Think Ahead

A PRODUCTIVE APPROACH: FINANCE PROFESSIONALS IMPROVING PRODUCTIVITY IN THE PUBLIC SECTOR

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Our research approach

This report is based on six roundtable discussions involving over 40 people employed in the public sector in nine different jurisdictions, which took place from July to September 2024. The participants worked in a range of public sector organisations across different tiers of government, including government departments and delivery bodies. Most participants were professionally qualified accountants engaged in finance roles.

We are very grateful to all of the participants in our roundtables, which have helped to shape the conclusions of the report. ACCA also thanks Professor Bart van Ark, Managing Director of the Productivity Institute at the University of Manchester, for speaking at a roundtable in the UK, and Chartered Accountants Australia and New Zealand (CAANZ), who facilitated a roundtable in that region.

Our findings also draw on several recent reports from ACCA's Policy and Insights team, exploring key issues for the future of finance. The most relevant ACCA research is highlighted throughout this report. You can access these reports by clicking on the hyperlinks with the report title.

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Executive summary

Public finances are under pressure in almost every country across the world. As governments' debt and deficit levels rise, the way the public sector operates and how public services are delivered needs urgent change. This report explores how improving productivity in the public sector can help create a solution to these challenges.

This 'call-to-arms' for a focus on public sector productivity presents a crucial opportunity for finance teams to drive both public value and better outcomes. It necessitates a transformational shift for finance – moving away from a narrow focus on cost-cutting and cost-control. Finance staff and leaders must work strategically at the heart of governments and the broader public sector to fully understand how productivity ambitions can be realised.

Productivity is a complex issue, but at its heart is the relationship between **inputs** and **outputs**. In driving productivity improvements in the public sector, it's essential that the sector's entire delivery chain is examined to understand where and how finance teams can drive interventions that make a difference.

This report looks at the three main elements of the public service delivery chain in sequence, a concept developed by the Productivity Institute (van Ark, 2022). It focuses first on **budget efficiency** – the lens used by most public sector organisations – before concentrating on **organisational productivity** and, finally, the **effectiveness of the outputs and outcomes** delivered by the public sector. Accountancy and finance professionals are critically important to improving productivity at each of these stages.

1 Budget efficiency

Budget efficiency is not simply about securing inputs, such as labour, supplies and capital assets at the lowest cost. Driving productivity improvements requires using the budget as an enabler for decision-making – ensuring it's realistic without letting the budget process itself becoming the dominant focus of finance professionals' time. Here, good data management and governance as an enabler to driving budget efficiency is key.

Wherever possible, public sector organisations need to be given multi-year budgets to enable planning for the reshaping of, or investment in, services that will deliver productivity improvements. Finance professionals must also work with procurement experts and those delivering services to create a more rounded view of how procurement can ultimately support more effective delivery.

2 Organisational productivity

The way inputs are converted into outputs is a crucial area for focus in the next stage of the public service delivery chain. Understanding **organisational productivity** requires finance professionals to have a clear perception of how their organisations work, by engaging closely with those within operational and delivery teams – including experiencing the work in these areas personally, where possible.

Ensuring organisations are sufficiently adaptable to respond to the changing demand and expectations of citizens is another important aspect of enabling productivity improvements. Finance professionals can lead the change by identifying blockages, which hamper effective delivery. This includes making the most of incremental advances in technology to streamline processes and potentially unlock significant improvements in productivity.

3 Effectiveness of outcomes and outputs

Ultimately, the **effectiveness** of public services is what matters most to citizens and users. The final part of the delivery chain – delivering outcomes and outputs which meet the goals of decision makers and wider society – is therefore an essential element of the public sector's productivity.

Public sector organisations must prioritise their focus on those activities that have the greatest influence on achieving objectives. Finance professionals are integral to this process by providing analysis and ensuring resources are allocated to priorities. They can also drive collaboration between public sector bodies to support action on the most challenging issues.

By exploring the case for earlier intervention to address policy problems, finance staff can advocate for changes, which can reduce inputs in the long-term and lead to more effective outcomes. They should also take a longer term view to support greater effectiveness of outcomes, and it's here that the finance team itself must look to transition to more proactive scenario modelling for the future.

ULTIMATELY, THE EFFECTIVENESS OF PUBLIC SERVICES IS WHAT MATTERS MOST TO CITIZENS AND USERS.

From surviving to thriving: evolving the finance function

Findings from our roundtables, together with lessons learned from other recent ACCA research, highlighted how finance functions are playing a central role in most public sector organisations as budgets come under increasing strain. While the greater prominence of finance professionals in organisations is welcome, it highlights the changing nature of their responsibilities. If finance professionals are to have a transformative impact on productivity in the public sector, there needs to be a shift in the perception of their role. Moving from identifying and realising short-term savings as the primary focus to enabling organisations to understand each part of the delivery chain's contribution to successful outcomes is critical.

Providing trustworthy information is at the heart of the finance function's role. Ensuring decision makers can rely on finance professionals as a trusted source of analysis and advice to improve outcomes means finance functions will have to evolve. This involves making better use of predictive information to develop realistic budgets and understanding, in detail, the delivery chains in their organisations. To achieve this, closer collaboration both within and between organisations will identify areas where activity and spending can be focused.

The 10-point plan below sets out the key areas of focus for finance professionals to improve productivity, so that the public sector can move from simply surviving to thriving in the years ahead.

1. **Align budgets to priority outcomes** – Public sector organisations will only be able to achieve their objectives by focusing attention and effort on delivering outputs which support successful outcomes. The finance function can take the lead by aligning and structuring budgets to priority outcomes for the organisation, to sharpen the focus on addressing these issues [Section 4.1].

2. **Drive realistic budgets** – Finance professionals must ensure budgets are realistic at the point they are approved. Setting accurate budgets targeted at those activities that make the most difference will enable staff to use their time to support productivity improvements – rather than spending excessive time revisiting and revising budgets. Effective data integrity and governance underpins the ability of finance to deliver this [Section 2.1].

3. **Work in partnership with procurement** – As public sector delivery chains increase in complexity, finance teams must build strong working relationships with procurement teams. This isn't just about pursuing minimum input costs relentlessly; weighing other factors is necessary to optimise productivity and trade-offs are required [Section 2.2].

4. **Plan for the medium and long-term** – Finance professionals in the public sector must evidence how short-term savings can have long-term costs for public services. Wherever possible, allocating multi-year budgets to public sector organisations supports a more strategic approach to addressing productivity challenges [Section 2.3].

5. **Map productivity blockages** – There is no substitute for finance professionals developing a deep understanding of the teams they support, to identify where there are blockages to improving productivity. Aligning this with performance data wherever possible will inform better decision-making about resource allocation [Section 3.1].

6. **Collaborate to drive process improvements** – Finance professionals can work with operational teams to test and model scenarios for improvements to processes. In making the case for new investment in back-office processes and systems, finance professionals need to demonstrate the impact on outputs and outcomes [Section 3.1].

7. **Tap into new technology capabilities** – Grasping the opportunity to improve productivity through data and technological advances is essential. But, for the public sector, focusing on incremental improvements to technology may be more effective than large scale transformations. Finance professionals can target action at those issues impacting most on productivity [Section 3.3].

8. **Build relationships across the public sector** – Sharing experience between organisations on what actions have generated the most sustainable productivity improvements provides valuable insights. Taking this a step further and identifying initiatives where two or more organisations can work together, sharing budgets to tackle joint challenges, can drive a more organic approach [Section 4.2].

9. **Transition to more preventative approaches** – Through scenario modelling and analysis of the evidence base, finance professionals can identify where alternative delivery models are more effective. In particular, enabling decision makers to consider the trade-offs between reactive and preventative spending could highlight alternative ways the public sector can tackle deep-seated problems [Section 4.3].

10. **Continuously upskill the finance team** – Finance professionals' expertise underpins the drive towards greater productivity and delivering effective outcomes in the public sector. The core capabilities finance professionals require are evolving and rightly there is an increasing focus on organisational performance; individuals must ensure their skills keep pace with the changes taking place in the public sector [Conclusion].

