Juggling competing demands

The role and challenges of Finance in the higher education sector
# Contents

1. **Foreword: The Finance landscape in Higher Education**  
   1

2. **Executive summary and conclusions**  
   4

3. **The vision and challenges for Finance in HEIs**  
   10

4. **Finance in the private sector**  
   23

5. **Finance in the public sector**  
   27

6. **PwC**  
   31
There is an unprecedented pressure on public sector finances. Higher Education Institutions (HEIs) are already feeling the chill wind of reduced funding. The Browne Review\(^1\) and the outcome of the recent government Spending Review\(^2\) have set the scene for a seismic shift for the Higher Education (HE) sector.

The Browne Review made recommendations on the future of fees policy and financial support for full and part-time undergraduate and postgraduate students. Changes to the current legislation on Higher Education funding are now being addressed across each part of the UK. The Government is presently formulating a White Paper on Higher Education funding, based on many of the recommendations of the Browne Review.

The Browne Review made recommendations on the future of fees policy and financial support for full and part-time undergraduate and postgraduate students. Changes to the current legislation on Higher Education funding are now being addressed across each part of the UK. The Government is presently formulating a White Paper on Higher Education funding, based on many of the recommendations of the Browne Review.

A Green Paper\(^3\) has recently been issued on the future of Higher Education in Scotland. Both the Welsh Assembly Government and the Northern Ireland Assembly are assessing their position on the funding of Higher Education. Current pronouncements suggest that in UK countries outside England there may be added complexity. For example, there are proposals for differential fees for locally domiciled students compared to fees charged to English domiciled students.

1 ‘Securing a sustainable future for higher education: an independent review of higher education funding and student finance’, The Browne Report, October 2010
2 ‘Spending review 2010’, HM Treasury, October 2010
The themes that we explored in our research are shown in the table below:

We assessed how Finance:
- is equipped to handle the financial challenges facing HEIs
- balances the competing demands of insight, efficiency and compliance & control
- derives value from investments in technology and shared services
- is perceived to add value
- is responding to change
- should be structured to best support the HEI
- seeks external best practice
- ensures that it has the right people

We believe that Universities will increasingly seek to differentiate themselves in their offers and pricing and this is likely to result in a more diverse provision of length of courses, mode of delivery, location, intensity of study and breadth of course offering. This will create opportunities for existing higher education institutions but also for new providers entering the market with flexible and cost-effective delivery models.

The need for a high quality professional finance capability (“Finance”), to enable Vice Chancellors and HEI governing bodies to discharge their stewardship responsibilities effectively, is greater than ever. Short term fixes will not be the order of the day. Finance will be expected to provide thoughtful analysis, deep insight and grounded recommendations that make a real impact on the HEI.

Finance is going to have its work cut out. It really does have a crucial role to play to help the leadership of HEIs secure the financial wellbeing of their institutions. Finance will most certainly need the backing of the whole organisation if it is to successfully drive through the changes needed.

**Methodology**

Our research covered just under 40 respondents, spanning HEIs across the UK. It was undertaken during the month of October 2010, which coincided with the issue of the Browne Review report. Our research was conducted online and we examined the trends, issues and the changing environment faced by finance directors across the HE sector. We also focussed specifically on the crucial issue of how well equipped Finance in HE is to handle the financial challenges it faces.

We explored similar themes in our reports on Finance in the public sector in 2009 and 2010. A summary of our findings from that research is summarised in section 5 of this report. We also carry out an annual assessment of Finance in the private sector and the findings from our most recent report on that sector are summarised in section 4 of this report.

Achieving a high performing finance function necessitates clarity on the role and mandate of Finance and on the desired balance between the three critical roles, as we see them, of providing insight, driving efficiency and maintaining compliance & control. Such a function often requires changes from the status quo in the areas of people, process and systems.

---

4 Our research was supported by our Belfast-based International Survey Unit (ISU) which administers a wide range of financial and leadership research internationally
5 ‘Finance at the crossroads: The changing role of Finance in Government and the Public Sector’, PwC’s Public Sector Research Centre, May 2009
6 ‘A place at the top table?: Raising Finance’s game in the public sector’, PwC’s Public Sector Research Centre, May 2010
7 ‘Is finance rising to the challenge?’, PricewaterhouseCoopers LLP, February 2010
Efficiency in Finance means performing tasks in a timely and cost effective manner. This is typically achieved through simplified and standardised processes that leverage technology and make improvements to the efficient delivery of transactional processing through shared services or outsourcing.

Compliance & control is about the need to optimise financial risk management, compliance and control to establish a sustainable cost effective control environment which meets today’s requirements as well as being flexible for future changes.

Insight is increasingly important in effective finance function delivery. It is about Finance adding value to the organisation and supporting the strategic and operational decision-making process.

The triangle is our means of representing the three critical roles. We can view how Finance organisations manage the challenges of today and how they may wish to position themselves in the future. Not all organisations will or should strive to achieve top performance in all areas. But balancing these demands to deliver optimal value to the wider organisation is a fundamental challenge facing Finance teams today.

We appreciate and value the time of all those who contributed. The geographic areas in which the respondent HEIs operate are shown in the table below.

This report is our 2010 contribution to the debate over the essential role that Finance needs to undertake in support of the vitally important Higher Education sector.

The geographic areas in which the respondent HEIs operate are shown in the table below.

We appreciate and value the time of all those who contributed. The geographic areas in which the respondent HEIs operate are shown in the table below.

This report is our 2010 contribution to the debate over the essential role that Finance needs to undertake in support of the vitally important Higher Education sector.

John Berriman
Higher Education Practice Leader
PricewaterhouseCoopers LLP
Executive summary and conclusions

The market for Higher Education is undergoing radical change and Universities have some major financial challenges to address. The strategic challenge facing HEIs has moved squarely into the heartland of Finance. Finance needs to respond by really engaging the institution as a partner and providing high level insight, to inform the key decisions that impact on each HEI.

Our research suggests that Finance will have to work hard to change how it spends its time and to engage the senior leadership of the HEI. Finance needs to determine how to spend less of its time on compliance & control matters and more on insight. Otherwise it will find itself in real difficulty driving through the necessary financial changes, as the pressures of addressing a broad range of funding issues and spending cuts bite. Strong leadership will be essential.

Vision and strategy of Finance

The most commonly cited aspirations of respondents in terms of vision were for Finance to provide increased efficiency and to be a strong support function. Many respondents also expressed a desire to be an integrated part of the business and for Finance to influence the strategy of the HEI.

With over 80% of respondents reporting that they had an aligned vision and strategy for Finance, the substantial majority of Finance Director respondents should be well placed to help align the priorities of the HEI, and to make sure that their Board colleagues and their Finance teams are clear on where they are taking the Finance function.

Financial uncertainty is overwhelmingly the main challenge currently facing the HEIs we researched. Given the huge financial changes facing the HE sector, each HEI will need to revisit its strategy and determine fee levels, understand the affordable level of operating costs and revisit capital budgets. Finance is likely to need to revisit its strategy as a result and will have a crucial role to play in helping to guide HEIs through choppy financial waters.

