered the tailing off of otherwise strong phases of reform.[17]

3. Taking stock of the FMR

From June to September 2016, the Institute for Government conducted a stocktake of the FMR. This stocktake drew on:

- 26 interviews with members of the FLG, departmental finance directors, FMR Steering Board members, programme staff in the Treasury and civil servants from a range of government departments who had been involved in elements of the programme
- three workshops with staff directly involved in delivering one of three FMR initiatives (value maps, costing projects and management information)
- a survey of interviewees and workshop participants.

Using the framework developed by the Institute for Government in *Civil Service Reform in the Real World*,[18] the stocktake identified the following factors as being important for the success of the FMR:

- **Clarity around the reform's idea and purpose**. A clear ambition establishes the need for reform and helps to garner wide support and engagement. Achieving clarity around the idea and purpose of reform is made easier if there is a shared analysis of the problems and challenges.
- **Leadership style**. A committed senior leader owning the reform idea and investing time sends a signal that reform is important enough for officials to respond to. Leaders' values and ways of working are critical to combatting default assumptions that reform will add no value, and enhance the credibility of reform.
- **Connecting with government and departmental objectives**. However ambitious and far-reaching a reform is, it needs to chime with the prevailing interests, concerns and priorities of government and departments, rather than challenging them directly.

> "A committed senior leader owning the reform idea sends a signal that reform is important enough for officials to respond to."

- **Understanding the context and environment in which the reforms are taking place**. Leaders of reform must be aware of the context and environment in which they are operating. Awareness of the broader reform agenda across Whitehall, and the risks and opportunities this presents, helps leaders to set the ambition and design of the reform accordingly.
- **Having dedicated resources to drive the vision and the model**. A dedicated team helps to maintain momentum. In addition, the support, or at least the permission, of the Treasury is a determining factor in allowing reform to happen.

Clarity around the reform's idea and purpose

High-level ambition

In our survey of finance leaders, the vast majority agreed or strongly agreed with the statement: 'I have a clear understanding of the vision for future financial management reform' (see Figure 5). In interviews, the core ambition of the FMR was encapsulated in the phrase 'putting finance at the heart of decision making'[19] – a finance function that is involved to a greater extent than at present in decision making in departments and across government is strongly supported by finance leaders. Some finance leaders had their own definitions of what this meant in practice – which suggests that it may need to be defined more concretely – but there was a clear understanding of the future vision. A senior interviewee said that, for them, finance at the heart of decision making should mean "when a policy person has a twinkle in their eye … I want the person they go to first to be their finance colleague".[20]

Figure 5: Finance leaders' understanding of the vision for future financial management reform

Do you agree with the following statement: 'I have a clear understanding of the vision for future financial management reform'?

Note: Number of respondents = 17.

Finance at the heart of decision making builds on the practice of 'finance business partnering', which occurs in the private sector and already happens in some government departments. Finance business partnering is when finance staff at all levels 'operate as internal consultants or business advisers'.[21] Research by the American Institute of Certified Public Accountants (AICPA) and CIMA highlights how companies use finance staff to contribute to a range of activities through business partnering. Finance staff can provide accounting and management information, which sets them out as professionals able to help improve decision making. Management needs to assess performance and progress towards intended outcomes with the benefit of rigorous and accurate information.[22]

Scope of the reforms

The FMR has taken an incremental approach to reform by building, where possible, on what already exists, rather than trying to bring about wholescale change to existing ways of working. It has worked with the grain of departmental structures, respecting the individuality of departments – while generating an expectation that joint working across the finance function between departments will become the norm. The FMR has also utilised existing bodies such as the FLG for the governance structure of the programme, instead of creating new forums. Our survey of finance leaders (see Figure 6), as well as our interviews, broadly showed that the level of ambition embodied in the scope of the reforms has been appropriate to date. One interviewee said: "We started off with quite a clear sense of the strategic ambitions. Quite a lot of that has now been done."[23]

Figure 6: Finance leaders' view on the level of ambition in the scope of the reforms

Do you agree with the following statement: 'The financial management reforms as a whole have been as ambitious as they needed to be to achieve their objectives'?

Note: Number of respondents = 17.

The pace and scale of progress has been allowed to vary across the different workstreams. This has meant that areas that could make quick progress, such as people and talent management, have been allowed to press ahead with reforms. Other workstreams with elements that take longer to get up and running have been given the time and space to do so. For example, the Government Finance Academy is closely connected to Civil Service Learning, which provides learning and development for civil servants and is overseen by the Cabinet Office, so it was necessary to take the time to align with this department when developing learning content.