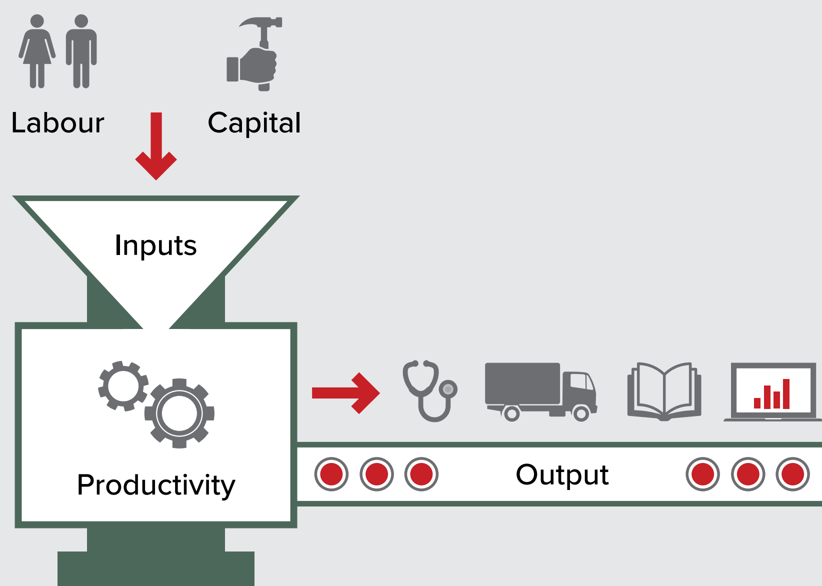
1 Productivity in the public sector: The basics

1.1 What is productivity?

At the heart of understanding productivity are the concepts of inputs and outputs. At its simplest, productivity is determined by how efficiently an organisation converts inputs into outputs. Improvements in 'productivity growth' enable organisations to generate more outputs from the same level of inputs – or, alternatively, use fewer inputs to generate the same level of outputs. The graphic below shows a simplified version of the productivity chain.

Effective public services are essential in supporting the growth of the wider economy. Governments and the public sector can create conditions for productivity gains across the economy through efforts to improve the economic environment – and shape the public realm in which the private sector operates.

The public sector delivers a wide range of essential responsibilities, including the provision of education, healthcare, infrastructure and regulatory frameworks. It also plays an important part in the economy in its own right. The level of public spending varies across the world, but, in most countries, represents a significant share of the economy, measured as gross domestic product (GDP). In member countries of the Organisation for Economic Co-operation and Development (OECD), public spending amounted to almost half of GDP (46.3% on average) in 2021 (OECD, 2023).



Source: Reserve Bank of Australia (undated)

Productivity and economic growth

Productivity gains are the ultimate driver of economic growth, especially in advanced economies or where the labour force is only growing slowly.

> *'Productivity isn't everything, but, in the long run it is almost everything.'*
> **(Krugman, 1990)**

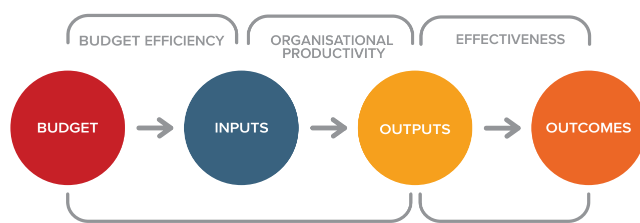
Productivity gains can allow private sector firms to raise staff wages without necessarily having to resort to price increases to protect their profit margins. However, across the globe, productivity growth has declined in the last two decades. According to the World Economic Forum (2024), the rate of global productivity growth between 2015–2019 was only a third of the level achieved from 2000–2004.

This slowdown in productivity growth risks impacting global growth rates, with the International Monetary Fund (IMF) forecasting a 2.8% global growth rate by the end of the 2020s – a one percentage point fall from pre-pandemic levels (Li and Nourelddin, 2024). Lower growth has significant consequences for governments and the public sector.

Economic growth improves living standards and generates higher tax revenues for public services. If low growth persists and interest rates remain elevated, governments' debt positions will deteriorate further. Consequently, governments' fiscal space will continue to reduce – leaving them less able to respond effectively to the demographic and policy challenges highlighted in section 1.4.

1.2 The public sector delivery chain

Identifying the inputs and the processes that turn these into outputs in the public sector is fundamental to understanding and improving productivity. The concept of the public sector delivery chain provides a helpful way of recognising these key components. The concept is based on work by the UK Government's Public Sector Efficiency Group and the Productivity Institute (van Ark, 2022). The diagram below maps out the essential elements that enable the delivery of public services.



Source: van Ark (2022), adapted from Aldridge, S., Hawkins, A., & Xuereb, C. *Improving Public Sector Efficiency to Deliver a Smarter State*

The starting point, well understood by finance professionals, is the available **budget**. The budget determines the level of **inputs** an organisation can secure. Through the processes of the organisation, these inputs are then converted into **outputs**. The final part of the delivery chain is the **outcomes** achieved by those outputs.

The public sector delivery chain represents a simplified service delivery chain, which can be adapted and tailored to individual public sector organisations and the delivery of specific services. Finance professionals working with delivery teams and senior management can use the delivery chain to identify the interrelationships between the budget, inputs, outputs and outcomes.

The key considerations are technical efficiency – whether an organisation is 'doing things right' – and allocative efficiency – the question of whether the organisation is 'doing the right things' (Drucker, 1963). Once a specific delivery chain is identified – the next step is to consider how the productivity of each of those steps and the overall chain is measured.

1.3 How can productivity in the public sector be measured?

Accurately measuring productivity requires keeping track of how inputs are being converted into outputs. In the private sector, the availability of prices for goods and services allows the value of their outputs to be measured – standard ways of measuring productivity are outlined in the box to the right.

In the public sector, however, this approach can be challenging. Often there are no prices; given much of the sector's outputs are provided free of charge at the point of delivery, or at a nominal cost. Moreover, alongside outputs, the public sector is seeking to achieve broader policy objectives or outcomes. These outcomes are consumed collectively by the public and so a market value cannot be readily identified.

Improvements in labour productivity can be gained from increasing the amount of capital or machinery each worker uses, improvements in their education or skills, or through improvements in total factor productivity.

Standard measures of productivity

Two of the best-known measures of productivity are labour productivity and total factor (or multifactor) productivity (TFP).

Labour productivity can be measured as output produced per unit of labour input, either per worker or per hour worked. For example, labour productivity could be measured for someone working for a government department assessing and making a decision on visa applications. If they worked a 40-hour week and assessed and decided on 20 visas applications per week, their output per hour would be 0.5 applications. Alternatively, this could be expressed in monetary terms – if an application cost £100 each, the output would be £50 per hour.

Labour productivity:
Output / hours worked = 20 visa applications / 40 hours
= 0.5 applications per hour.

or

Labour productivity:
Output / hours worked = £2000 / 40 hours
= £50 per hour worked.

Total factor productivity takes into account that outputs are produced using a combination of labour and capital inputs. To measure TFP, the total volume of outputs is divided by the volume of inputs. This is usually based on an index that enables changes over time to be measured. Increases in TFP reflect gains in output that are not due to rising inputs, eg technological improvements, more efficient financial systems etc.

MFP index = output index /combined input index x 100

An overview of approaches

The difficulty in measuring output in the public sector has meant that, historically, statisticians' approach was to assume expenditure on inputs was equal in value to the outputs. More sophisticated measures have been developed in recent decades, although the challenge of measuring outputs remains for collective services, such as defence and environmental protection.

Measuring outputs can be at a macro scale – providing aggregate data at the level of sub-sector within the public sector or across public services – or at the micro level, which can be used to measure the output of individual tasks and employees (Somani, 2021).

