



States Greffe: Scrutiny

Deputy Susie Pinel
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26 September 2018

Dear Susie

Finance Transformation

I am writing to thank you for the information (appended to this letter) provided to the Corporate Services Panel by your officials in relation to the Finance Transformation project. We will be placing the information into the public domain.

We will continue to monitor the progress of this project and look forward to being briefed in more detail on Tuesday 16th October.

Yours sincerely

Senator Kristina Moore
Chairman, Corporate Services Scrutiny Panel

Corporate Services Scrutiny Panel
Treasury Response to Questions on Finance Transformation

1. What is the rationale for appointing EY to work on the finance transformation programme?

The reviews of financial management carried out in 2017 and early 2018 found outdated practices and structures which do not adequately support the strategic financial planning and transparency that are key to well-run, good-value public services.

The reviews recommended a number of changes to strengthen financial management, improve corporate performance and accountability, and to drive a commercial approach that delivers best value for money from suppliers.

Reports from both the Comptroller and Auditor General, and Scrutiny, have also previously recommended changes to the way public finances are managed across the public sector – we've seen more than 250 recommendations in the past few years.

This is part of a wider programme of modernisation of the States, which is a £1.2 billion organisation.

A high-performing finance function will help drive better decision making across the States, ensuring we are using public funds wisely and efficiently to deliver services and outcomes for Islanders, and ensuring that we safeguard the long-term financial sustainability of the Island.

This is not just about finance professionals – this is a government wide change to the way in which manage tax-payers money by developing the capability of our employees, supporting the cultural changes required for wider modernisation of the public service.

Several options for resourcing the programme were considered:

- a. Use internal resource (with backfill if required)
- b. Use internal resource and interims
- c. Use of a delivery partner
- d. Use a mixed model

It is apparent that there is not sufficient resource and capability within the organisation to deliver the substantial change at the required pace whilst maintaining safe business as usual. Indeed previous programmes without adequate resourcing have not delivered sustainable change. The use of short-term, individual interim specialists to support internal resources does not provide a common methodology and oversight, and so increases the risks to delivery through lack of co-ordination and could lead to an increased cost of management oversight.

Using a delivery partner provides expertise and experience across a breadth of areas and introducing new capabilities to the transformation programme. It also provides established programme and risk management, a quality assurance system and standard methodologies to deliver change.

However, to ensure that improvements is sustainable in the longer-term it is vital that we upskill and develop our own finance staff, giving them opportunities to develop, rather than relying solely on external expertise. Internal experts will continue to play a vital part in delivering change, providing local knowledge of the States, its culture and systems. It will be necessary to backfill to ensure that that business as usual can be maintained while change proceeds at pace. The secondment of permanent members of staff to the

change programmes is an ideal development opportunity, which will also ensure that improvements made to public services are sustainable in the long term.

The decision was to use a mixed model, appointing a delivery partner to work as part of an integrated team alongside internal resources.

2. How will the work be structured?

The work is structured to address the key deliverables that are outlined in the answer to question 3 below. The work will be divided into workstreams which will each be delivered by a joint States and EY programme team with a focus on knowledge transfer throughout to ensure improvement is embedded and continuous.

A key component of the work is focused on coaching and stakeholder management to provide staff with the capabilities to succeed in the future.

The work will be underpinned by robust programme management and governance.

3. What are the terms of reference for the project?

The vision for the States Treasury and Exchequer department, and hence the overarching terms of reference for the project for the period to 2021 are:

- States of Jersey has long-term financial sustainability
- Taxpayers' money is used wisely to deliver positive outcomes for islanders
- Financial implications (income and expenditure – both revenue and capital) of decisions are understood
- An efficient and effective customer-focused department.

The delivery partner will be embedded in the programme team, and will co-design and continuously review the finance transformation journey to deliver this overarching vision. This will build on the planning work already carried out, and address the required improvements already identified. For example, when seeking a partner a number of deliverables were identified:

- a more efficient and effective finance function, meeting the needs of its many stakeholders and aligned to the One Government agenda
- better informed and transparent decision making
- customer-focused delivery in a better-informed and able organisation
- robust risk management through the implementation of enterprise-wide risk management
- the integration between, policy, planning, performance, outcomes and investment
- a key input to the strategic direction and long-term sustainability of the States
- a clear understanding of the costs of services and the drivers of those costs, allowing benchmarking to enable the organisation to drive for outstanding public services
- modern technology, removing duplication by bringing together finance and other enabling functions
- end-user self-service
- a shift in the culture of financial management, both within the finance function and across the wider organisation.