Professionalisation of the workforce

The 2013 *Review* recommended 'developing and retaining skilled staff in order to enhance organisational and professional capability'.[24] The FMR People Committee set itself the objective of developing a pipeline of talent extending right through to senior roles and did this by focusing on skills training and talent management.

The Institute for Government has previously highlighted the seriousness attached to the professionalisation of finance – for example, a significant number of deputy directors have begun professional financial qualifications.[25] But there have been further developments as a result of the FMR:

- finance directors have had managed moves into critical posts
- a new finance fast stream was launched in September 2015 with an intake of 49 people, with a further intake of 63 planned for autumn 2016
- talent forums have been established for middle and senior managers
- the Government Finance Academy was launched in January 2016.

The positive impact of these changes was widely noted by finance staff. One interviewee commented: "We have really benefited from recruitment of great people by having a wider pool of people to choose from and interchange."[26]

Senior appointments in particular have a big impact on reinforcing or undermining reforms. Emphasising the link between having a finance qualification and gaining seniority in the profession signals to the wider finance community the seriousness of getting qualified. The appointment of an unqualified director general for finance had caused considerable disquiet within the finance function. The issue was raised unprompted in a number of senior leadership interviews. And it was a clear concern for more junior staff, with one commenting: "[T]he whole mantra of the FMR has been to increase professionalisation. People I've worked with have been told 'either get qualified, or you won't progress in the finance function'."[27]

There will always be exceptions when it comes to senior appointments. Currently, 20% of FTSE 100 chief finance officers are not qualified accountants, although many hold relevant qualifications such as a Master of Business Administration (MBA). However, within Whitehall, exceptions to the rule that finance staff need to be qualified should be rare, because this would have consequential effects on the wider workforce.

Talent management has enabled the movement of finance staff across Whitehall where they can gain greater experience in a breadth of roles. Facilitating the movement of people around the finance function leads to staff viewing career development through the prism of not just a single department but also the function as a whole. If people identify career development with the wider function, it makes it easier to get the right people in the right roles. One interviewee observed that people are now being recruited to the function and the profession with the expectation that they will move around departments.[28]

> "Retention of talented staff is a challenge."

Progress towards professionalising the finance function has been a success to date. But retention of talented staff – which is a problem across government – is a challenge. A number of high-profile finance directors have left for the private sector in recent months – including the director for public spending and finance at the Treasury. The positive gains from recruitment and talent management need to be mirrored in better retention, if efforts to improve the pipeline of talent are to achieve their full potential. Given the difficulty of paying staff at levels comparable to the private sector, it will prove difficult to retain staff that have benefited most from the managed moves and upskilling that the FMR provides. CIMA's annual salary survey highlights the prominence of pay as a factor in people's decisions to move jobs – 51% of CIMA's UK public sector members are likely to look to switch jobs in the next two years, with 54% of these members identifying financial reward as their primary motivator.[29]

Refreshing ambition

Not least because the reforms have been focused on professionalising the finance function, not radically changing it, the FMR has been strongly supported by finance leaders across government. There is no appetite for retrenchment. Instead, finance leaders want to make sure that existing initiatives are consolidated and to build on this as reforms mature.

As with all reforms, reassessing the level of ambition is an important part of ensuring that the FMR can adapt and change as the context changes. People involved in the programme are aware of a reform's life cycle and what this means. One interviewee told us: "[R]eform programmes have a life cycle that requires reinvention at some stage … we will need to add to the programme and re-shape it."[30] This awareness has been reflected in practice. The FMR underwent a refresh in 2015 that involved changes to the governance structure to reflect the launch of the Government Finance Academy, and more dedicated resources to support the Finance Academy, Costing Unit and shared services.

The process of refreshing a reform's ambition is as important as the final decision on what the ambition actually looks like. The FLG's initial involvement in developing clarity around the idea and purpose of reforms significantly contributed to their success over the past two years. This lesson should be applied to the future as well.