92% of respondents reported that financial uncertainty is their main challenge
Finance needs to communicate clearly throughout the non-finance and operational parts of the HEI, especially to all those charged with budgetary and governance responsibilities. In particular, the academic community needs to understand and value the contribution that Finance can make, and the controls that it will necessarily have to impose, in an environment where academic freedom is a jealously guarded asset.

**Challenges for Finance**

Against the background of financial uncertainty, Finance respondents reported that their specific function challenges, in order of priority, were: managing change; resource constraints; and finding increased efficiencies across the University. Two thirds of respondents reported that resistance to change was a barrier to them tackling the cost pressures in the HEI.

The management of change is an ever-present issue that affects not only HEIs but also the wider public and private sector organisations we have assessed over the recent years. For HEIs there is the added impact of the Browne Review, the government Spending Review and the implementation of, for example, carbon reduction commitments, all of which impact significantly on Finance. Finance Directors in HEIs have a long road to run. And they will need to bring their senior colleagues outside Finance with them on the journey if lasting change is to be secured.

Three quarters of respondents did not consider that seeking external best practice was of high importance. We suggest that there may be more value in HEIs seeking best practice than is acknowledged.

This might mean looking more closely at the published data of other HEIs, other education bodies or public sector finance organisations which are under similar cost pressures. There are also many comparative lessons to be learned from the private sector. In our view, the best run organisations are those that are constantly striving to learn from others and improve.

**The role of Finance**

By far the largest number of respondents (45%) reported that they felt that Finance was perceived by internal customers and other stakeholders as a ‘diligent caretaker’. This is where Finance roles are significantly enabled and resourced to cope with a select number of priority projects.

Just over a quarter of respondents see their role in Finance as ‘business partners’, working closely with the organisation, influencing, designing and executing strategy. This suggests that there is still a considerable way to go for Finance generally to be seen as a fully integrated partner to the business.

In our experience the role of the Finance Director varies considerably across HEIs. At some HEIs the Finance Director is seen as the key Finance authority in the institution, whereas in others they report to a Registrar or COO, rather than directly to the Vice Chancellor. When many of the primary risks faced by HEIs are financial ones, a strong role for the Finance Director is vital.
Balancing the competing demands of efficiency, compliance & control and insight

Every finance function has a wide range of responsibilities and priorities to juggle. Finance needs to run efficiently and demonstrate value for money, to establish and maintain effective controls in order to manage risk and to deliver real insight into the business. It was against these three dimensions that our research measured the performance of Finance.

Respondents reported that they currently spend 30% of their time on efficiency, 45% on compliance & control and only 25% on insight. Their aspiration for three year’s time is to hold time on efficiency at 30% and reduce compliance & control time to 35%. The time released is to be invested in insight, so increasing that to 35%.

The overall ambition expressed by Finance feels to us to be sensible and realistic. Indeed it is likely to be necessary if it is to tackle its financial challenge effectively.

But it will take a real change of culture and mindset for Finance to spend nearly half as much time again on insight activities. It will need to be clear about what compliance & control activities must be undertaken and what can be changed or stopped. Most importantly, whatever decisions are taken, the support of HEI senior leadership teams will be crucial to success.

Efficiency

Efficiency in Finance means performing tasks in a timely and cost effective manner. Just 3% of the respondents in our research rated their organisation as high performing today and 50% rated it as performing well, in the context of the HEI’s priorities. Future planned efficiency change initiatives reported to us include: increasing reviews and monitoring, increased efficiency programmes and investing in technology. Other change issues were also identified such as improved staff training and a focus on people and culture.

Just 14% of respondents identified plans for improvements to shared services or restructuring of the finance function. We note that, in recent years, shared services have not been widely embraced by HEIs. There are of course some notable and successful examples of HEIs sharing across the sector. Some have been in place over many years, such as UCAS and JANET.

We recognise that there is some nervousness amongst some in the sector about whether there are savings that can be realistically achieved from the implementation of shared services. We believe that there are real and further opportunities in this area, particularly as the government looks to address the tax disincentives to shared service arrangements for charitable organisations.
Compliance & control

Compliance & control is about establishing a sustainable, cost effective control environment which both meets today’s needs and is flexible for the future. 62% of respondents to our research believe they have a comprehensive controls framework.

Respondents estimate that they spend 45% of their time today on compliance & control and they are looking to reduce this to 35% in three years time. Comparable data suggests that top performing finance functions in the private sector spend less than 20% of their time on compliance & control, whereas respondents to our public sector research have reported that they spend 50% of their time on compliance & control. The public sector does not generally have effective and efficient mechanisms embedded within financial systems to provide control activities on a continuous basis. Our research suggests that the public sector is both conservative and has a particular aversion to risk.

There is a danger that any organisation builds control upon control and does not eliminate controls when new ones are instituted. This can serve to create complexity and increase cost. All organisations have important risks to manage. In our view the key is the effective management rather than the elimination of risk. This means Finance equipping line management with the skills to design and operate efficiently controlled processes. And it means integrating risk and control processes and creating a joined up framework to assess and monitor organisational risks.

We see a link between improving compliance & control and delivering value for money. While compliance & control in an HEI is often seen as an uphill battle (with academic freedom cited as a barrier to change), many of the disciplines implied by control seek to achieve value for money. So, in our view, improving compliance & control effectiveness will help with the wider financial pressure HEIs are facing.

Insight

Insight is about Finance adding value to the organisation and supporting the strategic and operational decision-making process. Respondents reported that they currently spend 25% of their time on insight and they are looking to increase this to 35% in three years time. This is equivalent to the comparable time spent today in top performing private sector functions.

This represents a significant challenge for Finance in HEIs. Many of the initiatives that Finance either has in hand, or envisages undertaking, are dependent upon effective change management and changes in culture. They need to be carried out in the context of reported institutional resistance to change. So Finance will need a clear plan about how to achieve its goal and how to achieve the support of the HEI senior leadership team.

We believe that Finance should be looking to provide more information to inform better decision making, working closely with academic schools and faculties. The Browne Review brings this into sharper focus, with a much clearer relationship now between income, via tuition fees for which a pricing decision is necessary, and cost.
There is a core challenge for Finance here in how to most effectively allocate people costs against activities. Similar private sector organisations would use regular time recording systems. But this is not commonplace in HEIs and, where timesheets are used, such as for research funding, the process tends to be periodic rather than regular.

**The importance of people and leadership**

Our research across HEIs and the public sector has confirmed the vital importance of Finance addressing a range of people-related issues, including culture, capability, competency, resourcing and skills. In our experience, Finance needs to ensure that people have the required skills and make certain that the role of Finance is fully understood within the organisation.

The approach to changing culture needs to be driven right from the top of the organisation. In HEIs, the support of the academic community is also very important and was instanced specifically by a number of respondents to our research.