Macro level measurements help to provide an overarching view of the productivity in the public sector, which is particularly useful for understanding the sector's contribution to the economy. However, micro level measures of outputs and outcomes are the most important measurement approaches to effectively understand productivity within service delivery chains. The table to the right summarises these macro and micro approaches and briefly outlines their strengths and weaknesses.

MACRO MEASURE	DESCRIPTION
Cost-weighted output	Outputs are measured in volume: the number of activities performed by that service area. Individual activities are grouped together into a cost-weighted activity index. This approach is closest to a TFP approach. However, it relies on unit costs and activity level data being available.
Service delivery indicators	Outputs are measured through core indicators on health and education, as proxies for outputs. This enables frontline activities to be captured, but can depend on demand and may focus activity excessively on those areas being measured.
Budget execution	Measuring the proportion of the budget that is spent provides a proxy for assessing the degree to which a budget has been implemented. Budget execution rates do not necessarily indicate the quality of services being delivered and are dependent on the quality of the budget preparation process.

Measuring Outputs: Macro measures [adapted from World Bank (Somani 2021)]

MICRO MEASURE	DESCRIPTION
Completion rates for processes, projects, or tasks	Measures the number of projects, processes and tasks completed. This can be compared to levels specified in a plan. This can be applied to a broad range of different activities but may focus activity excessively on those areas being measured.
Procurement outcomes	Unit prices for the same products and services can be compared across organisations. Data will need to be categorised to ensure fair comparisons and, where relevant, external factors such as transportation costs taken into account.
Staff and user satisfaction	User surveys can measure satisfaction levels of service. Similarly, staff surveys or objective measures such as turnover or retention rates. Surveys responses are dependent on a wide range of factors, including user and staff expectations, preference and case complexity.
Subjective assessments	Direct engagement with staff and stakeholders to understand their perceptions of performance. Results are dependent on preferences and expectations of stakeholders and if staff appraisal data is used, the process must be consistent.
Independent observers	Requests for standardised services by 'mystery shoppers' can compare speed, quality and equity of delivery. The approach can capture performance for services not delivered directly to the public but its feasibility at a large scale may be challenging.
Knowledge and capacity of staff	Directly measuring the capacity knowledge, competencies or skills of staff provides specific information. However, more knowledge does not necessarily translate into improved performance. Leadership, as well as access to equipment and technology, all have an impact on outputs.

Measuring Outputs: Micro measures [adapted from World Bank (Somani 2021)]

Finance professionals' role

Measuring outputs is effectively the same as performance measurement, which is increasingly widespread across the public sector globally. Finance professionals can collaborate with colleagues across the organisation to identify the appropriate approaches that provide information on outputs for the key service delivery chains. Using more than one approach to measure outputs guards against the potential of focusing on the speed of delivering, to the detriment of their quality – creating a more holistic view.

To effectively assess productivity, inputs also need to be measured. Identifying the inputs associated with each service delivery chain, and measuring the cost of these inputs, is a core competency of finance professionals. Matching these inputs to outputs by identifying costs across the service delivery chain is crucial in bringing these two sets of information together. As the International Federation of Accountants (IFAC) highlights: 'professional accountants are central to gathering, analysing and communicating high-quality information' (Dancey, 2021).

The following case studies provide two examples of how public sector productivity has been measured at an organisational level in Kenya and South Africa. Rather than trying to build a perfect system for measuring productivity – it's more important that organisations start with what information they already have.

> **TO EFFECTIVELY ASSESS PRODUCTIVITY, INPUTS ALSO NEED TO BE MEASURED.**

Case studies: Measuring productivity

SOUTH AFRICA

The South African government's Department of Public Service and Administration (DPSA) piloted an approach to productivity measurement focused on organisational productivity (2017). Using five different public sector organisations delivering services, including health and education at a provincial level, as well as a central government department, it developed a Public Service Productivity Management Framework.

The Framework's purpose in measuring productivity was to improve the management of efficiency and effectiveness in service delivery and enhance public accountability. This aligned to an outcome in the government's Medium Term Strategic Framework of an 'efficient, effective and development-orientated public service'. Recognising challenges in the availability of quality and reliable data, the pilots used information from the five organisations' annual reports as the primary source of data.

Through a consultative process with government departments, the DPSA chose a matrix or multifactor approach to productivity measurement. It identified a range of factors that could be grouped into three categories: labour productivity, operational productivity, and performance productivity. Within the three categories, each core factor was allocated its own weight, based on its perceived contribution to overall organisational productivity.

Although this measurement process is relatively complex, it does allow the most relevant factors affecting productivity for each organisation to be selected and weighted accordingly. Simultaneously, by using the same three overarching categories, it enables comparisons between different government departments and public sector organisations.

The use of a measurement matrix recognises the complexity of public sector organisations, highlighting the multiplicity of factors which contribute towards the overall productivity of an organisation. It demonstrates that productivity is dependent on the management of key inputs. For example, in terms of labour, it measures vacancy rates and absenteeism and links it to budgets by measuring the ratio of salary costs to the total budget. More details of the approach are available in the Appendix of this report.

KENYA

The Kenyan government is working to raise the profile of productivity as an important issue in the public sector through various strategic initiatives across central government ministries, departments and agencies (MDAs). MDAs have been encouraged to engage with the National Productivity and Competitiveness Centre (NPCC), an organisation that supports both public and private sectors in developing productivity improvement programmes.

The National Treasury (TNT) in Kenya, the central government ministry responsible for economic policy, public finances and national development planning, published its Productivity Management Framework in January 2024 (TNT, 2024). The Framework was developed following ‘productivity mainstreaming’ training provided by the NPCC.

TNT established a productivity mainstreaming committee with 28 members of staff to develop and champion the implementation of a productivity strategy. The Framework identifies 15 productivity ‘metrics’, which are mapped to the objectives outlined in TNT’s strategic plan.

For all of the metrics chosen, the Framework highlights the data required and identifies its source, as well as specifying the formula or ratio for its measurement. For example, a metric measuring timely payment of debt tracks those paid on time, as a proportion of total obligations, using the TNT’s External Public Debt Register as its source.

The measures chosen are relatively straightforward, and for each metric the data source was already available at the outset. This enables the process of monitoring productivity to begin quickly. The Framework also includes a clear implementation plan for the 2023/2024 financial year, showing activities and outputs and the quarter in which they will be completed. More details of the approach are available in the Appendix of this report.

1.4 Why does improving productivity in the public sector matter?

Improving productivity in the public sector is vital if governments are to be successful in addressing the pressures on public budgets and improve public services. The public sector will find it difficult to increase inputs by simply spending more, given the constraints on public finances. Instead, the focus needs to be on delivering improvements in the levels of public service delivery – so that public spending has a greater impact on the outcomes governments are seeking to achieve.

Seeking to deliver the same level of outputs with fewer inputs and consequently reducing spending may be appropriate in some cases. But delivering higher quality outputs without increasing inputs is likely to make the greatest difference to the public. There are three key reasons why productivity is so important address:

1. **Responding to wage pressures**
   The public sector is generally labour intensive and salaries represent a significant component of public spending. The IMF estimated spending on wage bills at 20% of public expenditure in advanced economies, and 30% in emerging markets and low-income and developing countries (Dybczak and Garcia-Escribano, 2019).

   As finance professionals will recognise, even small salary increases across the workforce can lead to significant extra spending. However, public sector organisations are also in competition with the private sector for their workforces. Salaries in the public sector cannot significantly lag behind private sector rates if organisations are to attract and retain talent.