Leadership style

Open and collaborative

The style and form of leadership are critical to the progress of a reform in each phase of its life cycle. The Institute for Government has identified the importance of a committed senior leader who is seen to own the reform. This sends a signal that reform is important enough for officials to respond to.[31] Leaders should also embody the desired culture they want to create in the wider profession, embedding this as far as possible in every aspect of the organisation they are responsible for.[32]

The approach taken to leading the reforms by Julian Kelly and David Allen, and now Jane Cunliffe, has been vital to the progress of the FMR. Efforts to ensure that finance directors general and finance directors are involved in the FMR are widely recognised. The leadership style means that FLG meetings allow for an open exchange of views. In turn, this enables inclusive discussion among finance leaders, who feel connected to the reforms rather than being subjected to them. Interviewees told us that the "FLG is working a lot better now … it feels more like a leadership group"[33] and "certainly the FLG provides leadership to the community as a whole; we're doing lots more together".[34] The approach has been applied to all departments, regardless of scale. To ensure that smaller departments stay informed about the FMR despite not being represented on the FLG, monthly meetings are held between Julian Kelly and finance directors from smaller departments.

Leadership of the FMR is delegated to finance leaders outside of the Treasury. Chairpersonship of the committees is split between different senior finance leaders working in other departments. The staff tasked with leading individual reforms, and their teams, are spread around Whitehall – for example, the Department of Health for the Government Finance Academy, the Ministry of Justice for the Finance Operating Model and the Cabinet Office for shared services. The core team at the Treasury remains responsible for bringing an overall sense of coherence.

Finance leaders in our research felt that the FMR Steering Board was less relevant in terms of overall leadership and governance of the reforms. There was little sense of the board holding workstream leads accountable for delivery, or wanting to exert any significant leadership over the reforms. This probably reflects the way in which the board is used – it is primarily an advisory body where soundings on the overall direction of the FMR can be taken.

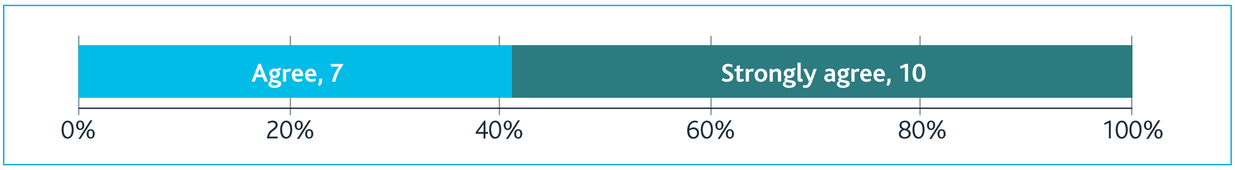
Different phases of the reform life cycle may require the leadership style to be exercised in different ways. There is no appetite for the open and collaborative style to be discarded. But as the FMR matures, there is a sense among FLG members that a more directive approach in leading the group may be desirable, in order to set out the future direction in more concrete terms.

Sense of community

Our survey of finance leaders (see Figure 7) and interviews revealed that a greater sense of community exists among them now in comparison with before the reforms. One interviewee said: "I would describe the [FMR] as having achieved a lot in terms of building a stronger finance community and a shared sense of purpose."[35]

Figure 7: Finance leaders' sense of a single finance community since the reforms

Do you agree with the following statement: 'There is now a stronger sense of a single finance community across government than before the reforms'?



Note: Number of respondents = 17.

The importance of this greater sense of community cannot be overstated. Finance directors told us that they have stronger relationships with each other and with Treasury colleagues because of the FMR. In terms of the 2015 Spending Review, finance leadership wrote the guidance for departments and finance directors felt they were involved in a combined exercise with Treasury colleagues. There was a clear view among interviewees that because of the working relationships the FMR fostered among the finance leadership, the Spending Review process in 2015 was an improvement on what had preceded in 2010.

> "Finance directors told us that they have stronger relationships with each other and with Treasury colleagues because of the Financial Management Reform programme."

This sense of community has not filtered down below the leadership level to such an extent. But the annual government finance conference has contributed significantly to raising awareness of the FMR and creating support from the wider finance function. The conference has been used as the forum to update the function on developments in the FMR, promote plans for the future and celebrate success. It is the most appropriate vehicle for filtering the sense of community downwards from the senior leadership.

Widening the leadership cadre

The Institute for Government's previous research shows that a leadership coalition is a success factor that can prevent reforms from limping on, tailing off or being discarded.[36] As reforms mature, ownership needs to broaden to a wider group of civil servants. A stronger sense of community among finance leaders will not be sufficient. A future challenge for the FMR is for the wider cadre of finance leaders to develop into a leadership coalition capable of guiding the reforms. This is important partly because it sustains momentum when senior leaders change.