As Finance looks to re-balance how it spends its time, and to invest more in providing insight to the business, it recognises that people and culture are pivotal and that change will not be straightforward. So the Finance Director has an essential personal role to step up and address the challenges and provide strong and effective leadership to move the function forward.

At the same time, the broader senior leadership of the HEI must want to see change and be prepared to sponsor it more widely. If they don’t then the Finance Director will be left fighting a lonely battle.

**Finance in the private and public sectors**

Our annual research in both the private and public sectors has been helpful in enabling comparisons with HEIs, whilst of course recognising the obvious differences between the various sectors.

The supporting data from the private sector suggests that there is a real financial prize for top performers. They operate at a much lower cost and they have many more people devoted to providing insight to the business. They spend less time gathering data and more time analysing it. They are able to report and close more quickly and they invest more in business partnering and providing business insight.

That said, not all is rosy in the private sector. Our research suggests that Finance in that sector needs to equip itself with the right skills and capabilities and deliver consistent, accurate, timely and relevant management information, to support decision-making and risk management across the business. Standardising and simplifying processes and supporting technology are key actions to curbing costs and enhancing efficiency. Driving benefits from shared service centres is a high priority in the private sector and the government has been pushing the public sector to do likewise.

We believe that these findings will be of interest to the HEI finance director community. And we encourage the learning of lessons across sectors. This will become even more important as the HE competitive market evolves.

---

**Top performers in the private sector employ**

30% more people on Insight activities and operate at 50% of median sector cost
Conclusions

The top issue facing UK Universities is the financial challenge brought on following funding cuts and a new regime for tuition fees. This presents a once in a generation challenge and opportunity for Finance to be at the very heart of the strategic agenda of the University. It will need to be grasped, as there will undoubtedly be winners and losers, as the higher education market evolves and undergoes significant change.

Our research finds that Finance is currently juggling to get the balance right. Too much time is still being spent on compliance & control and not enough on providing insight. Finance wants to change this, but knows that it will be an uphill battle to overcome institutional resistance to change.

In times of change, it is essential to focus on the control implications of this change and the new financial, operational and compliance risks it brings. By doing so, the reorganised processes are more resilient and sustainable. We have seen leading private sector organisations make the move from the direct delivery of core transactional and risk management processes to more of a policy and oversight role, which enables them to manage more effectively the many changes impacting the business. They may prove to be a useful role model for HEIs.

Academics need to be brought on board and senior leadership support is essential for Finance to drive its agenda for change.

Finance must step up and be positively encouraged to do so. Only then will Finance be a true, respected and equal business partner, capable of helping HEIs to reprioritise and achieve the radical change needed.

In seeking to act as a business partner, Finance has an important role to fulfil in understanding strategic risks, assessing the risk appetite of the HEI and then helping to align key performance indicators and management information. These strategic risks extend beyond Finance to cover areas such as reputation, people and competition.

We believe that opportunities for developing shared services, either within an HEI or with other HEIs, or indeed other geographically proximate organisations, need to be assessed and pursued as an important element of cost management. We also encourage Finance in HEIs to learn from other organisations, particularly those high performers in both the private and public sectors.

The leaders of HEIs will be looking for help and Finance can deliver the insights, if it can step up to the mark. Strong leadership will be crucial now as Finance seeks to focus on the higher value insight activities and help HEIs grapple with the onset of their own major financial challenges. The time for Finance to take action is now.
The vision and challenges for Finance in HEIs

Introduction

We sought through our research to understand Finance respondents’ views on the challenges facing the HEIs they support. We then assessed their vision and strategy for the finance function, the key issues facing the function today and the likely key issues in three years time. This section of our report explores the findings and in particular assesses how Finance balances its competing demands.

81% of respondents reported that they had a written vision and strategy that aligns to the business strategy of the HEI. By contrast, one out of five respondents reported that they were operating with no written vision or strategy or that their strategy is in need of a refresh. This means that the substantial majority of finance director respondents should be well placed to help align the priorities

<table>
<thead>
<tr>
<th>Vision and strategy for Finance</th>
<th>% of respondents (multiple answers were permitted)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide increased efficiency</td>
<td>47</td>
</tr>
<tr>
<td>Provide a support function to the business</td>
<td>44</td>
</tr>
<tr>
<td>Be an integrated part of the business</td>
<td>33</td>
</tr>
<tr>
<td>Influence strategy of organisation</td>
<td>28</td>
</tr>
<tr>
<td>Be a first class finance function</td>
<td>11</td>
</tr>
<tr>
<td>Develop staff</td>
<td>11</td>
</tr>
</tbody>
</table>

Over 80% of respondents reported that they had an aligned vision and strategy for Finance
of the HEI, and to make sure that their board colleagues and their finance teams are clear on where they are taking the finance function. This is encouraging as, in our experience, it is not only important that board colleagues and finance teams know the direction of Finance, but that this is also communicated throughout the non-finance and operational parts of the organisation, in particular to those charged with budgetary responsibilities.

**Challenges**

We comment below on the challenges facing the HEIs that we researched before we consider the specific challenges facing Finance in those HEIs.

In order to appreciate the key concerns of Finance today we first sought to understand the backdrop against which Finance is currently operating. Not surprisingly, financial uncertainty is the main challenge currently facing the HEIs we researched. This was overwhelmingly the major issue on the minds of respondents, with 92% of respondents highlighting this matter, followed by service issues and forced efficiencies, instanced by 29% and 26% of respondents respectively.

Other important challenges were uncertainties over pension costs and the impact of changes in the HEI regime on overseas students.

Generally, Finance respondents reported that they felt they were reasonably equipped to handle the cost pressures facing their HEI. Only 3% of respondents reported they were poorly equipped, and, at the other end of the spectrum, 30% reported they felt fully equipped. Two thirds of respondents reported that resistance to change was a barrier to Finance tackling the cost pressures in the HEI. Lack of resources was the second most commonly instanced barrier.

**Finance challenges**

Against the backdrop of the HEI-wide challenges described above, Finance reported that their specific function challenges, in order of priority, were: managing change; resource constraints; and finding increased efficiencies. Respondents saw little change in the likely major issues facing them in three years time. The capability to manage change and the impact of continually tightening financial constraints were seen as the key likely challenges in three years time as well.

---

**Challenges for the HEI**

<table>
<thead>
<tr>
<th>% of respondents (multiple answers were permitted)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial uncertainty</td>
</tr>
<tr>
<td>Service issues</td>
</tr>
<tr>
<td>Forced efficiency savings</td>
</tr>
<tr>
<td>Pension costs</td>
</tr>
<tr>
<td>Impact on overseas students</td>
</tr>
<tr>
<td>Personnel issues</td>
</tr>
</tbody>
</table>

---

"The funding pressures are very real and will hurt HEI Finance Director"

---

"Two thirds of respondents reported that resistance to change was a key barrier to tackling cost pressures"
This suggests that Finance believes it has a long road to run in addressing its financial challenges.

The management of change is an ever-present issue that affects not only HEIs but also the wider public and private sector organisations we have assessed over the last two years. And for HEIs there is the added impact of the Browne Review, the government Spending Review and the implementation of, for example, carbon reduction commitments, all of which impact significantly on Finance.

