



Nextera

Modern Public Finance



strategy and transformation governance and risk government modernisation performance innovation

The background to this paper is an increasing unease that too many managers and consultants see all the similarities between managing in the public and private sectors without recognising the important and significant differences.

It is not unimportant that IFAS has recently been recognised as not being fully appropriate for reporting the financial state of affairs of Government and sub Government entities and increasingly more forward sector specific accounting standards are being developed. This is one sign of the differences.

Failing to understand that standard private sector approaches, methods and tools are often inappropriate in the public sector will be a major millstone holding back the chance and effort required for successful modernisation.

Because the public sector is so large in the GCC, and with the diminishing supply of opportunity in the private sector because of the world's financial crisis, there are many managers and consultants trying to transport their skills to the public sector. This is a caution to them and their prospective employers—there are key differences!

In this paper we concentrate on 'modern public finance' as the area where there exists the most areas of confusion



Over the last 15 years or more there have been substantial developments in what can now be termed 'modern public finance best practice'. These developments, which occurred in countries such as New Zealand, are increasingly becoming a universal truth. Experienced practitioners, with recent relevant experience in this field, from around the world, would now agree on these core principles.

Within public finance it is now understood that there are multiple public finance components all of which need to be properly designed, incorporated and applied in a fully integrated fashion.

There are very strong dependence and inter-dependence of the various components and so, once the components are understood, the key issue is alignment and full integration.

Increasingly governments worldwide realise that they have to apply these disciplines, and in most cases the sooner the better.

The areas or components to be fully understood and aligned include:

- economic strategy
- fiscal management and including multi-sectoral priorities (MTFF)
- policy based budget allocation
- results based management approach
- performance reporting with the inclusion of financial and non-financial information
- application of modern public sector accounting standards
- relevant information systems
- supporting legislation

All of these are, of course, ultimately designed to help discharge modern public sector accountability obligations



Within these cluster activities deserving the same attention which equally should be fully integrated, are:

- a strong treasury function,
- effective cash management,
- specific management of income policy streams, funding for 'investment / capital' purposes etc.

Conceptually many of these elements are the same as their private sector counterparts. However there are some significant differences which demand different management attitudes and approaches to ensure effective service delivery.

By way of a quick summary we now examine each all these elements.



The importance of modern public finance practice

Public Sector requirements	Differences with Private sector
Economic strategy	
<p>Develop an economic strategy that is designed amongst other reasons to help assess the impact on the economic environment of the proposed government activities and level of use of resources.</p>	<p>The relationship between a private sector and its market is managed at a more micro level with a concentration on competitor behaviour. Few private sector companies are allowed today to have monopolistic roles and so influence so broad a sweep of economic activity.</p>
Fiscal management and including multi-sectoral priorities (normally contained in a Medium Term Fiscal Framework)	
<p>Fiscal management, includes the preparation of various multi-year projections, plus monitoring, and encompassing the recent concept of fiscal responsibility. All making up part of a set of activities which are designed to set fiscal parameters, monitor these, and stay within agreed to aggregate budget levels. It requires the setting of revenue and expenditure policies.</p>	<p>Again private sector organisations operate within an economy and at a micro economic level. In the MTFF a government has many more variables to balance and aim to control. The application of policy decisions often require government expenditure which needs to be raised in tax or other duties. But the very act of raising revenue changes the dynamic of the policy priorities</p>



The importance of modern public finance practice

Public Sector requirements	Differences with Private sector
Policy based budget allocation	
<p>Modern public sector budgets must be based on a policy driven allocation approach, where funds are allocated to priorities and based upon the relevance of what is to be achieved or provided in return for the use of those monies. It requires a particular budget approach design.</p>	<p>Just like the private sector policy based budgeting is much talked about but still in its infancy. However while the imperative for the private sector is less clear it is essential for the public sector.</p> <p>Governments are trying to achieve certain outcomes through their policy deliberations. However they do not have full control over all the factors as, for example, improved health is affected by many factors which government cannot control.</p> <p>This separation between policy and the ability to affect the outcome is a key difference.</p> <p>So while private sector companies can judge expenditure in terms of the revenue potential public sector has manage demand and trade offs</p> <p>But what a Government can do is establish priorities with targeted outputs and measure the achievement of these which demands a particular design of the budget design.</p> <p>While superficially these may be subtle differences in practice they are substantial and require different and varied skills, competencies, processes and tools to be successful.</p>