Connecting with government and departmental objectives

It is important for cross-departmental functions to contribute to wider government objectives. This involves overcoming the divided nature of the centre of Whitehall and working together for the common agenda.[37] Cross-departmental leaders must ensure that what they do adds value to government.[38]

The FMR has focused its activities on cross-government changes that will contribute to objectives of controlling costs, identifying efficiencies and professionalisation of the workforce, as listed below. These are sensible starting points to demonstrate to Whitehall that the FMR contributes to a common agenda.

- Value maps and costing projects are examples of initiatives to help understand public spending better and expose where there are gaps in knowledge.

- The greater standardisation of operational expenditure data and the generation of relevant benchmarks will support departments in improving their own operational efficiency.
- Initiatives to upskill the workforce fit into a wider objective of building a civil service with a broader set of skills.[39]

Steps like these enhance the quality of the finance function but have outcomes demonstrably beneficial to the wider government.

Connecting with departments

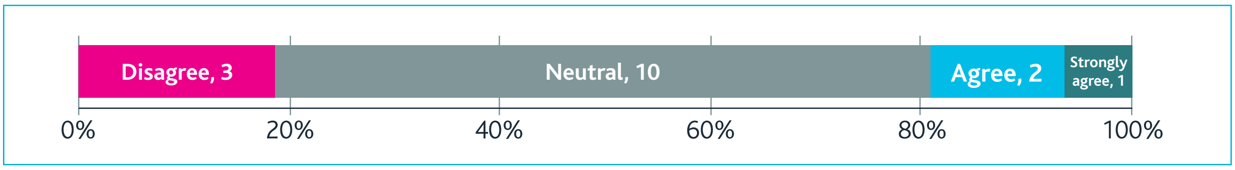
Reforms should seek to chime with officials in departments.[40] Previous Institute for Government research shows that departmental buy-in is not just a 'nice to have', but is critical to designing the right operating model and governance.[41] As well as introducing tools such as value maps and costing projects that support departments to exercise greater financial control, departments need to be involved in developing the overall reforms.

In terms of the FMR, the perspective of departments' finance leaders is embedded across each element of the programme via the FLG and workstream committees. The benefit of this is that finance directors are willing to support the success of the FMR, even where it might not immediately benefit their department. For example, talented finance staff are supported in making managed moves outside their department even when, in the short term, that loss will be felt. There is a recognition that the finance function as a whole benefits from staff developing their career in different departments.

A future challenge for the FMR is how to develop this connection with departments further. There was a degree of ambivalence in our survey of finance leaders about the level of departmental buy-in to the FMR: an even number of finance leaders agreed and disagreed with the statement 'Departments have engaged sufficiently with the Financial Management Reform programme', with the majority expressing a neutral view (see Figure 8).

Figure 8: Finance leaders' view on the level of departmental buy-in to the FMR

Do you agree with the following statement: 'Departments have engaged sufficiently with the Financial Management Reform programme'?



Note: Number of respondents = 16.

The next phase of reforms needs to connect with departmental leaders beyond finance directors – most particularly with permanent secretaries – to ensure that they have a greater interest in the success of the FMR. The key breakthrough is for permanent secretaries to start seeing the FMR as something that will enable them to meet their challenges and priorities.

Understanding the context and environment in which the reforms are taking place

The wider context in which reforms take place can support or constrain them. Awareness of other initiatives and agendas in play across the Civil Service gives a sense of the challenges and opportunities that reforms face. As a starting point, designing the governance structure of the FMR such that finance directors are on the FLG and the workstream committees, means that reforms are less likely to cut across departmental reform programmes. Not being attuned to what is happening in departments would have stalled progress.

Reform of the functions

An important part of the environment in which the FMR operates is the series of attempts that government has made to reform cross-Whitehall functions in recent years – of which finance is one. There has been considerable variation in how different functions have approached their respective issues. Some have moved a long way towards a single employer model with their own career structures and professional identities – legal and communications being among the strongest examples. Others are still establishing what their role is. Led from the Cabinet Office under the authority of the Chief Executive of the Civil Service, John Manzoni, functions are increasingly accepted as part of how government should be organised – without challenging the ultimate responsibility of permanent secretaries and their leadership teams for the performance of their departments.