So Finance Directors will have to run fast just to stand still. And they will need to bring their senior colleagues outside Finance with them on the journey if lasting change is to be secured.

As shown in the table below, the key matters identified by respondents as being of particular importance were how Finance is perceived by others to add value, how Finance is responding to change, the people and skills challenge and the value derived from investments in Finance.

Balancing the competing demands of the three dimensions of efficiency, compliance & control and insight was identified as a highly important issue for 60% of respondents and a further 32% identified it as of medium importance. We explore this further in some detail below.

Other challenges, such as how to best structure finance to support the business and the seeking of external best practice, were generally seen by respondents as medium rather than high priority. Indeed, three quarters of respondents did not consider that seeking external best practice was of high importance.

Given the scale and complexity of the financial challenges facing the HE sector, we suggest that there may be more value in HEIs seeking best practice than is acknowledged. This might mean looking more closely at the published data of other HEIs, other education bodies or public sector finance functions, which are under similar cost pressures.

---

**We need support and engagement from academic staff**

*HEI Finance Director*
There are many comparative lessons that can be learned from private sector organisations that have had to restructure and transform themselves. Section 4 of this report assesses how Finance is performing in the private sector and also provides some pointers on what sets top Finance performers apart in that sector.

### The role of Finance

We asked respondents to assess how they felt Finance was perceived by internal customers and other stakeholders, along a continuum from scorekeeper at one end, through commentator, diligent caretaker to business partner. This assessment can be considered a measure of the maturity of Finance.

As the table below shows, by far the largest number of respondents (45%) describe themselves as diligent caretakers. This is a role where Finance roles are significantly enabled and resourced to cope with a select number of priority projects.

Nearly a third (29%) of respondents describe themselves as commentators. This is where Finance recognises the need to support the HEI, helps drive performance and supports major change and decisions. It is where Finance has made some limited change in terms of roles and responsibilities to support the HEI.

Just over a quarter (26%) of respondents see their role in Finance as business partners. In this role Finance works closely with the HEI, influencing, designing and executing strategy. Here finance teams are well developed and fully enabled with supporting tools, resources and skills, which are made available to contribute to business projects with capability to model, analyse and support change programmes.

This profile suggests a more developed role for Finance in HEIs than for example in the public sector more widely, where our research indicated that the 44% of those respondents saw themselves as commentators and 9% as scorekeepers. The latter is a more straightforward role where Finance is focused upon scorekeeper and stewardship roles, with limited analysis, support and management information provided to the business in relation to organisation change.

So our research suggests that respondents believe that they have well developed finance functions that should place them in good stead in supporting their HEIs in tough financial times.

### Perceived role of Finance by internal customers and other key stakeholders (%)

<table>
<thead>
<tr>
<th>Role</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business partner</td>
<td>26</td>
</tr>
<tr>
<td>Diligent caretaker</td>
<td>45</td>
</tr>
<tr>
<td>Commentator</td>
<td>29</td>
</tr>
<tr>
<td>Scorekeeper</td>
<td>0</td>
</tr>
</tbody>
</table>

[![Perceived role of Finance by internal customers and other key stakeholders (%)](image)]
Balancing the competing demands of efficiency, compliance & control and insight

We asked respondents to our research to self evaluate their performance in terms of managing the competing demands of efficiency, compliance & control and insight. Respondents reported that they were spending 30% of their time on efficiency activities, 45% on compliance & control and 25% on insight. These results are not dissimilar to the overall public sector results in which respondents reported that they were spending 30% of their time on efficiency activities, 50% on compliance & control and 20% on insight.

At a time when Finance is looking to tackle big financial and change management issues, it is spending a significant amount of time on compliance & control activities. This is in marked contrast to the private sector where time spent on compliance & control is more in the region of 20%, so freeing up time for higher value insight activities. This sort of time commitment on compliance & control may contribute to a perception that some may have in HEIs of Finance as a back office function and not at the strategic nerve centre of the HEI.

Looking to the future, the reported aspiration for Finance is to maintain the time spent on efficiency activities at 30% and to reduce time spent on compliance & control from 45% to 35%. The time freed up will then be invested in insight, so increasing that from 25% to 35% of Finance time spent. We examine the detail behind this in the rest of this section of the report.

The overall ambition expressed by Finance feels to us to be sensible and realistic. Indeed it is likely to be necessary if it is to tackle its financial challenge effectively. But it will take a real change of culture and mindset for Finance to spend nearly half as much time again on insight activities, and do so by reducing compliance & control activities.

It will need to be clear about what compliance & control activities must be undertaken and what can be changed or stopped. Most importantly, whatever decisions are taken, the support of HEI senior leadership teams will be crucial to success.
The Efficiency agenda

Efficiency in Finance means performing tasks economically in a timely and cost effective manner, having regard to regularity and propriety. Cost effectiveness requires the delivery of desired outcomes more quickly and efficiently. This is typically achieved through simplified and standardised processes that leverage technology and improvements to the efficient delivery of transactional processing through shared services or outsourcing. This facilitates the collection, analysis and presentation of financial information in a meaningful way. Quality information is required that links financial and performance data.

Our research reveals that respondents estimate that they are spending 30% of their time on the efficiency agenda. We evaluated the overall efficiency performance and also specifically performance for general accounting, external financial reporting, accounts receivable, accounts payable and personal expense accounting, as well as student credit/debtor management, student registry/data quality, research accounting and value for money.

3% of the respondents in our research rated Finance efficiency as high performing today and 50% rated it as performing well, in the context of the HEI’s priorities. A further 42% of respondents rated it as performing adequately. In our view a level of performance which is deemed adequate is unlikely to be enough to allow HEIs to meet their looming challenges.

There was a range of efficiency change initiatives reported by respondents to be currently in hand. The main areas of focus were on regular reviews and monitoring, process and system investment and restructuring.

Only 6% of respondents reported that these initiatives were fully effective, although all respondents believed that something effective had been achieved.

Future planned efficiency change initiatives reported to us included: increasing reviews and monitoring, increased efficiency programmes and investing in technology. Other change issues were also identified such as improved staff training and a focus on people and culture. Just 14% of respondents identified plans for improvements to shared services or restructuring of the finance function. The main barriers to success identified by respondents were almost wholly people-related matters such as a lack of resources, which was instanced by 54% of respondents, coupled with resistance to change and lack of skills.

Our experience from both the public and private sectors is that, in a rapidly changing environment, there is a need for a real and increased attention to be paid to the people agenda and to the simplification and standardisation of processes.

The widespread and effective implementation of finance shared services and enabling technology can improve efficiency, generate significant cost savings and let Finance focus its time on higher value insight activities. This is therefore an opportunity that many private sector organisations have pursued and increasingly this has been the case in the public sector.

In recent years, shared services have not been widely embraced by HEIs. There are of course some notable and successful examples of HEIs sharing across the sector. Some have been in place over many years, such as UCAS and JANET.
Our experience is that HEIs are considering the shared service agenda, albeit after other ways of reducing costs, such as procurement efficiencies and pensions’ reform.