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The importance of modern public finance practice

Public Sector requirements	Differences with Private sector
Results based on management approach	
<p>Operational management philosophies and approach need to be consistent with this overall results-based design, and incorporate the explicit allocation of responsibility for the utilisation of specific funds to achieve the results agreed.</p>	<p>Driving the results based approach through an organisation is a requirement of both sectors. However again it is not easy and is not always achieved. The results are going to be focused far more on physical delivery.</p> <p>As we describe in a separate paper on 'change management' there are many issues and challenges in making the change affective and making it stick. A clear sense of the individual and team accountabilities is often core to solving the problems faced.</p>
Performance report requiring the inclusion of financial and non-financial information	
<p>Both the format of the internal reporting and external reports need to be performance related, requiring the accumulation and presentation both of financial and non-financial data, reporting against the agreed financial and non-financial targets.</p>	<p>At Nextera we are particularly concerned with the way many organisations approach the issue of performance reporting.</p> <p>Too often we see the managers being led by expensive technical solutions and not the need for the right information, to the right people at the right time.</p> <p>Public sector focus must be reporting against agreed outputs and contribution to outcome</p> <p>Again we have addressed this issue in two other papers available on the web site covering both performance reporting and a simple assessment tool we call Fit 4 Business. Its there and free. Try it!</p>



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Public Sector requirements	Differences with Private sector
Application of public sector accounting standards	
<p>Appropriate public sector accounting standards should be applied, embracing the principles contained within particularly IPSAS, in importantly fully embracing the specific government disclosure requirements.</p>	<p>We have Governments in the Region now claiming compliance with IPSAS or targeting compliance with IFAS.</p> <p>There are a range of specific government disclosures, and major changes required from prior methods of accounting with obligations to report on:</p> <ul style="list-style-type: none"> • GGS (general government sector) • Specific segmental activity requirements • Address GFS (government financial statistics) and SNA (system of national accounts) • Plus separate GGS from government corporations • Disclosure budget information • Plus greater service and performance related obligations.



The importance of modern public finance practice

Public Sector requirements	Differences with Private sector
Relevant information system	
Relevant, effective, efficient, and easy to use information systems, usable by why all including non-accounting staff, are essential.	All public and private entities to have good IT and IS systems and the requirements of public sector to report and manage physical delivery are different but no less challenging than the private sector.
Supporting legislation	
It is now normal good practice to support the application of these principles with a piece of foundation legislation. There are now a number of relevant examples.	While private sector operates within the framework of a national set of laws, public sector are often having to operate within specific sectoral or even entity specific legal frameworks