However, there are risks, when functions develop independently, of confusion or duplicated effort. In the past, a problem has been the relatively little coherence between the different approaches to reform of the functions.[42] The consequence of this for departments was reflected in what finance leaders told us: "People in departments are affected by a lot of functions – finance, commercial, estates etcetera – who are all trying to further functional agendas, and they have to make sense of that and align it to their departmental needs."[43]

Leadership and a strategy are required in order for the FMR to navigate the risk posed by unco-ordinated action with other functions. The commercial function has the most significant crossover with finance, but it is heading in a different direction from finance with its single employer model. Leadership of these functions is split at the centre between the Treasury and the Cabinet Office. The head of the commercial function, Gareth Rhys Williams, is based in the Cabinet Office alongside most of the other functional leads. But at a departmental level, finance directors are responsible for both finance and commercial. Managing the split leadership at the centre is crucial and a lot of effort has gone into establishing working relationships. Interviewees told us that "the boundary [between finance and commercial] needed to be understood and worked across" and the FMR "was trying to be as aligned with the Cabinet Office as possible".[44]

> "A strategy to fully bottom out how commercial and finance align is still required."

A strategy to fully bottom out how commercial and finance align is still required. The FLG could be the ideal body to tackle this – for example by having commercial attend the FLG and using it as the forum to facilitate building a strategy. However, there is caution among some in the FLG about whether taking a more active role in commercial may harm the focus on improving finance and ultimately cause reforms to stall as energy is dissipated on other issues. One interviewee commented: "I get the arguments about bringing commercial stuff a bit closer, but I think there is so much to get right on the finance agenda that we're better off focusing [on finance] … I think we risk diluting our impact the more we bring in other stuff."[45]

Shared services

Since spring 2016, the Finance Operating Model Committee shares responsibility for sorting out shared services with the Cabinet Office. Over time it was recognised that previous Whitehall initiatives around shared services had not put finance where it needed to be in this area, and in general had not been successful.[46] The issue needed to be resolved in a joined-up way with the FMR. Ownership of shared services provides an opportunity for the FMR to demonstrate that it can make a real difference to how people working in finance operate day to day. Widening the FMR's scope in this way needs to be done with caution given the risk that it may lead to a loss of focus.

Having dedicated resources to drive the vision and the model

Resourcing

The resources dedicated to the FMR have been essential for making sustained progress. As one interviewee commented: "We've swung to embedding this in Julian's [Kelly] remit, which in my mind is absolutely right as you're at the heart of the Treasury power base rather than marginal to it."[47] A return to the pre-2014 finance leadership model would not be able to deliver the FMR. A reliance on discretionary effort to support workstreams also makes it difficult to hold people to account for delivery. One FLG member said that the FMR's level of ambition at the outset was "heroic given the resources allocated to it".[48] In 2015, the FMR underwent a successful refresh, which led to more resources being allocated to support the launch of the Government Finance Academy and costing projects, and more full-time resources for work on the Finance Operating Model.

The appropriate allocation of resources was raised by FLG members in the interviews. One interviewee said that the FLG needed to have a debate on whether or not we should be "focusing on a smaller number of things that we really need to get right and will make the biggest difference to the finance function as a whole".[49] There was a general sense among FLG members that losing resources in response to a changing context, caused by an event such as Brexit, would result in losing momentum. Similarly, if the ambition of the reforms expanded and resources failed to keep pace, this would undermine the capacity of the FMR to deliver what it set out to achieve.

Resources also have a significant signalling effect to the rest of Whitehall about the level of commitment to the reforms. During the initial period of the FMR when there wasn't a great deal of central resources to support the reforms, finance directors committed departmental resources to fill the gap. One interviewee commented that "this was a sign they [departmental finance leaders] backed FMR and a sense of buy-in existed".[50] The challenge now will be keeping the current level of resources in place, as this will demonstrate the seriousness attached to financial management in Whitehall.

Level of programme management

Having the right dedicated resources in place to drive the vision needs to be complemented by the right use of accountability and governance.[51] Previous Institute for Government research has shown that Whitehall's formal governance and programme management can act as a barrier rather than an enabler of reforms.[52] The FMR has benefited from the right use of accountability and governance. The programme team has resisted the temptation to micro-manage the FMR directly out of the Treasury and hard delivery targets have not been set for each workstream.