The debate we have witnessed is whether shared services should be between HEIs or within a geographic location (for example with local authorities, health trusts or FE colleges). In some relatively generic support functions, such as facilities management, then location may be the optimal answer.

But the challenges in getting such initiatives off the ground across sectors are considerable, not the least because each organisation involved is usually moving at a different pace. That said, we believe that there are real and further opportunities in the area of shared services, particularly as the government looks to address the tax disincentives to shared service arrangements for charitable organisations.

Looking to the more detailed analysis of efficiency activities, as the following tables show, the areas of research accounting, student registry and personal expense accounting are rated less highly by respondents, in terms of how they are being performed, than the more regular accounting functions such as accounts payable, accounts receivable, general accounting and financial reporting disciplines.

We might have expected the Higher Education areas of research accounting and student registry to be performed well, given the specialist nature of the activity to HEIs and the inextricable link to finance and funding.
The vision and challenges for Finance in HEIs

Looking to the future, in three years time, the table above shows that there is a strong desire to improve performance to higher levels for most areas, although aspirations for student registry and research accounting are lower, presumably reflecting the current state of performance.

The compliance & control agenda

Compliance & control continues to be a key issue for Finance. It is about the need to optimise financial risk management, compliance and control to establish a sustainable, cost effective control environment which meets today’s requirements, as well as being flexible for future changes.

We asked respondents how far they were along the continuum from: a basic controls framework; through controls focused in finance; to a comprehensive controls framework; to controls optimisation.

Our research, as shown in the table below, reveals a majority of respondents (62%) believe they have achieved a comprehensive controls framework. This means that key finance, operational and compliance controls have been determined, but that the number may be excessive when compared to relative risk, and/or the controls have not been subject to any review for design or operating effectiveness. This may be a reflection of the HEFCE requirement for an annual opinion to be provided on internal controls.
Encouragingly no respondents reported that they have a basic controls framework, which is where there has been little or no assessment undertaken as to which controls are key to the financial, operational and compliance needs of the HEI.

Respondents estimated that they currently spend 45% of their time on compliance & control activities. They said that they are looking to reduce the time commitment in this area to 35% in three years time. Comparable data suggests that top performing finance functions in the private sector spend in the order of 20% or less of their time on compliance & control.

There is no doubt that the federated nature of many HEIs makes the job of control that much more difficult. But then again, Finance in the private sector has those same challenges, particularly across large devolved groups. However, there is a danger that Finance in HEIs will be regarded as a back office function focussed heavily on compliance & control rather than being used to provide strategic insight.

Whatever the causes, all organisations have important risks to manage – but the key word is management, rather than elimination, of risk. Respondents indicated that they obtain high levels of assurance from internal audit, as well as the disciplines imposed by external audit. Oversight of management and the board is also an important ingredient, as is self assessment of processes and controls.

There was a wide range of compliance & control change improvement initiatives reported by respondents to be currently in hand. The main areas of focus for current improvement were using targeted internal audit activity, a systematic review of controls and building a compliance culture. Just 3% of respondents instanced entering a shared service arrangement as a current compliance & control change initiative.

Future planned change initiatives were many and varied. 71% of respondents reported that they planned to improve financial tools and processes. Other initiatives included: increased resources, improved compliance and restructuring the finance function. 14% of respondents cited making better use of shared services. The main barriers to success reported by respondents were people-related issues pertaining to resource management and organisational culture, and, to a lesser extent, financial and budgetary constraints.
We asked respondents about their compliance & control performance in general and specifically for process controls and compliance, tax accounting and compliance, finance and procurement policies, internal audit and treasury management as well as corporate governance and the risk function.

The following tables show how respondents currently and in three years time assess the compliance & control performance of their organisations.

In terms of the range of specified process control and compliance matters that we evaluated, respondents generally assessed their performance at adequate or above. There is a clear aspiration to improve performance, with HEI respondents generally seeking to be high performing or performing well in three years time.

For policies and practices over procurement, only 8% rate themselves as high performing today and 8% of respondents assess themselves today as performing poorly.

However the medium term aspiration is for 65% to be high performing and 35% to be performing well. Finance directors need to procure with confidence, so better procurement programmes will be necessary to generate cashable savings in both the short and medium term. This might mean, where practicable, that procurement is undertaken more strategically with other HEIs to leverage their collective buying power more effectively.

Indeed, it is not only value for money during procurement that is important. Finance also needs to ensure that ongoing contract management and monitoring processes are effective. In our experience, managing change control, contract creep and invoice approvals can all contribute to identifying savings.

26% of respondents today assess treasury management as high performing and respondents report an aspiration to improve this to 57% in three years time. This would seem to us to be the right priority for HEIs, given funding concerns, tight cost pressures and the inherent uncertainties over

Current compliance & control process activities (%)
the impacts of the Browne Review. The effective control of cash and cash flows will be essential.

On **internal audit**, 25% of respondents self assessed as high performing today and 40% are seeking to be high performing in three years time. A high performing internal audit function can play a critical assurance role and help the HEI improve its core policy & business drivers. It can identify opportunities for process improvement, cost savings and better resource management. It can also help the HEFCE governed HEIs meet their minimum requirements for an opinion on governance, control and risk management and value for money arrangements.

It is perhaps surprising that more respondents did not seek a high performing internal audit function, as many HEIs reported the importance that they attach to using targeting internal audit activity as a means of addressing the compliance & control agenda.

**The Insight agenda**

**Insight** is increasingly important in effective finance function delivery. It is about Finance adding value to the organisation and supporting the strategic and operational decision-making process as a true business partner.

We asked respondents about insight processes in general and specifically for strategy and planning, budgeting and forecasting, cost management, business analysis, performance management and management reporting.

Respondents reported that they currently spend 25% of their time on the insight agenda and they are looking to increase this commitment to 35% in three years time. This is in line with the comparable time spent today in top performing private sector organisations.

**Compliance & control activities in three years time (%)**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Performing Adequately</th>
<th>Performing Well</th>
<th>High Performing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policies and practices over procurement</td>
<td>35</td>
<td>40</td>
<td>65</td>
</tr>
<tr>
<td>Treasury management</td>
<td>5</td>
<td>40</td>
<td>57</td>
</tr>
<tr>
<td>The risk function, including risk management</td>
<td>6</td>
<td>41</td>
<td>53</td>
</tr>
<tr>
<td>Corporate governance</td>
<td>5</td>
<td>43</td>
<td>52</td>
</tr>
<tr>
<td>Finance policies and practices</td>
<td>5</td>
<td>54</td>
<td>46</td>
</tr>
<tr>
<td>Tax accounting and compliance</td>
<td>5</td>
<td>52</td>
<td>43</td>
</tr>
<tr>
<td>Process controls and compliance</td>
<td>3</td>
<td>57</td>
<td>40</td>
</tr>
</tbody>
</table>
An increase from 25% to 35% represents a significant challenge for Finance in HEIs. As the re-balancing of this time requires a reduction in the time spent on compliance & control activities, Finance will need a clear plan about how to achieve this goal and how to gain and/or retain the support of the senior leadership of the HEI. Finance will need to act as a genuine business partner.