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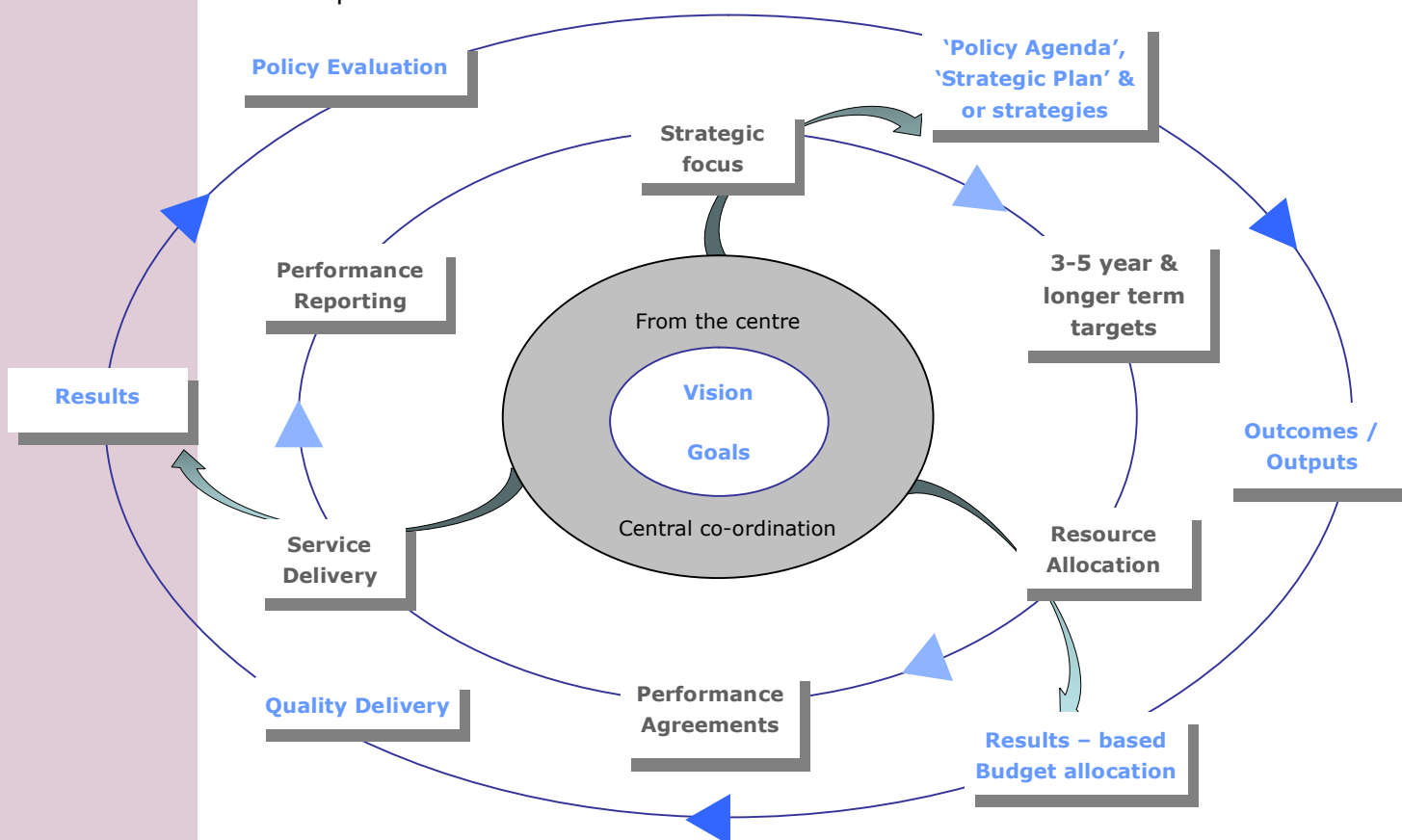
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The importance of modern public finance practice

One of the critically important dimensions of effective public finance is its contribution and underpinning of what we today describe as modern public management.

Each element of a public finance structure in turn supports many if not all of the key elements of modern public management. For example economic strategy and fiscal management elements contribute towards the overall setting of government direction and priorities. It installs a central fiscal discipline.



Policy based budgeting supports the proper allocation of resources to priorities, and assists making necessary trade-offs. It then provides the basis for sensible management and measurement of performance, while creating the basis of appropriate internal and external reporting, compliance with relevant accounting standards, and in turn contributing to discharging of essential public accountability obligations.

Further, the effect of day to day operations of government depend upon effective financial management processes and procedures, and the efficient use of funds requires informed cash management, necessarily based upon a very clear view of what funding is required and when, etc.

It is now essential that modern governments seeking to work effectively ensure that they have a robust public finance regime in place.



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Executive Director, Nextera-Global, a new generation consulting firm delivering strategy, governance and performance innovation advice for governments and private sector businesses

Bachelor of Commerce, Master of Public Policy, Fellow of the NZ Institute of Chartered Accountants, Member of the NZ Institute of Chartered Secretaries, Member of the NZ Computer Society, Foundation Life Member of the Association for Local Government Information Management.

A very skilled and experienced public sector modernisation and management specialist, Graham has led many successful reform programmes worldwide and is considered to be an authority on the design and application of modern public management concepts and associated public finance approaches. He works alongside clients at senior levels to design and co-ordinate major modernisation initiatives. He has supported many public sector policy support agencies and associated reform initiatives.