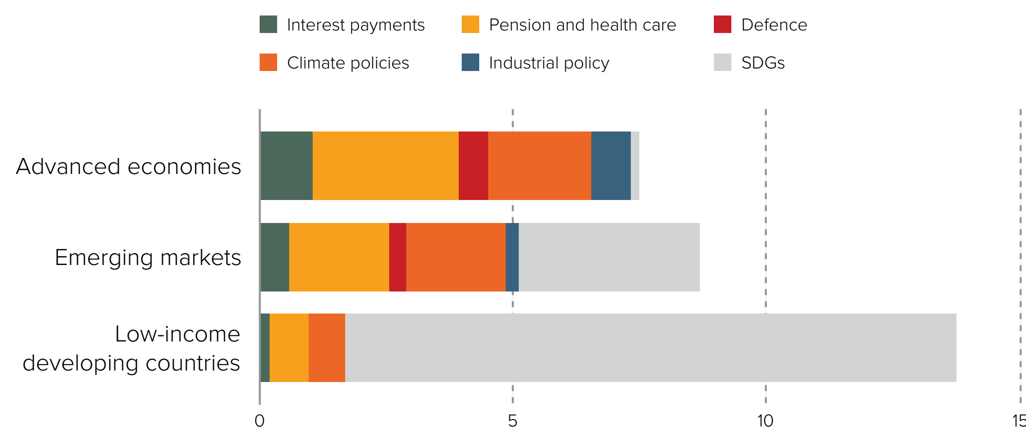
   Labour intensive service sectors, like much of the public sector, tend to find productivity gains more difficult to achieve than sectors such as manufacturing and those more reliant on technology. Consequently, productivity growth in the public sector generally does not keep pace with the rate at which wages rise across the economy. As a result, the relative price of public services rises over time, as they compete for workers with sectors where productivity has increased faster. This effect is described by economists as Baumol's cost disease – driving productivity growth is essential to avoid salaries consuming an ever-increasing proportion of budgets.

2. **Rising expectations and services under pressure**
   Government spending always faces demand pressures, but a combination of major shocks in recent years and ageing populations, particularly pronounced in some countries, has created a very challenging path ahead. Governments' additional spending in response to the pandemic – in the form of increased healthcare spending and wider support to households and businesses – led to a sharp rise in public expenditure and debt globally.

   Moreover, the surge in energy and food prices after Russia's invasion of Ukraine, resulted in further support being provided by governments to households and firms.

   It's not clear yet whether this reflects a shift in public expectations of governments. However, the IMF has identified a trend across a large swathe of countries, throughout the political spectrum, for an increasing proportion of political manifestos' content to advocate more government spending. According to their analysis, since the 1990s, the 'platform share' of 'expansion discourse' (ie greater public spending) has increased by 40% across both advanced and emerging economies (Cao, Dabla-Norris and Di Gregorio, 2024)

   In addition, there are structural challenges that are raising the demand for public spending – in particular ageing populations, geopolitical uncertainty, and the need to confront climate change. Furthermore, for emerging markets and developing countries, considerable investment is needed to close development gaps and achieve the UN Sustainable Development Goals (SDGs).



Public spending pressures: Potential increases in public spending by 2030 (percentage of GDP)

Source: Fiscal Monitor (April 2024).

The IMF forecasts these spending pressures, combined with debt interest payments outlined below, will amount to potential additional annual expenditure by 2030 of about 7% of GDP in advanced economies, 9% in emerging markets, and 14% in low-income developing countries (see graphic on previous page). These increases are highly significant – yet not fully incorporated into countries' medium-term fiscal and financing plans.

3 The fiscal challenge

Taken together, these demands for spending are putting public finances under enormous pressure. Globally, public debt reached 93% of GDP in 2023 – nine percentage points above pre-pandemic levels, and is projected to approach 100% of GDP by the end of this decade (IMF, 2024a). These debt levels, as well as the rise in interest rates, are producing unprecedented debt servicing costs for many countries.

On average in low-income countries, 25% of tax revenues are spent on debt interest payments (IMF, 2024b). Governments are reluctant to impose significant tax increases, given their political unpopularity and their potential negative impact on economic growth.

Pressures on public finances

AN AGEING POPULATION

The proportion of the world's population aged over 60 years is predicted to almost double, from 12% to 22% between 2015 – 2050 (WHO, 2024). As a result, according to the World Health Organisation (WHO), spending on healthcare and social entitlements will inevitably rise.

The ageing population represents a challenge for all countries. While this change began in higher-income countries, by the middle of the century two-thirds of the world's population aged over 60 will be living in lower and middle-income countries (WHO, 2024).

INCREASING GEOPOLITICAL TENSIONS

A new 'era of insecurity' is facing the world with increased geopolitical tensions and conflicts fuelling a rise in military expenditure.

In 2023, global military spending rose for the ninth consecutive year to an all-time high of $2.4 trillion, a 6.8% increase in real terms from 2022 and the largest year-on-year increase since 2009 (SIPRI, 2024).

CLIMATE CHANGE

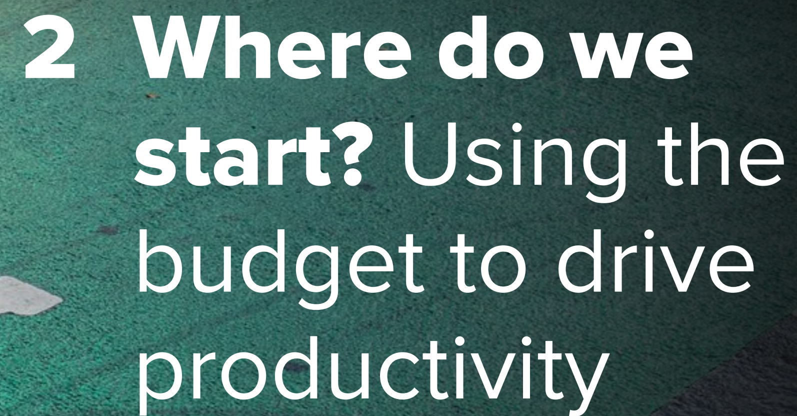
The need for public and private sector to invest in climate adaptation and mitigation has long been recognised, but current levels of financing are well below what is needed.

Global climate investment in mitigation and adaptation was almost $1.3 trillion on annual average in 2021/2022, half of which was committed by the public sector – but a five-fold annual increase is needed to reach the levels required from 2030 onwards (CPI, 2023).

SUSTAINABLE DEVELOPMENT GOALS (SDGS)

The UN SDGs set ambitious targets for a just transition towards a more equitable world by 2030, but the UN's most recent report found almost half of countries were showing minimal or moderate progress, with a further third either stalled or going in reverse (UN, 2024a).

The UN estimates that the shortfall in financing needed to achieve its SDGs is $4.2 trillion a year – a significant increase from the financing gap of $2.5 trillion before the COVID-19 pandemic (UN, 2024b).



2 **Where do we start?** Using the budget to drive productivity

The starting point for improving productivity in the public sector is the budget. Delivery of public services is ultimately driven by an organisation's expenditure, which determines the quantity of inputs that are available to be purchased. Often in debates about productivity, discussion of the budget is focused on economic efficiency – how cheaply inputs are being purchased. Of course, the public sector must focus on ensuring that costs are controlled, to maximise the use of public money.

However, as well as determining the allocation of resources available to an organisation, the budget process itself can be a strategic tool for enabling productivity. This section explores how the public sector can make the best use of its budget by setting realistic assumptions in purchasing inputs, particularly through effective procurement. It outlines how improvements in the budget process itself can help organisations focus more on driving productivity gains, through medium-term planning and demonstrating trade-offs.

> DELIVERY OF PUBLIC SERVICES IS ULTIMATELY DRIVEN BY AN ORGANISATION'S EXPENDITURE, WHICH DETERMINES THE QUANTITY OF INPUTS THAT ARE AVAILABLE TO BE PURCHASED.

2.1 Budgets are a compromise, but must be realistic

As finance professionals working in the public sector will recognise, budgets in the public sector act as both a constraint and an enabler. A key difference between the public and private sectors is that budgets in the public sector are not only estimates, but also authorisations (van Dooren et al, 2007).

Although budgets can be transferred between departments or supplemented from reserves, where available, they are ultimately fixed. At a national level, a government's fiscal space determines how much it can borrow or raise through taxation. For most individual public sector organisations, however, their own revenue-raising or borrowing powers are either limited or do not exist at all.