The table below shows how respondents assess themselves currently for the individual insight processes listed.

Insight activities were generally assessed as currently being performed well. Performance management was the activity that was assessed as being the weakest, with just 3% of respondents rating it as performing highly and 22% rating it as performing well. 14% of respondents assessed it as performing poorly. Business analysis was rated slightly better overall than performance management. However, only 5% of respondents rated it as performing highly and 18% rated it as performing poorly.

There was a wide range of change initiatives reported by respondents to be currently in hand. The main areas of focus were in Finance adopting a more proactive strategic role, increased planning and forecasting, generation of more effective financial tools and increased financial analysis and reporting. 19% of respondents reported that these initiatives were fully effective and a further 78% of respondents reported that something effective had been achieved by these initiatives, with just 3% of respondents reporting that the initiatives had not so far been effective.

The main future change initiatives that were identified were concerned with the investment in technology and the structuring of Finance and its integration with the business. Other people related initiatives included staff development and change management. Less frequently reported issues included a focus on strategic planning and increased reviews.

We aim to act as a business partner

HEI Finance Director
The main barriers to success were reported as people-related issues pertaining to lack of resources, resistance to change and the management of change. The resources needed to overcome the barriers were cited as greater support in terms of time, people and systems, staff training and a change of culture.

The reported three year aspiration, as shown in the table above, is to eliminate poor performance in virtually all the activity streams noted and to see at least good performance, with a substantial level of high performance, particularly for budgeting and forecasting, strategy and planning, management reporting and cost management.

The overall scale of the insight improvement ambition is significant. It can be achieved, but we note that many of the initiatives that Finance has in hand across its wide agenda are dependent upon effective change management, resource needs and changes in culture. They need to be undertaken in the context of reported institutional resistance to change.

**Conclusions**

We believe that Finance needs its own plan, agreed with the senior leadership team, to make sure it can meet the needs of the HEI and operate as an effective and genuine business partner. Without this, it may find that it is still heavily involved in the compliance & control agenda and struggling to provide enough strategic insights to secure the HEI’s future wellbeing.
Finance in the private sector

Introduction

In February 2010 we published our 2009 annual review of Finance in the private sector, in which we assessed over 100 participating companies (largely FTSE 200 firms, but also international groups of a similar size and complexity). Our review examined whether Finance in the private sector is equipped to provide the levels of strategic insight, risk oversight and other key aspects of the ‘business partnering’ role now expected of them. We also looked at how the best performing private sector finance functions are able to meet evolving business needs, balance being a business partner with their traditional responsibilities and ultimately deliver real value to the enterprise.

Highlights

Our research found that finance directors and their teams in the private sector are juggling to achieve the right balance between the three competing agendas of insight, efficiency and compliance & control, in addition to managing and motivating their people.

They are also struggling with the increasing and competing demands placed upon them. Finance functions, focused for so long on compliance & control, are under great pressure to manage costs tightly and provide more and better quality management information to the business.

Key highlights of our research findings in the private sector include:

• Many finance organisations still lack the necessary capacity and capabilities to fulfil the role of true business partner.

• There is strong dissatisfaction in organisations with the quality of management information provided by Finance.

• Only 11% of finance personnel are engaged in true business partner roles, despite CEOs looking to Finance to provide more insight and advice.

Finance in the private sector wants to ensure that the way it is steering the function and partnering the business is building towards a high performing function and one which is recognised as integral to success. However, when it comes to business partnering, our analysis indicates that Finance’s ambitions in the private sector often outrun its abilities.
**Key findings on insight, efficiency and compliance & control**

**Insight**

Our research raises concerns about whether most finance teams are equipped to deliver the kind of support that private sector CEOs are demanding. While engagement in insight activity has increased, the full time equivalent (FTE) staff complement in business partnering roles has barely changed over the previous year. When set against the widespread dissatisfaction with management information, and limited evidence of any increased investment in this area, this suggests that even though some additional staff are being re-assigned to partnering activities, they may not have the training, resources and business acumen to ensure their input is of real value to the business.

As shown in the table below, more than 80% of private sector research participants expressed dissatisfaction with the quality of management information (MI). Particular concerns centre on whether the MI is sufficiently meaningful and forward-looking to drive business decisions. Underlying difficulties include broadening the focus of MI to provide sufficient breadth of non-financial performance data and being able to develop timely, reliable and comparable metrics for such information.

<table>
<thead>
<tr>
<th>Satisfaction with Management Information</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Highly satisfied</strong></td>
</tr>
<tr>
<td>14%</td>
</tr>
</tbody>
</table>

**Efficiency**

Streamlining operations and standardising processes continue to be high on the agenda as private sector finance functions seek to reduce costs, enhance efficiency and free up more time for insight and analysis. Around 65% of companies that we benchmarked have consolidated at least some of their transaction processes. The more mature organisations are now looking to extend this approach to activities further up the value chain, such as financial reporting and project accounting. However, the benefits of such moves are not necessarily being fully realised as processes have often not been rigorously standardised or simplified.

**Compliance & control**

At times of business change, it is essential to focus on the control implications of this change and the new financial, operational and compliance risks it brings. By doing so, the reorganised processes are more resilient and sustainable. Leading private sector organisations have, despite the economic downturn, managed to make the move from the direct delivery of core transactional and risk management processes to more of a policy and oversight role, which enables them to manage more effectively the many changes impacting the business.

**What sets top performers in the private sector apart?**

Our research shows that participants in the top quartile of benchmark evaluation ratings are able to operate at much lower cost, while sustaining high levels of insight, efficiency and compliance & control.

The top quartile finance functions in the private sector that we researched operate at approximately 50% of the cost of the median.
Key attributes that set them apart include:

- a clear focus on providing business insight, with top performers reporting a greater proportion of FTEs engaged in insight activity;
- a greater investment in business partnering capabilities;
- a better use of high value specialists’ time, through standardisation of data models across markets and within business units and investment in sophisticated business information and analytical tools;
- a combination of financial and non-financial MI and the development of simple and transparent metrics to align financial performance with the delivery of strategic objectives;
- much of the routine transactional activity transferred to consolidated service centres and achieving faster close times through active standardisation and simplification; and
- a strategic approach to cost management that distinguishes savings opportunities from spending that is needed to sustain the delivery of business objectives.

Top performers in the private sector recognise that the ability to provide real strategic insight demands dedicated resources, engagement skills and commercial understanding, as well as financial qualifications. Indeed, top performers in the private sector employ 30% more people on insight activities.

Business partnering

Corporate boards are looking to their finance functions to provide more active input into decision-making. In practice, however, it is not always clear how finance functions should fulfill this business partnering role. Business partners are finance employees with the skills and experience to work alongside the business; influencing, designing and executing business strategy and planning. Business partnering requires the ability to understand both finance and business realities, to challenge decisions and, in many ways, act as a business consultant.