As reforms mature, there is a growing demand from those leading workstreams to have harder metrics with which to assess progress. These are seen as helpful in clarifying the exact nature of the reforms, as well as galvanising action around tangible outcomes. One interviewee said that there was a need for a "bit more programme rigour".[53] As governance of the FMR develops, it is important that it retains a focus on supporting workstreams to succeed.

Treasury support

In the UK the Treasury, which combines the roles of finance and economics ministry, is one of the most powerful government departments. As previous Institute for Government research has shown, its support – or opposition – often makes or breaks Civil Service reforms; at the very least, reforms need Treasury 'permission' to succeed.[54] A crucial factor in the success of the FMR to date therefore has been the active backing of the Treasury in terms of both leadership at the director general level and the programme team. The resources allocated to the FMR by the Treasury also signal to Whitehall the importance it attaches to financial management.

A single director general for public spending and finance based in the Treasury means that the leadership of the finance profession has more capacity to do their job, compared with before the FMR when the leader of the finance function was a first among equals, operating part time. Interviewees remarked on the clear improvement in the level of support available to Julian Kelly relative to his predecessor, Richard Douglas.[55]

Participants in our value-mapping and costing workshops emphasised how Treasury involvement had made it easier for them to get traction within their own department for FMR-related projects and initiatives. Policy staff, economists and finance staff were more engaged with an exercise such as value mapping where the importance that the Treasury attached to the initiative was clear. Costing workshop attendees also commented that the final output of a costing exercise had more credibility within their own department because they could cite Treasury involvement in the exercise. The importance of explicit Treasury backing was also reflected in our interviews, with one interviewee involved in a costing project commenting that there was a clear "attraction" in working with the Treasury because it opened up opportunities to work with other departments and utilise additional capabilities.[56]

4. Conclusion

The Treasury's 2013 *Review of Financial Management in Government*[57] set out to address weaknesses in Whitehall's financial leadership, and to identify areas where finance could professionalise and make a greater contribution to decision making. Financial leadership in Whitehall has improved as a result of having a new director general for public spending and finance. This change was an important initial step in realising the aims for the finance function as set out in the *Review*.

The FMR has delivered significant progress in implementing the *Review* in a relatively short period of time. It is a story of success, especially compared with the experience of many earlier cross-government reforms. The FMR has delivered, and continues to deliver, a variety of activities:

- cross-cutting costing projects
- peer-viewed departmental value-mapping exercises
- a Government Finance Academy
- improvements to data collation and sharing
- greater movement of finance staff between departments.

Looking in more detail, the findings of this research follow the framework developed by the Institute for Government to assess cross-departmental reform in Whitehall.[58] This research identified a range of factors that can lift up or drag down a reform at different stages of its life cycle. The key findings are as follows.

Clarity around the reform's idea and purpose

- A clear ambition establishes the need for reform and helps to garner wide support and engagement. The FMR has a clear high-level ambition – embodied by the phrase 'putting finance at the heart of decision making' – which resonates with finance staff.
- Finance leaders feel that the FMR's scale, scope and pace of reform have been appropriate to date. In areas such as professionalisation of the workforce, the level of ambition has been particularly noted for achieving success in a short period of time. To date, the FMR has built on what is already in place. This realistic scale of ambition made the reforms more manageable as they were taking off.
- Having a clear ambition is made easier if there is a shared analysis of the problems and challenges. The FMR has been strengthened by the FLG being involved in the development of the ambition. This must continue – the FLG needs to share responsibility for developing the ambition of the reforms in the future as they move into their next phase.

Leadership style

- A committed senior leader seen to really own the reforms sends a signal to the rest of Whitehall that the change is important. The director general for public spending and finance, Julian Kelly, and the FLG are clearly seen across the finance function as committed owners of the reforms.
- Leaders' values and ways of working are critical to combatting default assumptions that reform will add no value. The collaborative leadership style adopted by the Treasury from the outset is universally welcomed across Whitehall's finance leadership and enhanced the credibility of the reforms. Delegated responsibility for each workstream and open discussions within the FLG has meant involvement from across Whitehall.
- As the FMR matures, there is a sense among FLG members that a more directive approach in leading the group may be desirable, in order to set out the future direction more concretely.

Connecting with government and departmental objectives

- Reform needs to chime with the interests of government and departments. Input from across Whitehall, and not just the Treasury, has helped the FMR to maintain its relevance to departments. There has been a conscious decision for the FMR to focus its activities on how the finance function contributes to cross-government objectives of controlling costs, identifying efficiencies and professionalisation of the workforce.