Budgets are almost always therefore a compromise; as van Dooren says, they represent an 'expression of a political desire that a specific amount of resources is used to attain societal outcomes as well as a guarantee that overall public budget is in balance'.

Consequently, preparing and seeking approval for the budget can occupy an excessive amount of the finance team's time and capacity. Even when the budget is set, in some organisations there's an implicit understanding, internally, that further savings will have to be identified during the financial year:

> *'Inevitably we set a budget every year and then have to find savings [subsequently]. So I think having an adult conversation about that upfront... would free up so much of everybody's time and we could actually focus on value add, rather than trying to find savings [in-year].'*
> **Roundtable participant, central government**

Ensuring budget assumptions are as accurate and realistic as possible is a key role of finance professionals in the public sector. Sometimes this will require difficult conversations with managers and politicians. However, a more accurate budget will ultimately save time for finance and other staff, enabling them to support the organisation in other ways. And, from an accountability and ethical standpoint, this is the correct approach, as accurate budgeting improves transparency.

! FIND OUT MORE...

Finance evolution: Thriving in the next decade

Our *Finance Evolution: Thriving in the next decade* report (ACCA / CA ANZ / PwC 2024) takes a deep dive into the future of the finance function. Major evolutions in the key areas of people, process, technology and data are needed if finance functions are to maximise their potential over the next decade. Our report emphasises that finance functions need to move towards providing forward-looking insights.

The report also highlights how the financial analysis and forecasting capabilities of generative artificial intelligence (AI) have the potential to automate much of the budget preparation process. Although the technology is still relatively nascent, it could free up significant time for finance professionals with its the capability to analyse huge volumes of data. For large public sector organisations, in particular, this could help identify trends and optimise budget forecasting.

2.2 Using buying power effectively

A substantial proportion of public sector organisations' budgets are spent on procuring goods and services. The percentage varies across countries and according to the type of body, but the OECD (2019) estimates that it represents almost a third of total public spending in member countries.

As such, except for salary costs of employees, procurement can often be the largest single channel for government spending and a significant source of income for the private sector. Procurement can be used by the public sector to increase productivity by contributing to improved outputs and outcomes, as well as securing goods and service at an appropriate price. Ensuring the public sector does not pay unreasonable prices for the inputs it procures, maximises the use of public money. It's therefore important that wherever possible procurement should be a competitive process.

In the UK, the National Audit Office (NAO, 2023) found that approximately a third of the total value of contracts awarded by government departments during 2021-22 were either extensions of existing contracts or direct awards (ie with no competition taking place). While there may have been clear justifications for this, there is nevertheless a risk that, without appropriate competition, public sector bodies could be paying too much.

Of course, price is a critical consideration – but competition also enables suppliers to propose how they could improve the quality of inputs and thereby outputs. Furthermore, it acts as a driver for innovation, which the public sector may not have sufficient capacity to develop internally. In some countries and organisations, public sector bodies use framework agreements to select suppliers without a full procurement exercise, as suppliers are admitted to the framework following an initial competition. While these frameworks can achieve economies of scale for frequently used goods and services, they are not always appropriate:

> *'Feedback from some of our service managers is some of these framework contracts are actually more expensive than buying locally...we should just buy it locally because it is actually cheaper and it comes back to that local perspective'.*
> **Roundtable participant, health body**

Procurement can be used to pursue other organisational objectives alongside securing economic value. For example, many place-based public sector organisations seek to procure from local suppliers where possible – using their purchasing power to prioritise supporting the local economy. Indeed, there can be a whole range of objectives pursued through procurement, which could enhance social value. For example, setting expectations on suppliers to train their workforce in new skills or meet sustainability goals (see box opposite for more information about ACCA's work in this area).

! FIND OUT MORE...

Accounting for society's values

Our report *Accounting for Society's Values* (ACCA, 2023a) explores the concept of social value and finance professionals' role in embedding this agenda in their work. The impact on society is at the heart of what the public sector does, and the report's social agenda model provides a helpful way of considering organisations' impact. It identifies four elements of the social agenda, which, for the public sector in particular, are often overlapping:

Workforce
The social considerations related to those who are employed, either directly or as contractors to the organisation.

Value chain
The responsibilities for social issues that the organisation has across its value chain.

Customers
The specific social interactions between the organisation and those who use its services.

Communities
Those individuals resident in the locations where the organisation undertakes its operations.

Public sector organisations need to approach procurement holistically – systematically considering how procurement may support the achievement of high-quality outputs and outcomes. There are different ways to structure procurement responsibilities. It can be managed by a centralised team or undertaken by those in the organisation who are most familiar with the types of goods and services being purchased. Whichever approach is used, procurement needs to be properly integrated into the rest of the organisation – and where it is separate from the finance function, both teams should be collaborating closely.

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! FIND OUT MORE...

New models of public procurement

Our report *New Models of public procurement: A tool for sustainable recovery* (ACCA, 2020) highlights ways in which the public sector can improve and transform how procurement is managed, to support governments in generating savings and delivering high quality goods and services.

The report emphasises how using central purchasing bodies minimises competition between public sector bodies in the market, reducing prices and making auditing easier. Large procurement volumes can generally reduce prices by achieving economies of scale and lessening transaction costs – generating financial savings for the public sector as a whole. Centralised procurement creates a clearer audit trail and can therefore improve transparency and public scrutiny of spending.

2.3 Short-term gain, long-term pain

Short-term budget horizons in the public sector too often lead to organisations prioritising short-term gains over longer-term decision making. Top-down targets for savings requirements mean cuts to budget lines can be made without a full consideration of how these reductions could increase costs for other parts of an organisation, or the wider public sector. Similarly, savings are often achieved by reducing maintenance spend on capital assets. While this lowers expenditure in the short-term, inevitably the condition of the asset will deteriorate more quickly – leading to higher expenditure in the long-term:

> *'We've got to have a longer-term view, it may look productive for one year, but may require repeated work in future years.'*
> **Roundtable participant, central government agency**

A review of road maintenance by the South African National Roads Agency indicated that by delaying repairs for three years, the cost of addressing the issues would be six times the original costs of preventative maintenance (World Bank, 2024). If road maintenance is delayed for five years, the study estimated costs rise to 18 times the original preventative cost. Productivity gains in the service delivery chain are much more difficult to achieve if the underlying assets are not sufficiently maintained to enable processes to operate effectively.

Investment appraisals in the public sector are a familiar concept when considering new projects or programmes, outlining expected costs and benefits across several years. But the reverse is rarely true; forward-looking assessments of the potential effects of making spending reductions to existing services, if they are made at all, seldom specifically identify quantified costs. As a result, the consequences are not fully considered, and their effects materialise as costs and pressures elsewhere in the organisation or public sector in subsequent years.

This 'salami-slicing' approach to reducing expenditure can also undermine the effectiveness of organisations, as staff numbers are reduced from redundancies or leavers not being replaced. Middle and senior managers are then forced to deal with responsibilities that would previously have been carried out by lower-level staff. Moreover, they can create tensions between the finance function and other staff – or the finance ministry and other departments – in the budget process. Successive rounds of cuts can lead to competitive relationships and demoralisation of the workforce – prompting talented staff to seek opportunities elsewhere.

Just as with procurement, public sector organisations need to approach budget reductions from a strategic perspective. This is difficult when organisations in the public sector are too often only provided with budget allocations for the forthcoming financial year. Multi-year budgets provide greater certainty over funding levels and enable organisations to plan much more effectively.

Our Australia case study demonstrates an approach to multi-year budgets. Finance ministries must take the lead here by striving to provide multi-year allocations to departments. In turn, finance professionals and teams within individual organisations can collaborate with managers and other teams to develop medium-term budgets that support the re-design and transformation of services and programmes – a subject we address in the next section.