There is no template for being a valued business partner or how this role should sit alongside more traditional responsibilities. A key challenge is how to strike the right balance between the potentially conflicting demands of strategic insight and independent oversight.

Talent management

Top quartile performers in the private sector are investing more in training and reward. Experience indicates a strategic approach to talent management that aligns recruitment, training and retention policies with long-term functional objectives, can help to ensure limited resources are targeted most effectively.
Many of the better performing research participants place greater emphasis on nurturing talent from within through rigorous succession plans for key roles and career maps involving secondments, specialist training in finance academies and job rotation across different business and support functions.

**Oversight and control**

Most private sector finance teams we have studied have now overcome the initial challenges of establishing the policy frameworks required to handle current regulatory and related risk management requirements. However, performance in fully embedding these frameworks remains patchy. Those finance teams that have achieved this are in a much stronger position to safely reduce the cost and compliance burden.

Our research shows that just over half the companies benchmarked reported a strong risk culture within their organisation, with clear and full understanding of risk and control responsibilities amongst senior executives. Having helped to raise risk awareness across the business, these finance teams are now shifting their focus to ensuring accountability across different functions and geographic territories, through enhanced risk analysis and exception reporting. Leading organisations are also moving from the direct delivery of core transactional and risk management processes to a policy and oversight role, with the day-to-day work being transferred to multi-functional group service centres.

**Transactional activity**

What management expects of finance teams is expanding. This includes experience of managing change, the customer-focused mindset of a shared service centre and the engagement skills to work in collaboration with the business. As more transactional activity is consolidated or outsourced, many finance teams also need the relationship management expertise to oversee contract delivery. More than half of the private sector research participants have assigned business partners to manage transactional services, compared with less than 30% the previous year.

**Control of costs**

More than 80% of private sector research participants cited cost control as a key priority. However, there is an increased appreciation among top performers of the need to avoid arbitrary and unsustainable cost cutting programmes. With its organisation-wide view of expense, risk and profitability, the finance function is seen as being well-placed to raise awareness about cost and revenue drivers and identify opportunities for lasting savings. However, many are finding the data is difficult to source and includes varying definitions.

**Conclusions**

The findings from the benchmark study highlight three key hurdles that will need to be overcome to enable private sector companies to leverage the full value of their finance functions:

- ensuring Finance has the right skills and capabilities to support the business operating model and satisfy the needs of the organisation.
- ensuring the delivery of consistent, accurate, timely and relevant management information to support decision-making and risk management across the business.
- standardising and simplifying processes and supporting technology to curb costs and enhance efficiency.
Finance in the public sector

Our most recent public sector research, carried out before the 2010 general election, identified fiscal consolidation as the single biggest challenge facing government and the public sector. It showed that the strategic challenge facing the public sector had already moved squarely into the heartland of Finance.

Finance in the public sector needs to respond by engaging the business as a partner and providing high level insight, to inform the key decisions that impact on every one of us. The environment is challenging and tough for Finance in the public sector. Finance respondents to our 2010 survey made it clear to us that they did not have all the people resources, skills and experience that they needed. So public sector finance directors were running faster to stand still and some were suffering from initiative overload and fatigue.

It is no great surprise that Finance found that the time it has to think strategically had reduced as it focussed on the efficient processing of daily transactions as well as on process, compliance and control matters. Our research confirmed this and also suggested that the public sector Finance aspiration to be high performing in three years time will be too late. Finance in the public sector needs to determine how to spend less of its time on compliance & control matters and more on insight. Otherwise it will find itself in real difficulty dealing with the pressures of spending cuts. Strong leadership is essential.

Vision and strategy of Finance

Respondents to our 2010 research reported a greater clarity of purpose and aspiration for Finance compared to 2009, particularly in terms of seeking to provide excellence and value for money. A written vision or strategy for Finance seems to us to be a bare minimum and yet nearly a quarter of respondents did not have one.

Respondents also reported a desire for Finance to be an integrated part of the business and to influence the organisation’s strategy. Yet strategy and planning activity within Finance was rated as a high performing activity by only 5% of respondents, down from 15% in 2009. So there is clearly a huge agenda in government and the public sector.
Just over a fifth of respondents (19% in 2009) see their role in Finance as ‘business partners’, working closely with the organisation, influencing, designing and executing strategy. This suggests that there is still a considerable way to go for Finance generally to own its place at the top table in the public sector as a fully integrated partner to the business.

Balancing the competing demands of efficiency, compliance & control and insight

Respondents reported that they spent 30% of their time on efficiency, 50% on compliance & control and only 20% on insight. Their aspiration for three years time was to hold time on efficiency at 30% and reduce compliance & control time to 40%. The time released is to be invested in insight, so increasing that to 30%.

Time spent on compliance & control is at a higher level in 2010 than that reported in 2009. So as Finance is looking to raise its game as a genuine business partner in the public sector and tackle big issues around value add and change management, it has been drawn yet further into compliance & control activities. The rebalancing of priorities is likely therefore to be a tough challenge and one that will have to be worked at really assiduously.

Efficiency

Just 7% (none in 2009) of the respondents to our research rated Finance efficiency as being high performing and 69% (63% in 2009) aspired to be high performing in three years time.

We believe that it will be a challenge for respondents to meet their three year efficiency objectives. Overall there had been no significant change to performance over the course of the previous year.

Financial uncertainty was the main challenge facing the public sector organisations we researched. This was no surprise. But it is a reminder to Finance and to their colleagues across the business that the financial challenge is the number one strategic challenge for most public sector organisations. This provides the opportunity for Finance to demonstrate that it can make a real and deep value added contribution to the organisation it supports.

Public sector respondents reported that their main challenges in Finance were managing change, increasing efficiencies and balancing the budget and restructuring.

The overwhelming majority of respondents (85% compared to 89% in 2009) did not consider that seeking external best practice was of high importance. Given the scale of ongoing financial challenges facing the public sector, we question whether there may be more value in seeking best practice than is acknowledged. In our view, the best run organisations are those that are constantly striving to learn from others and improve.

The role of Finance

By far the largest number of respondents (44% compared to 33% in 2009) reported that they felt that Finance in the public sector was perceived by internal customers and other stakeholders as a ‘commentator’. This is a role where Finance recognises the need to support the organisation, helps drive performance and supports major change and decisions. It is where Finance has made some limited change in terms of roles and responsibilities to support the organisation.

Over 80% of public sector respondents reported how important it is to balance the competing demands of insight, efficiency and compliance & control

Over 88% of public sector respondents reported that financial uncertainty was their main challenge
There is still therefore much for Finance to do in the public sector to reduce transaction costs further and improve quality.

Common back office services are needed across central government and the wider public sector. In our view, there needs to be a more planned and systematic approach to delivery to secure the maximum cost and operating benefits. This will help to let Finance focus its time on higher value insight activities.

**Compliance & control**

Slightly over half the respondents to our research reported that they have a comprehensive controls framework.