- The next phase of the reform should try to connect with departmental leaders beyond finance directors – that is, permanent secretaries and the wider departmental leadership teams – to ensure that they have a greater interest in the success of the FMR. This can be achieved by demonstrating how the FMR enables departments to deliver their core objectives and is more than a 'nice to have'.

Understanding the context and environment in which the reforms are taking place

- Awareness of the broader reform agenda across Whitehall, and the risks and opportunities this presents, helps leaders to set the ambition and design of the reforms accordingly. The FMR has been designed so that it doesn't cut across departmental reform programmes.

- Over time, it was recognised that previous Whitehall initiatives around shared services had not put finance where it needed to be. The FMR has taken over responsibility for shared services in the finance function, providing an opportunity for the FMR to demonstrate that it can make a real difference to how people working in finance operate day to day.

- The FMR is part of a wider functional reform agenda. The government commercial function has been identified as an area with significant crossover with finance. This needs to be managed carefully and aligned where possible.

> "The Financial Management Reform programme is part of a wider functional reform agenda."

Having dedicated resources to drive the vision and the model

- A dedicated team helps to maintain momentum.
  While the FMR has had some dedicated resources from the start, much of the early activity was organised on a 'voluntary' basis, with people undertaking it alongside their day job. The FMR was refreshed in 2015 and more dedicated resources were brought in. This was widely seen as a vital move, ensuring the continued progress and growth of the reforms.

- The dedicated resources need to continue matching the level of ambition – if the two were to move in different directions, it would undermine delivery of the reforms.

- In addition, the support of the Treasury is a determining factor in allowing reforms to happen. Having the head of the finance profession and the dedicated programme team based in the Treasury represents a level of active involvement and authority from the centre, which has hugely benefited the FMR.

Since 2014, the FMR has progressed through its preparation and take-off phases and has been refreshed once already. FLG members have an appetite for thinking about the next stage of reforms in light of the progress made to date, and a changing context brought about by Brexit and a new Chancellor. The FMR is at a transition point where decisions around the level of ambition and resourcing will dictate whether or not the reforms maintain momentum.

However, the opportunity to refresh a successful reform carries the risk that leaders and forums driving the reforms get more piled onto them. This risk needs to be borne in mind as finance leaders consider the next phase of the FMR. When a piece of governance seems to work, and there is a capable team driving delivery of a reform, the temptation is to give that reform additional challenges that are not working elsewhere. We have already seen this with finance which, since spring 2016, shares responsibility for sorting out shared services with the Cabinet Office. There is a long legacy of failure with shared services in government.[59] Widening the FMR's scope at a time when the changing context should be forcing it to focus is a risk. If successful it will make a difference to how finance staff operate day to day. But there needs to be a cautious approach to widening the FMR's scope much further into other areas.

The FMR should be consolidated and built on; and indeed there is no need or appetite among the FLG to re-invent finance reform on a clean slate. If finance leaders can refresh the reforms by building on the strong success so far, there is an opportunity for the FMR to properly embed and continue strengthening finance in the UK Government over the years to come.

Appendix: Case studies of three activities carried out under the FMR

Value maps

A 'value map' is a high-level visual summary of where departmental money is spent, divided into logically defined spending areas such as Single Departmental Plan objectives and individual programmes.

Once the blocks of spending have been settled, the value-mapping process requires departments to rate each spending area according to the level of understanding there is of how money is spent and the prospects for efficiencies based on the level of current understanding. This assessment is visualised through a Red/Amber/Green (RAG) system of colouring and shading over the top of the spending blocks.

There are four core objectives behind value maps projects:

- improving departments' understanding of their spending
- generating more soundly based efficiency plans – helping to understand current plans, highlighting further efficiency opportunities and influencing future plans
- improving management reporting to executive boards
- creating better joining up across government professions and departments.

Value maps were commissioned jointly by the heads of Government Finance and the Government Economic Service (GES).

Value maps are still at an experimental stage and it is too early for them to have greatly affected decision making across government. Despite this, they are starting to make an impact: in some departments, they have already been embedded in business plans and are playing a role in decision making. By using them, departments have been able to look at their spending as a whole, bringing together their knowledge and understanding in a more coherent way.