Graham is an expert facilitator who has prepared and presented numerous development seminars and workshops. A distinguished government career preceded over 15 years in senior consulting roles, during which time he influenced a number of leading innovations in public sector management. Recent work includes:

2007-2008 Emirate of Abu Dhabi Executive Council, design and publication of Whole of Government Strategic Plan, encompassing 26 entities

2007-2008 Abu Dhabi Ministry of Justice transformation

2008 Advised Abu Dhabi Executive Council Members' Protocol design

2007-2008 Advising various Abu Dhabi agencies

2004-2007 Overseeing completion of the Qatar Government Public Service Development programme design

2007 Advised and managed strategic planning, human resources development for Qatar Public Works Authority and other clients

2008 Advised on proposed projects for government of Libya.

Other International Assignments 1993-2003

Government reform projects in the former Soviet Republic of Tajikistan and the Kyrgyz Republic

Advisory projects for the governments of Malawi and Ghana

Assisted Applied Fiscal Research Centre, Graduate School, University of Cape Town, South Africa

Advisory project for the government of Sri Lanka

DFID-funded project for the government of Bangladesh

Advisory project for the government of Hong Kong

Designed and directed reform projects in Federated States of Micronesia

Advisory assignments in Australia.



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Graham Vaughan-Jones (cont)

In addition, Graham has assisted the additional Pacific Island nations of Samoa, Tonga, Cook Islands, Tuvalu, Solomon Islands, Fiji, Kiribati and Marshall Islands to plan and implement government reform, including the design and implementation of inaugural regional seminars for the Pacific Financial Technical Assistance Centre, based in Fiji.

Designed, directed and assisted with presentation of seminars for international agencies such as the Commonwealth Secretariat, plus assisted Asian Development Bank, World Bank etc

Positions held:

Middle East Regional Public Sector Advisor, PricewaterhouseCoopers

Senior Partner, Change Consulting

Head of Financial Management Assurance Division, New Zealand Treasury

Senior Assistant Auditor-General, NZ Office of the Auditor-General

Over the last 5 years has been servicing clients mainly in the Arabian Gulf area.

Professional Bodies:

Chairperson and Keynote Speaker at various Public Sector Reform Conventions in New Zealand and internationally

Chair Wellington Branch NZ Institute of Chartered Accountants

Chair NZ Institute of Chartered Accountants National Public Sector Committee

Member NZ Institute of Chartered Accountants Public Sector Accounting Committee

Presenter for NZ Institute of Chartered Accountants Final Qualifying Examinations

Presenter for Massey University Graduate Diploma in Accountancy programme

Numerous university invitation lectures



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Core skills

Business Transformation, Change Management, Business Intelligence, Organisational Design, Strategy & Implementation, Talent Development, Financial, IT/IS Infrastructure, Market Strategies

Expertise

Gerry's core capability is identifying, architecting, developing and harnessing organisational and individual strengths to deliver a business and operational strategy efficiently and effectively.

He has over 30 years of organisation effectiveness, business performance innovation, talent development, policy and process definition, strategy and implementation, change management, governance, financial, and consultancy experience.

He has worked with both Governments and private sector international companies in the United Kingdom, Europe, USA, Middle East and Africa. He is an expert in the development and effective implementation of focused performance management systems built around accountabilities to deliver agreed outputs.

Sectors

Gerry has a strong background in the Government (both national and municipal) Financial Services, IS Services, Telecommunications, Professional Services and Manufacturing sectors.

Key

Experiences

Gerry has been: the senior Performance Improvement advisor to the Board within the Middle East firm of PricewaterhouseCoopers; Director Finance & Infrastructure and a Director Corporate Advisory and Consulting Services, in a major professional service firm, based in Dubai; Director of a niche strategy implementation consultancy with 10 years as an independent advisor to Boards of Directors and senior management teams; Director at Compaq Global Services (40,000 people) responsible for a Global change programme and previously Director at Coopers Lybrand Management Consultants.

He was also Visiting Research Fellow, Cranfield University School of Management, Centre for Business Performance and Visiting Lecturer at Southampton and Bradford Universities on Investment Appraisal



Nextera is a new generation consulting firm which delivers performance innovation for both governments and private sector businesses



Sharing wisdom, building relationships, delivering value

We value innovation and wisdom
Committed to providing internationally renowned experts
People who have the deep experience
Bring wisdom to our solutions

We develop strong professional relationships

The most important drivers of the way we want to conduct business
Understand what is important to you
Take care to remember those important things
Build trust in the relationship



We deliver value

Results that are clear and easy to understand
Effective and practical solutions

The Nextera team that works for you will be

An experienced partner
Share your journey to excellence
Provide sound and informed advice along the way



But more important is the attitude Nextera brings. We expect to:

Innovate and challenge
Cause a fundamental shift in perceptions, attitudes, methods of work and performance
Bring you 'head and shoulders' out of the pack
Turn you in to a performance leader and not just above average



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