Public sector respondents estimated that they spent half their time on compliance & control (45% of time in 2009) and they were looking to reduce this to 40% in three years time. Comparable data suggests that top performing finance functions in the private sector spent less than 20% of their time on compliance & control.

The public sector does not generally have effective and efficient mechanisms embedded within financial systems to provide control activities on a continuous basis. The research suggests that the public sector is both conservative and has a particular aversion to risk.

Specifically on procurement, 11% of respondents assessed themselves as performing poorly and only 10% rated themselves as high performing. External spend is a significant proportion of operational costs. Better procurement programmes will be necessary in the public sector to generate cashable savings.

Building control upon control in the public sector simply serves to create complexity and increase cost.

All organisations have important risks to manage – in our view the key is the effective management rather than the elimination of risk. This means Finance equipping line management with the skills to design and operate efficiently controlled processes. And it means integrating risk and control processes and creating a joined up framework to assess and monitor organisational risks.

**Insight**

Public sector respondents reported that they spent 20% of their time on insight (the same as in 2009) and were looking to increase this to 30% in three years time.

In 2009 the reported three year aspiration was 40%, so there had been a lessening of ambition over the course of the year. The reduced aspirations are however probably more realistic than those of 2009. The comparable time spent in top performing private sector finance functions is of the order of 35%.

The high performance aspirations of public sector respondents for specific insight activities were:

- strategy and planning at 53%, down from 75% in 2009
- management reporting at 46%, down from 68% in 2009
- business analysis at just 37%, down from 71% in 2009.

Given the scale of the financial challenges facing public sector organisations, this overall assessment must be a cause for concern. Finance will have to up its game markedly here to become a genuine business partner.
The crucial importance of people and leadership

Our research confirmed the vital importance of Finance in the public sector addressing a range of people-related issues, including culture, capability, competency, resourcing and skills. Respondents reported that a concerted focus on organisational design of the finance function is necessary to provide the clarity and link between policy, strategy and outcomes. Finance must ensure that people have the required skills and make certain that the role of Finance is fully understood within the organisation.

The approach to changing culture needs to be driven right from the top of the organisation. We encourage the sharing of lessons learned with other public sector bodies. We believe that the public sector should set the bar high and expect only the very best from its finance professionals. We are convinced that a planned proactive training and development programme would reap real benefits, as would a clear focus on workforce planning. People management strategies need to be in place to manage recruitment, deployment, performance, talent generation, career planning and succession. Finance leaders of the future need to be developed. Finance people must be given the opportunity to acquire and develop the broader management skills they will need in order to make a full contribution to the organisation.

As Finance in the public sector looks to re-balance how it spends its time, and to invest more in providing insight to the business, it recognises that people and culture are pivotal and that change will not be straightforward. So the finance director has an essential personal role to step up and address the challenges and provide strong and effective leadership to move the function forward. Finance must be positively encouraged to do so from the “top of the shop”. Only then will Finance be a true, respected and equal business partner, capable of helping organisations to reprioritise and achieve the radical funding reductions needed to deal with the structural fiscal deficit.

The leaders of public sector organisations are looking for help and Finance can deliver the insights, if it can step up to the mark. Strong leadership is crucial as Finance seeks to focus on the higher value insight activities and help public sector organisations cope with the onset of the public sector’s own recession.

All levels of management in the public sector are not yet bought into the recognition that we will have to do more with less
Contacts in PwC

About PwC

PwC has been helping government and public sector organisations locally, regionally, nationally and internationally for many years. We work with organisations across such sectors as diverse as health, education, transport, home affairs, criminal justice, local government, housing, social welfare, defence and international development.

Our Government and Public Sector practice comprises some 1,300 people who provide a range of consulting, assurance, tax and other advisory services. We bring specialist expertise from both our private and public sector practices to advise the Higher Education sector.

About the PwC Higher Education Practice and Finance Board

The PwC Higher Education practice, in combination with the PwC Government and Public Sector Finance Board, is the sponsor of this research. The Higher Education practice provides a wide range of assurance, tax and advisory services to HEIs, the Higher Education Funding Councils and Universities UK.

The Finance Board has a wide remit and this includes the monitoring of finance trends in the public sector, sponsoring of research into finance matters and developing market propositions. The board oversees the wide-ranging finance relationships that exist between PwC and the broad range of organisations with whom we work. The board comprises specialists drawn from across PwC who provide advice on a wide range of finance matters.

About the Author

John Berriman is the leader of the PwC Education practice and also chairs the PwC Government and Public Sector Finance Board. He was a member of the PwC Executive Board between 2000 and 2006 and his responsibilities, as Head of Finance and Operations, included finance, operations, governance and sustainability. He led a wide-ranging PwC transformation programme, encompassing cost reduction, automation, simplification, shared services and outsourcing.

John is a member of an HM Treasury advisory panel on strengthening financial discipline in the public sector. He was a member of the Higher Education Workforce Steering Group which issued The higher education workforce framework 2010 report.

---

8 The higher education workforce framework 2010 report, HEFCE, February 2010
**Contact the Leadership Team**

Please contact any of the members of the Higher Education Leadership Team if you would like to know more about this report or about the range of services offered to the Higher Education sector by PwC. We are always delighted to share our thoughts and ideas on current issues, challenges and best practice.

**About the analysis and editorial team**

We are grateful to the PwC editorial team who assisted and advised on the production of this report, in particular Rachel Taylor, Ian Looker, Ian Roberts and Tammy Long. Special thanks are due to Frances McVeigh in the PwC International Survey Unit team who designed and ran the survey process and analysed and interpreted the data.

---

**Higher Education Leadership Team**

Practice Leader and Finance Advisory  
**John Berriman**  
020 7213 4656  
john.berriman@uk.pwc.com

Transaction Services and Due Diligence  
**Philip Bloomfield**  
020 7804 4904  
philip.bloomfield@uk.pwc.com

Business Recovery  
**Quentin Cole**  
020 7212 6784  
quentin.r.cole@uk.pwc.com

Forensic Services  
**Edwin Harland**  
020 7804 5843  
edwin.harland@uk.pwc.com

Strategy  
**Duncan Lampard**  
020 7213 3390  
duncan.lampard@uk.pwc.com

Audit and Assurance  
**Ian Looker**  
0113 288 2019  
ian.looker@uk.pwc.com

Consulting  
**Tammy Long**  
0191 269 3358  
tammy.long@uk.pwc.com

Corporate Finance  
**Ray Mills**  
0191 269 4284  
ray.mills@uk.pwc.com

Taxation  
**David Phelps**  
0121 232 2092  
david.phelps@uk.pwc.com

Risk Assurance and Internal Audit  
**Peter Smithson**  
020 7212 5693  
peter.smithson@uk.pwc.com

Finance & Accounting  
**Rachel Taylor**  
020 7212 3698  
rachel.z.taylor@uk.pwc.com

Human Resource Services  
**Ian Tomlinson-Roe**  
020 7213 1644  
ian.tomlinson-ro@uk.pwc.com

---

32