Case study: Setting multi-year budgets linked to outcomes

AUSTRALIA

The Australian government publishes Portfolio Budget Statements (PBS) as part of the annual budget process (Commonwealth of Australia 2024). Each of the 15 portfolios generally cover a single central government department with multiple bodies for which the department is responsible for. For example, the Climate Change, Energy, Environment and Water portfolio covers the central government department of the same name – and a further 11 government agencies or other entities.

The portfolio budget statements set out, for consideration by the parliament, the proposed resources allocated to the government's outcomes for each department or agency. Using the example above, the PBS outlines four overarching outcomes for the department and one outcome each for all of the other bodies.

For each outcome, there are one or more programmes, and the PBS sets out detailed allocations within these for their various components. The statements include details of allocations for the financial year being approved in the budget and three further years, as well as the estimated actual expenditure for the year prior to the budget.

Additionally, the PBS also identifies 'linked programmes' in other departments and agencies outside the portfolio, which contribute to outcomes for the portfolio. Importantly, for each programme within the outcomes identified, performance measures are outlined for the current year, the budget year, and the three subsequent years. A single document containing both budgets and performance measures for a multi-year period allows organisations to plan over the medium-term – providing clear direction for the organisation and a strong platform for productivity improvements.

RECOMMENDATIONS

For finance professionals

- Finance professionals must ensure budgets are realistic at the point they are approved. Setting an accurate budget will enable staff to use their time to support productivity improvements – rather than spend excessive time revisiting and revising budgets.
- Finance professionals must work closely with procurement specialists to identify opportunities for reducing input costs. But they also need to understand how a wider focus than solely the most economic price can support productivity gains overall.
- Finance professionals must evidence how short-term savings can have long-term costs and advocate for a more strategic approach to cost reductions in the budget process.

For wider organisation and governments

- The budget-setting process is the appropriate forum for decision-making – rather than a staging-post leading to further negotiation and significant revision once the financial year has begun.
- Public sector organisations must run competitive procurement exercises wherever possible. Framework agreements for procurement can achieve savings but are not appropriate in every circumstance.
- Multi-year spending allocations are essential for organisations to properly plan and deliver productivity gains – one-year only budgets lead to salami-slicing, with negative consequences for staff and organisational productivity.

3 Why do we do it this way? Organisational productivity

Organisational productivity is sometimes referred to as 'doing things right'; it encompasses the entire process of how inputs are turned into outputs. Ensuring organisational productivity is therefore 'everyone's business'; the way finance professionals and finance teams undertake their responsibilities impacts an organisation's productivity. But finance professionals have a wider role in supporting their organisations to become more efficient – ensuring an organisation is set up to effectively deliver outputs and outcomes to the public in a way that maximises resources is of critical importance.

This section explores how the public sector can better understand its existing delivery chain and the way in which resources are used. It highlights the importance of ensuring the organisation is correctly set up to support its objectives. Technology has the potential to unlock significant improvements in productivity, but the public sector has not always implemented large-scale IT projects successfully. Adopting a more incremental approach needs to be explored.

3.1 Understanding how resources are used

We've seen that the service delivery chain is a helpful way of identifying the inputs, processes and outputs used to deliver the outcomes public sector organisations are working towards. Every public sector organisation needs to clearly understand and map out the delivery chains it is responsible for. In small organisations with a particular function, this should be straightforward. However, the nature of the public sector is that many organisations deliver multiple services and, consequently, will have numerous service delivery chains.

To be able to gain a comprehensive understanding of the service delivery chain, finance staff will need to apply their professional skills as well as ensuring a broader outlook. In particular, professional accountants can use their strengths in developing and following processes to systematically analyse the key activities the organisation undertakes. The objective should be to understand where there are obstacles preventing the efficient delivery of services.

Finance professionals can support this process by working to deepen their knowledge of the teams they support. Roundtable participants consistently emphasised the importance of those working in finance fully understanding the organisation:

> ***'By understanding the business...backed by data, backed by an understanding of what the impact would be, we're going to be real contributors to the actions and decisions taken [by the organisation].'***
> **Roundtable participant, local government**

Wherever possible, organisations should identify specific opportunities for finance professionals to experience the work of operational and delivery teams, either informally or on a more formal basis such as work shadowing. This knowledge supports a more active engagement between finance teams and the rest of the organisation – facilitating an ongoing relationship where the blockages to productivity can be addressed iteratively.

A constructive and collaborative approach – based on a shared understanding of the issues facing the organisation – enables problems to be tackled as they arise. This should reduce the need for more costly interventions later and ultimately lead to better outputs and outcomes.

Finance professionals' experience in managing data is also vital in understanding how resources are being used. As we've seen, the budget is an obvious source for information on inputs, but determining whether the outputs represent effective use of the funding is more difficult.

Nevertheless, often significant amounts of data are collected concerning the quality and delivery of services, but this data is not always captured in the same systems as finance teams use. Identifying all the data that is collected is an important first step for finance functions to be able to bring together information on inputs and outputs. Once this data has been identified and unified, it can be mapped onto the service delivery chain – enabling finance professionals to understand where resources can be better aligned.

Internal audit in the public sector can also play a vital role in supporting productivity improvements, given their ability to examine the range of activities that public sector organisations undertake. The *Institute of Internal Auditors' International Professional Practices Framework* (undated) defines the mission of internal audit as being 'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'. Viewing internal audit as a strategic partner requires both auditors themselves and the rest of the organisation to recognise the benefits their insights can bring.

While of course internal auditors must remain independent and objective in their work, their practices can be aligned to an organisation's objectives. They can apply a rigorous and methodical approach to assessing the organisation's processes for delivering these objectives – as well as reviewing whether the objectives have been achieved. By evaluating risks related to governance, operations and information systems, internal audit can help to identify bottlenecks where operations and programmes are not performing. Organisations can use these findings to focus their attention on those areas where productivity improvements would make the most difference.

3.2 Adapting to change

Structures in the public sector are important from both an internal and external perspective. They provide clarity about the activities individuals and teams are responsible for – and therefore support accountability. But, sometimes, a mindset focused on existing structures can impede delivering greater productivity. Roundtable participants highlighted that structures could dominate how organisations approached the delivery of activities:

> *'We tend to focus on the structures we need, we don't always focus on the outcomes.'*
> **Roundtable participant, central government**

Our roundtable participants acknowledged there could be an inclination to focus too much on existing reporting lines, 'the way we always do things', which could be to the detriment of 'doing things right'. They highlighted the need for the finance function to 'understand the endpoint', rather than let organisational structures dictate how services are delivered.

Adaptability and responsiveness – focusing on the end goals is critical to successful delivery. The escalating demands on the public sector, coupled with funding challenges, mean organisations will need to scale up activity and delivery in some areas and withdraw from others.

Finance professionals can lead this change in mindset by working together with operational colleagues to identify the best delivery approaches. This may involve making the case for increased investment but should also be accompanied by evidence of where savings can be realised. This could involve discontinuing non-core activities or demonstrating how changed delivery models will reduce costs in the medium and long-term. Making the most of technology is a crucial aspect of improving organisational productivity and is explored further in section 3.3.

In addition, finance professionals themselves recognise the need to be adaptable – searching for opportunities to work across existing structures. Clear accountabilities and responsibilities are of course a cornerstone of effective financial management. But this understanding must be coupled with a two-way open relationship between finance staff and the rest of the organisation. This means providing a safe environment – where different options and scenarios can be discussed and tested collaboratively, without non-finance staff feeling the stakes are too high. Encouraging a culture of transparency, where projects and services which are not meeting their objectives can be discussed honestly, will enable the organisation to learn and improve.

! FIND OUT MORE...

Leading the change

Finance professionals have the ability to drive change across their organisations. Finance teams are 'superconnectors' in organisations – they have a reach and scope that embraces all other functions.

Finance professionals, therefore, have a key role in supporting a change-enabled culture, one that supports innovation and creativity to drive productivity gains. ACCA's report *Leading the Change (2023b)* draws together personal insights from nine professionals sharing their experience, insights and recommendations on driving and supporting change.