The programme will be managed in line with good practice, with suitable governance arrangements to ensure that meaningful change is delivered and represents value for money.

4. What in-house expertise does the States have in this area and what consideration was given to running this programme with in-house resources and, if not, how many will be assisting with the project?

The partner will work as part of a transformation team and with the States Treasury and Exchequer and other departments. The transformation team will incorporate internal talent and expertise. This is key in ensuring that the change is sustainable – we need to invest and develop our own people as part of this process, including the transfer of key skills and best practice.

Resources have been, and will continue to be, seconded from within the existing finance function. This approach has the dual benefit of managing costs effectively and ensuring knowledge transfer so that improvement is embedded and continuous. While these staff are experts in States finances, they do not have experience of fundamental transformation programmes that can be brought by an external partner. There are also specialist areas of expertise that the extensive EY network can bring that are not available in house, for example in the fields of risk management and strategic resource planning.

a. What involvement has the Chief Executive's transition team had in the finance transformation programme to date?

The finance transformation project has been driven jointly by the States Treasurer and a member of the States transition team, who has been instrumental in procuring and managing the review by KPMG of Financial Management Maturity and the strategic partnering contract with EY.

There is frequent and ongoing contact with other streams of the Chief Executive's transition programme. In particular there has been work with the Communications team on improving the accessibility of published financial information, and with the HR team of the restructure of the finance function.

5. How is the £2 million budget broken down?

The bulk of the £2 million is the actual cost of the contract, but an estimate of expenses has also been included. EY have agreed to abide by the States Travel Policy, and ensure expenses are tightly managed and reasonable at all time.

6. What costs have been incurred in relation to the following:

- a. The development of the Finance Transformation project to date**
- b. The work of the Chief Executive's transition team in relation to the States' finances**
- c. The review by KPMG of the Public Finances Law**

a. The cost of external support for the Finance Transformation project is approximately £540,000 to the end of September 2018. This excludes EY costs, and certain other direct recruitment and other costs relating to the restructure of the Finance function. It also excludes the nominal value of internal staff seconded to the Finance Transformation team, which has not been quantified. There are no backfill costs associated with these secondments.

b. The costs of the Chief Executive's transition team in relation to the States' finances in total to 5 September 2018 is £364,582. Please note that this excludes the costs of any overheads such as IT costs, printing and administration costs or office refurbishments.

c. The cost of the review by KPMG of the Public Finances Law was £126,000, with expenses of £8,000. It is likely that further support will be commissioned during law drafting and creation of the Public Finances Manual.

7. How will ongoing costs for the work by EY be monitored and communicated to States Members and the public?

Costs will be managed as part of wider contract management, which is part of the governance arrangements for the programme. There will be specific monthly meetings with EY on resourcing and other contractual matters, with regular reporting to the Programme Board.

In line with practice for programmes and projects, the accounting for these costs will be through established processes, such as the Annual Report and Accounts.

8. What progress has been made in implementing previous recommendations by the Comptroller and Auditor General and the Public Accounts Committee in relation to Financial Management?

Both the due diligence report carried out by a member of the Chief Executive's transition team and the review of financial management maturity by KPMG referenced and acknowledged previous recommendations made by the C&AG and PAC. 250 recommendations were mapped across six themes identified by the PAC:

- Organisational culture
- Decision making
- Corporate learning
- Financial directions
- Management information
- eGov

These recommendations have been cross-checked to ensure consistency and inform the programme road-map. The aims of the transformation programme, supported by the contract with EY, are all designed to address the themes identified by these recommendations.

9. Did work to reform financial management within the States form part of the previous Public Sector reform programme (and what were the associated costs) and if not, why not?

Funding of £130,000 was identified in March 2017 from Public Sector Reform funding within Contingency for a review of the finance function, following previous recommendations from the C&AG and PAC (MD-TR-2017-0028). These funds were used to procure the assistance of KPMG to deliver this review.