



Improving Public Financial Management

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Where do you want to be?



or



Why now?

- Sustainability of public funds is in the spotlight like never before (let us not forget public spending accounts for more than 30% of GDP around the world)
- Public spending squeeze
- Financial data and financial reporting are increasingly important, but alone they don't tell a whole story of how an organisation creates value
- The pace of change and new service delivery models requires different approaches to budget setting and management, performance management, governance and scrutiny
- Public expectations about how money is spent and the quality of the services they receive is increasing

Why strong PFM is important

- Affects how funding is allocated to address national and regional plans/priorities
- Critical for improving the efficiency and effectiveness of public services
- Facilitates effective decision-making and promotes accountability and transparency
- Integral to good governance
- Important for addressing systemic fraud and corruption
- Transparency

Risks of getting it wrong

Detroit

- 40% of the street lights didn't work
- Highest crime rate of all US cities – only 10% of crimes solved
- In July 2013 the city was declared bankrupt to the tune of \$18.5bn
- Application approved with the right to cut pension fund
- Governance and financial stewardship went unchecked, as well as the management of the financial position

Risks of getting it wrong

Southern Europe

- Countries deprived of economic opportunity and growth because of failure to understand the financial position – in Spain it was a failure to recognise the substantial debt on the balance sheet of local government
- The outcome was a lack of accountability and low levels of public trust and confidence

Closer to home – PFI schemes

- Arguably, this was a failure by policy makers to recognise and understand the long-term financial consequences of entering into the deals

Lessons learnt across the examples

- How well the financial position was understood
- A lack of appreciation of the long-term spending commitments
- A lack of understanding of the underlying sustainability of public finances
- Absence of scrutiny, accountability and transparency – good governance and ethics

Why improving PFM can be so difficult

- Increasing complexities of PFM i.e. reporting, governance, risk management, regulation etc.
- Absence of strong leadership and political support
- Lack of change management skills
- Lack of capacity
- Lack of financial management infrastructure
- Poor culture and ethics
- Short-termism
- Weak internal control environment

PFM – whole systems

Relevant PFM Environmental Factors

Politics

- Constitutional settlement, balance and distribution of powers
- State's stability/fragility
- Capability and responsiveness of government organisations
- Administrative law and traditions
- Civil service competence

Society

- Cultural norms
- Civil society organisations (citizen and business)
- Media and commentators
- Technology
- Information and communications technology

Economy

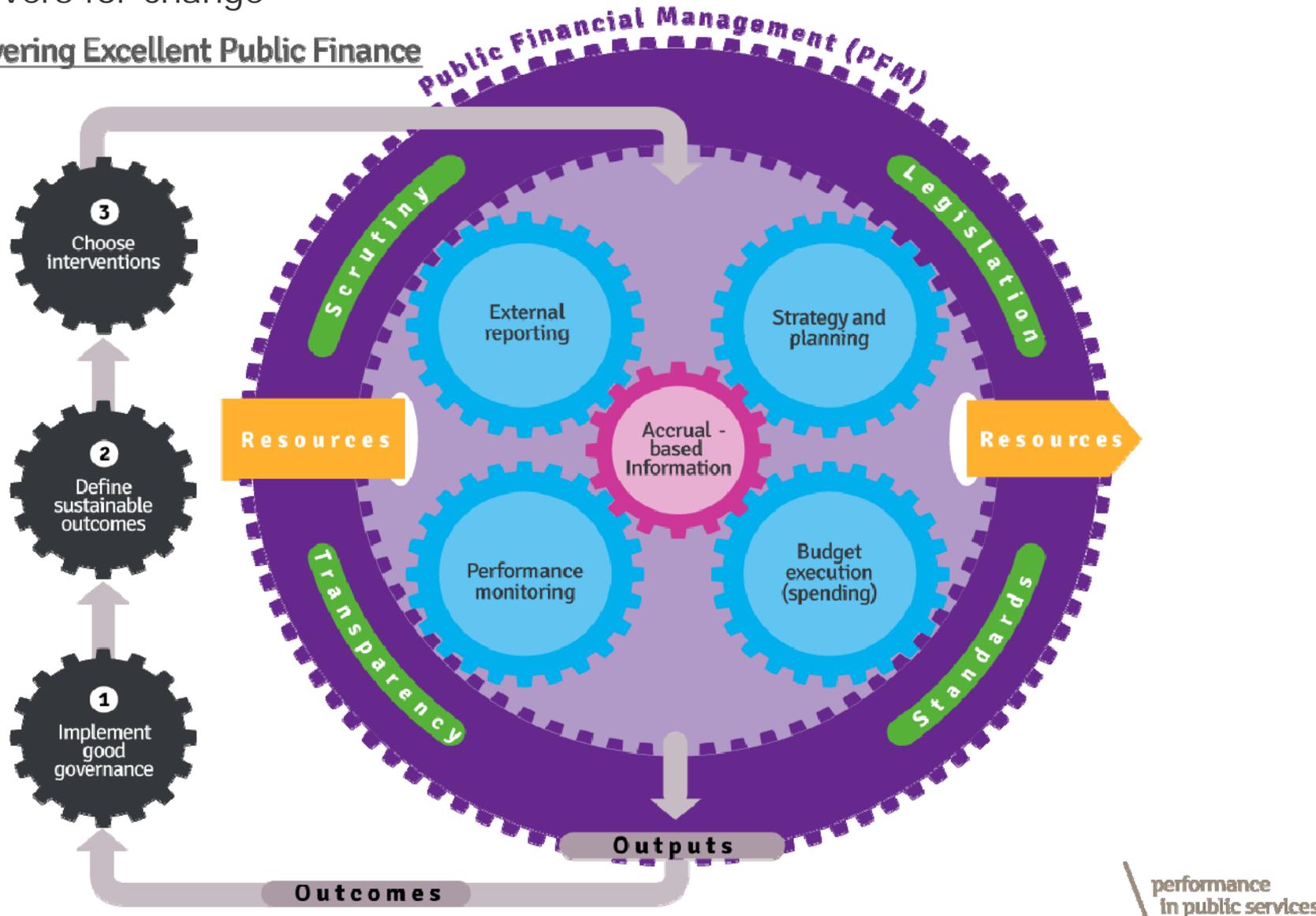
- Level of resources including donors
- Sources of national income
- Development of markets
- Rate of economic growth or decline
- Natural resources
- Transactional infrastructure e.g. payments system
- Donor coordination
- Natural resources

Demography

- Population age profile
- Health
- Educational attainment
- Rate of growth or decline
- Urbanisation

Levers for change

Delivering Excellent Public Finance





Successful PFM reform

- Reform based on coordinated initiatives
- A clear focus on optimizing the outputs of a whole system opposed to assessing the performance of individual PFM components
- Focus on the sustainability of reform
- PAOs engaged with governments and parliaments
- Coordination and knowledge sharing, particularly at regional and country levels, leveraging the benefit of development inputs

Successful PFM reforms

- Harnessing the private sector
- Improving technical education and training at all levels
- Strengthening and promoting good governance and ethics
- Taking best practices in financial reporting and auditing from all sectors
- Transforming antiquated accounting and auditing systems
- Building capacity

Private public partnerships delivering PFM reform

Bangladesh



Private public partnerships delivering PFM reform

Somalia



Conclusions

- ✓ Strong PFM is essential for effective service delivery
- ✓ Reforms will fail without a 'Whole System Approach'
- ✓ Tailored approaches to suit local circumstances vital
- ✓ Capacity development fundamental
- ✓ Strong leadership is essential
- ✓ Focus on short, medium and long-term