3.3 Making the most of technology

The potential for technology to support a step-change in organisational productivity in the public sector is widely recognised. In particular, the opportunity for AI to bring significant productivity gains across the sector has been much discussed.

However, the implementation of large-scale technology improvements has a mixed track record of success in the public sector. Moreover, at a time of competing priorities and limited resources, making the case for investment in technology in the 'back office' of organisations, rather than citizen-facing services, can be difficult:

> *'We never get enough capital [funding] to transform the organisation. By the time we get a system in, it's practically out of date and we're moving onto something else. And that's just [operational] systems. There is zero investment in corporate or finance systems. Our HR system doesn't link up to finance; finance is out of date.'*
> **Roundtable participant, government agency**

Several of our roundtable participants raised the issue of poor technology as a barrier to organisational productivity. In particular, the lack of integration of systems was emphasised; systems do not 'talk to each other' and consequently time is wasted transferring data between them or answering queries because staff do not have full visibility over processes – eg because purchasing and finance systems are not linked.

Some participants also highlighted a tendency for public sector organisations to specify modifications and additions to existing software programs, or insist on completely bespoke systems. This leads to consequent increases in costs and time taken to implement such systems, as well as additional expenses for training.

In recent years, the public sector globally has had many successes in developing digital tools that simplify and reduce the cost of citizens interacting with public bodies. Rather than a single organisation-wide project, incremental approaches have been adopted. Teams are responsible for drawing on a combination of outside expertise with technical knowledge and existing staff to provide the in-depth understanding of services delivered. As van Ark (2022: 23) says: 'when an organisation adopts a culture of incremental innovation, it may also find itself creating the conditions for more radical innovations'.

In approaching the question of how technology can improve productivity, the finance function must focus on how existing technology systems and processes can be improved. Finance professionals understand where there are weaknesses and gaps in the current systems, which slow down processes or create additional work. Freeing up finance professionals' time in this way enables them to focus on activities that add greater value. These incremental improvements empower finance staff – and can build a platform for more substantial changes in the way technology is used.

As organisations evolve in their engagement to technology and begin to consider more transformative changes, finance professionals must be at the heart of a more strategic approach. They can identify the opportunity costs of failing to invest in systems that provide greater integration, improve resilience, and support better insights.

However, more than simply the financial implications, finance professionals' knowledge of systems and processes will help to support identifying where technology can make a transformational difference. This will be crucial as AI adoption becomes more widespread in the public sector. Potential ways that AI could improve productivity in the finance function are explored in the box below.

It's important to emphasise that oversight of AI outputs from finance professionals is essential – especially in areas that involve critical decision-making and ethical considerations.

RECOMMENDATIONS

For finance professionals

- There is no substitute for finance professionals developing a deep understanding of the teams they support to identify where there are blockages to improving productivity. Aligning this with data wherever possible will inform better decision-making about resource allocation.
- Where relationships are strong, finance professionals can work with operational teams to test and model scenarios for improvements to processes. In making the case for new investment in back-office processes and systems, finance professionals need to demonstrate the impact on outputs and outcomes.
- By focusing on incremental improvements to technology – identifying problems that are impacting most on productivity – finance professionals can help lay the foundations for more significant digital transformation.

For senior leaders

- Organisations need to facilitate informal and formal opportunities for finance professionals to gain experience of the work of operational and delivery teams.
- The structure of the organisation needs to be sufficiently flexible to enable teams to adapt to changing demands and delivery methods, while maintaining arrangements for accountability.
- Ensuring a combination of external expertise and internal knowledge to identify and implement organisations' technology reforms is crucial for projects to succeed.

Applying AI

Stephen Fitzgerald, FCCA, Interim Executive, and Yusuf Erol FCCA, Head of Public Sector Division, Langbrook Finance, highlight five ways in which AI can be used to improve productivity in public sector finance:

- **Budgeting and forecasting.** Algorithms can help predict budgetary needs based on historical data and economic indicators. AI chatbots can also be used to help generate financial models and forecasts.
- **Fraud detection and risk management**. AI is already being used to analyse transactional data and identify unusual patterns. In addition, organisations might start to use AI chatbots to create risk assessment reports.
- **Process automation.** AI can help with automating routine tasks such as data entry, invoice processing, and reconciliation. Chatbots can also be integrated into workflow systems.
- **Training and knowledge transfer.** AI could be used to assist in training new finance professionals by providing on-demand information, tutorials and simulations.
- **Regulatory compliance**. AI tools can help in ensuring compliance with financial regulations by analysing transactions and identifying potential issues. Chatbots can help summarise complex regulatory language and provide insights into compliance requirements.

Source: AB magazine, January 2024

4 What are we trying to achieve? Strengthening the focus on outcomes

The public sector delivers a vast range of outputs, including services and occasionally goods, to individuals and the public as a whole. But governments are also seeking to achieve broader outcomes, policy goals or objectives, through the delivery of public services and goods.

Ultimately, identifying the outcomes for public sector bodies to focus on is largely the responsibility of political decision makers. However, public sector employees often play an important role in providing advice or evidence. They also take the lead in maximising the productivity of public services – enabling outputs to achieve outcomes.

This final section of our report identifies three areas of focus to enhance productivity through the delivery of high-quality outputs – and support the coordination of activity directed towards realising successful outcomes:

- Finance professionals can support public sector organisations in **prioritising** activities directed to outcomes, including through aligning resources.
- The finance function can drive **collaboration** across organisational boundaries to work together for more effective outcomes.
- Finance professionals can make the case and identify opportunities to **intervene early** – preventing costs from escalating can ultimately lead to better outcomes.

4.1 Prioritise

The range of activities the public sector undertakes stems from a combination of factors, including political priorities, historical decisions, and legal requirements. However, even if it were desirable, governments cannot simply continue to deliver the same services in the same way, given the fiscal and demographic challenges outlined earlier.

Consequently, governments have to prioritise if the public sector is to be able to deliver effective public services. This prompts the question of whether the public sector is 'doing the right things', alongside whether it 'is doing things right' that we have already explored.

Aligning an organisation's activities and outputs with the wider outcomes that governments are seeking to achieve is the first step in prioritisation. In some cases, this will be a straightforward exercise. But, in others, the outputs supporting certain outcomes are less clear or multiple outputs across different organisations contribute, an issue explored further below.

A distinction can be made between direct outcomes, which are 'measurable and timely' and indirect outcomes, where causality is 'usually difficult to determine, and may have a time lag' (Barber, 2017). For example, reducing hospital waiting lists is a direct outcome, whereas reducing the proportion of a population suffering from chronic disease is an indirect outcome.

Governments can set out their desired outcomes in a variety of ways, but one approach is to publish these in a specific document. For example, South Africa has a National Development Plan which outlines the key overarching objectives the government is seeking to achieve by 2030.

Individual government departments or agencies should also publish departmental plans setting out their own objectives that link, where available, to overarching national plans. For example, each department and agency of the Canadian federal government publishes a departmental plan in broadly the same format. These outline priorities as the 'core responsibilities' of the organisation – with planned results, resources and key risks for each of these responsibilities.

The challenge for governments and public sector bodies is to use these plans to drive productivity. This involves setting stretching targets that, wherever possible, aim for material changes in performance from current levels. Although there's always a risk that targets can dominate thinking in any organisation, as highlighted earlier in the section on measuring productivity, they do also focus effort and the attention of senior leaders. It's therefore critical that the targets set have the greatest impact on the outputs and outcomes which form the organisation's key objectives.

Focusing on clear priorities sets a clear direction for an organisation. In most cases, finance functions are an enabler – supporting the delivery of outcomes, rather than directly providing an organisation's outputs. But finance professionals can take the lead by aligning budgets to these priorities.

Linking budgets to outcomes provides clarity to staff and can directly action improving productivity for the relevant delivery chains. For each outcome, budget estimates should be produced on a programme basis, as well as by departmental or organisational structure. Finance professionals can also support decision makers in the initial process of determining outcomes, by providing analysis to inform decisions.