There is also potential for value maps to make an impact in the future. Departments recognise that going forward they could drive efficiency and encourage more strategic thinking about spending opportunities. Value maps have highlighted areas where departments have gaps in their understanding of spending, and could build momentum for more analysis in the future.

Value maps have also encouraged better joint working across government: the joint commission between Finance and the GES helped to build stronger relationships between these professions. In some cases, value map projects have prompted conversations and resulted in better join-up between finance and policy people within departments.

Costing projects

Costing projects are short investigations of specific areas of government spending. They aim to provide detailed analyses of complex spending areas, broken down into:

- inputs – the costs incurred in the spending area
- outputs – the goods or services generated by the spending
- outcomes – the effect of these outputs on achieving government objectives.

Costing projects have been targeted at areas of public spending where a significant amount of money is being spent and the spending could be understood better. These are often complex cross-cutting areas that involve multiple organisations.

A Costing Unit in HM Treasury selects and commissions costing projects. This unit was established at the 2015 Spending Review, and currently reports directly to the FLG. Once a project has been commissioned, the Costing Unit works with departments and Treasury spending teams in a project steering committee, which agrees the project's scope and direction, and sets the specific questions to address. The project takes between six and eight weeks to complete and the steering committee meets regularly during this time.

The actual work of the costing project – such as gathering data, conducting interviews and producing models – is carried out either by an external consultancy group or by an in-house Treasury team. As time has gone on and the Treasury has built its capability, more projects have been carried out in-house.

There have been 14 costing projects to date. These projects have improved departments' understanding of their spending. In some cases, the projects have challenged departments' assumptions and asked new questions, shining a light on spending areas that had not been explored.

In other areas, costing projects have given departments a clearer way to think about and present financial information. Along with the added credibility that comes with external analysis, this added clarity has helped to guide efficiencies and motivate decisions.

The most successful costing projects have also helped to build financial capability in the Treasury and across government through embedding departmental staff members in costing teams and holding final handover sessions so that these teams can talk through project methodologies.

Management information

The 2013 *Review of Financial Management in Government* highlighted that it was important to 'develop a more sophisticated understanding of what we spend and what we get for it'.[60] The reforms to management information aim to build this understanding.

The goal is to improve the quality and availability of financial information that central government collects from departments, and to make sure that this information is used to better inform decision making.

The Institute for Government has previously written about the need for good management information. In *Improving Decision Making in Whitehall*, we argued that 'Whitehall needs accurate and timely information and analysis about all the activities on which it spends money'.[61] Good-quality information can be useful in a number of ways, such as by showing how value and costs are related, or highlighting financial risks at an earlier stage. *Improving Decision Making in Whitehall* also showed that the development of quality management information takes time – in both the public and private sectors it requires sustained investment over a number of years.

The Data and Analytics Committee, chaired by a departmental finance director general, leads the work on improving management information. This committee is supported by central government through the Treasury and the Cabinet Office. In late 2015, a new joint Treasury/Cabinet Office team was set up to review and rationalise the management information landscape, organise work to improve management information and set out a roadmap for the future. The work involves finance professionals from all departments working with central government and with each other to improve data standards.

The management information team's objectives so far have been as follows:

- **Conduct data sprints to drive savings**. Data sprints are three- to six-week 'deep dive' projects, which look at the data around complex issues, thinking about how to improve the quality of information and help identify savings.

- **Join up data systems to support data-driven decision making**. Departments often have different structures and standards for how they use data. Joined-up systems and consistent standards will simplify processes and make it easier to make cross-government comparisons. This objective is linked to existing work to improve the cross-government Online System for Central Accounting and Resourcing (OSCAR) database.
- **Build the management information network across departments to improve the use of central and departmental data**. The management information reforms aim to build up formal and informal networks, and to improve collaboration across departments and the centre of government.

A number of data sprints have been conducted since the Data and Analytics Committee was established in 2014, with more currently being piloted. The sprints that have been completed have started to have an impact: cleaning up data, informing spending possibilities and helping to build finance capability.

Data systems and standards are becoming more joined up – while this is a big task, departments and the management information team have already achieved more consistency in reporting, and reduced duplication of systems and effort.

The management information network has been a real positive for civil servants dealing with management information at a working level. Formal structures such as management information 'Town Hall' meetings and informal networking have encouraged departments to communicate more and share themes, ideas and best practice. The centre of government has also become more collaborative, and data requests from the Treasury and the Cabinet Office now seem much more joined up.

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