Hard times

Executive summary

- The importance of a disciplined approach to public sector financial practice including all aspects of treasury management was highlighted recently at the CIPFA Annual Conference.

This year's Annual Conference of the Chartered Institute of Public Finance and Accountancy (CIPFA) had "hard times" for its theme. In a wide variety of plenary and seminar sessions, delegates from across the public sector were urged to respond to the realisation that an era of higher public spending has drawn to a close. As a consequence financial managers are going to have to produce more with less.

This was not an unfamiliar message to many of those attending or presenting at the conference. Across a whole range of disciplines and management practice – pensions, shared services, the challenge of delivering value – public sector financial managers have to cope with change in their professional lives and to live with the added burden of political oversight.

The conference also saw the launch of the new professional qualification from the ACT and CIPFA: the Certificate in International Treasury Management – Public Finance (CertITM-PF).

The ACT and CIPFA have partnered to develop this qualification so that staff managing funds in the public services are trained in all aspects of treasury management. One of the key recommendations of the Audit Commission's study into the recent Icelandic bank failures was that "CIPFA should continue to work with the Association of Corporate Treasurers to develop appropriate training and a qualification".

The conference heard a discussion of the current economic position by Willem Buiter, the LSE professor known to many for his FT blog. In his view the economic conditions for ending the recession – at least in the US and UK – have been reached, and both countries should recover earlier than other OECD nations although with a heightened possibility of inflation or even stagflation.

Buiter suggested that under the Obama presidency US public spending was likely to rise to western European levels to meet the needs of an ageing society and to upgrade an inadequate infrastructure. Unfortunately, Buiter was unable to offer an audience-pleasing prediction of rising public expenditure in the UK.

He was firmly of the view that there would be a rise in the state regulation of financial markets, including banking. He added that there would be a partial "repudiation" of global banking, although this would be accompanied by a change in accounting regulation to recognise economic cashflows rather than legal or formal structures.

The theme of change and challenge was continued by further speakers from such diverse fields as behavioural management, occupational psychology (John Seddon of Vanguard Consulting) and risk management (David Kaye of the Institute of Risk).

Treasurers and other financial managers will be aware that performance standards and stakeholder interaction need to be as much about value demand (creating "good, positive" outcomes) as failure demand (managing for crisis control). The issue of how best to deploy and blend limited resources to meet and drive value demand generated considerable discussion and comment.

In this context, risk is often misunderstood as the quantifiable, negative outcome of an action or event. What can be overlooked are the longer-term but less obvious impacts of risk assessment: for example, the hollowing out of organisational knowledge as a result of outsourcing or offshoring. The outsourcing/offshoring process also creates concentration risks (all your eggs in one basket) in overall system management as well as in the individual service experience for the customer.

The key issue in the management process is understanding the dynamics of the analysis and making sure that risk within the organisation has an owner, a risk champion, to ensure that the assessment reflects known exposures and at least considers other potential impacts, even where not immediately quantifiable.

Treasurers and managers with treasury skills and responsibilities are ideally placed to address these concerns. Their suitability arises not solely as a result of managing more obviously measurable financial risks, but also because of their strategic overview of organisational activities, which necessitates a collegiate approach to problem solving. Treasurers know how to manage value, and not cost – an expensive lesson for some investors over the recent past.

However, a presentation on how to manage a shared services project demonstrated that strategic planning, clear allocation of responsibilities and documented service standards would deliver value to customers irrespective of the organisation's business or sector. Such an approach encourages organisations to look at all their

HOT TOPICS AT THE CIPFA ANNUAL CONFERENCE INCLUDED SHARED SERVICES, PENSIONS, VALUE DEMAND AND CONCEALED RISK. **PETER MATZA** REPORTS ON PUBLIC SECTOR FINANCE MANAGERS' RESPONSE TO HEIGHTENED CHANGE AND CHALLENGE.

services – whether customer-facing or not – to see where collaboration, the use of outside capital and targeting the development of management and staff can add value.

The issue of value also featured in a seminar on public sector pensions. The similarities between private and public sector managers wrestling with pension accounting, funding and benefits issues – even if not the actual source of funds – may not be obvious, but they are considerable. There are wide variations in public sector pension structures, many of which are not of the gold-plated type so beloved of the media. However, many in the audience recognised that public sector pension provision was likely to suffer downward revision.

The role of financial management, especially that of the lead finance professional in an organisation, was a central theme of the conference. Such individuals are now expected to present leadership credentials in advance of professional qualifications. Such credentials include an understanding of best practice across the public sector, a strategic appreciation of the challenges to be faced and an ability to work closely with other executives inside and outside the organisation. It is interesting to note that these expectations apply as much in the treasury profession itself as well as in other private sector financial management roles. Expect to hear a new buzz phrase: "efficiency, economy and effectiveness".

A seminar session on the future of treasury management in public finance brought together a number of these financial principles for delegates. Whether an organisation is investing in financial, physical or development assets, risk has a price. In both the public and private sector, the treasurer brings an understanding of that calculation to the day job. Even more importantly, treasurers bring an appreciation that risk also has a value that, if managed well, will deliver an appropriate return for the risk taken. Treasurers have an advantage over their colleagues in using this insight and should not be shy in demonstrating their strategic understanding.

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