4.2 Collaborate

Many of the outcomes prioritised by governments can only be realised through collaborative effort. Governments need to recognise this in the strategic plans highlighted above – by making it clear where outcomes are dependent on outputs from two or more organisations. For example, the UK government's outcome delivery plans for each department specifically identify 20 'cross-cutting outcomes' (UK Government, 2021).

These outcomes still have a lead department whose plan outlines the way in which other departments' outputs contribute towards the shared outcome. The same approach should also be adopted by governments in demonstrating how they are working towards the UN SDGs.

Shared outcomes are often some of the most difficult to achieve and coordinating activity between organisations is always challenging. When budgets are under pressure – if shared outcomes are not seen as core responsibilities of any single organisation – there's a risk they will be implicitly de-prioritised. This emphasises the importance of specifically identifying budgets and resources, including staff for shared outcomes, accompanied by reporting and governance arrangements. Sharing budgets on a formal basis promotes joint ownership of the outcomes and creates clearer accountability and oversight.

Finance professionals can also collaborate across organisations to learn from others' experience and expertise. Developing a culture where staff are encouraged to exchange ideas across organisational boundaries and test new approaches can lead to greater innovation than strategies that are imposed top-down.

Finance professionals across the public sector are likely to face many of the same challenges and obstacles. Developing constructive relationships between public sector organisations, especially bodies based in a particular geographic area, could also lead to more formal collaboration opportunities.

These could include co-locating services, sharing assets, and joint procurement – as explored earlier.

4.3 Think prevention

For the most difficult to achieve outcomes, public sector organisations need to regularly reflect on whether the existing outputs are likely to deliver those desired outcomes successfully. This is why, when considering productivity, the focus on effectiveness is crucial.

An organisation can be successful in securing high-quality inputs at a low price and operate efficient processes – but still produce services, which are not ultimately effective in addressing the issue government is seeking to tackle. One way of overcoming this problem is to consider whether the public sector could deliver services that seek to intervene in issues at an earlier stage.

Early intervention or preventative policies are recognised as a way of reducing more costly interventions in the future. This concept is perhaps most widely practised in public health – where programmes, such as vaccinations and public awareness campaigns on a variety of health issues, are intended to reduce the proportion of the population suffering from ill health in the future.

The challenge in making the case for a more preventative approach to public services is that more acute spending pressures tend to crowd in on governments, skewing the focus to the short-term. It can also be difficult to reliably estimate the long-term impact of preventative policies, compared to the more readily identifiable costs of more immediate priorities.

Understanding which services are essentially reactive, rather than preventative, is the starting point for an organisation in considering this issue. Finance professionals can identify how spending on programmes and projects is split between these two broad categories. Focusing on the outcomes being sought, the question is whether they could be achieved more effectively, or at an earlier stage if a different delivery approach was taken. It's important to take account of the views of operational staff, as well as the users of services who will know best the endpoint of delivery.

Working with operational staff and services users, finance professionals can support modelling of different approaches to deliver services that assess the financial case for alternative delivery options. Wherever possible, opportunities for collaborating with other public sector organisations – and indeed those in the private and voluntary sectors – should be considered as part of this assessment as well.

In setting out the financial case for making changes, appraisals need to be realistic about any savings that can be achieved, especially in the short term. The nature of preventative spending is that it's likely to take some time to improve productivity and demonstrate effectiveness.

The financial benefits of different approaches to delivering services generally accrue to more than one organisation – underlining the importance of collaboration across the public sector, as we have already highlighted. Consequently, a preventative or early intervention approach must be championed by senior leaders within organisations and, wherever possible, by the finance ministry in central government.

An example of such an approach is outlined in the following case study from New Zealand. While smaller initiatives can be led by individual organisations, significant changes to the way outcomes are pursued need to be considered as part of formal cross-government spending review processes.

Case study: Social investment approach in New Zealand

NEW ZEALAND

The New Zealand government has developed the social investment approach to address serious social issues faced by a particular cohort of the population (Social Investment Unit, 2016). It identifies this priority population using four indicators to focus on children up to the age of 14 – who are at a much greater risk of needing support from health and social services, compared to the overall population.

There are four key features of the social investment approach:

- Identifying clear, measurable outcomes and goals.
- Using data and population information better to identify the drivers of the outcomes and the groups of people impacted by the outcomes.
- Using evidence of what works for which groups, including the use of feedback loops to continuously improve decision-making at all levels.
- Purchasing for outcomes, using financial and delivery flexibility to fund the most effective services, delivered by the public sector or other organisations – to drive innovation, create incentives and ensure accountability.

The New Zealand government identifies 'investing up front to support people most at risk of poor outcomes later on in life' as a crucial aspect of implementing the social investment approach. As well as improving social outcomes, reducing the demand drivers identified by the approach is intended to manage the long-term costs of social problems to government and indeed wider society.

The features identified above are therefore geared towards understanding the fiscal implications of better outcomes.

The social investment approach draws together the three areas of focus highlighted in Chapter 4 as drivers of productivity. By identifying the key measurable outcomes, the costs of failing to address these problems can be better quantified. It also enables organisations to identify their specific contribution to addressing a problem – opening up the potential to concentrate collaboration between different parts of the public sector.

Engagement between organisations should identify that costs and benefits are incurred in different parts of the system. From July 2024, the government established a Social Investment Agency to ensure consistency of approach and coordinate activity.

The social investment approach is an initiative of New Zealand's Treasury and this focus from the centre of government is essential as commissioning cross-departmental or agency interventions can be difficult. They are likely to be more successful if accompanied by long-term funding settlements, spanning multiple departments or agencies. There also need to be incentives for departments and organisations to focus on these cross-cutting priorities, as well as their own individual organisational priorities. The use of feedback loops as a feature of the approach is also critical. Not every intervention is likely to be successful and therefore the ability to adapt, as highlighted earlier, will help to drive productivity.

RECOMMENDATIONS

For finance professionals

- Aligning and structuring budgets to priority outcomes for the organisation will sharpen the focus on addressing these issues – highlighting the relevant delivery chains to drive productivity.
- Learning from and sharing experiences with finance professionals in other public sector organisations can provide valuable insights – driving a more organic approach to productivity improvement.
- Financial modelling provides an evidence base to support consideration of early intervention and preventative approaches to deliver outcomes – allowing decision makers to consider the trade-offs between reactive and preventative spending.

For senior public sector leaders

- Ensuring the priorities of the organisation are clearly defined and understood directs focus on the achievement of the outcomes that matter most to decision makers.
- Collaboration between public sector bodies is critically important if some of the most challenging outcomes are to be achieved successfully. Creating appropriate governance and accountability structures for these objectives will ensure responsibility is shared and help drive progress.
- Intervening early to tackle persistent problems facing governments and boosting the proportion of budgets spent on preventative spending must be championed by organisational leaders, and pursued across organisational boundaries.

Conclusion

Productivity in the public sector matters. Governments' finances are under pressure across the world. Improving productivity in the delivery of public services would enable governments to get a grip on the inexorable rise in public spending levels and increase the quality of outputs and outcomes delivered to citizens. However, as our report has shown, there is no single, straightforward solution to the 'productivity puzzle'. Indeed, in many countries, productivity growth across the economy has slowed in recent years. Nevertheless, by focusing on the three key elements of the public sector delivery chain identified in this report, finance professionals can make a difference.

Ensuring budgets, which, in the public sector, act as a hard constraint on the level of inputs, are set up to address priorities is at the heart of finance professionals' core responsibilities. Obtaining maximum value from inputs is a crucial component of productivity. Finance professionals can support **effective procurement** by broadening the focus from consideration solely on cost to the objectives that public sector organisations are seeking to achieve. The process by which budgets are allocated to inputs is an important component of productivity; wherever possible, **setting budgets for the medium-term** must be a priority for finance professionals and governments. In addition, emphasising the importance of using **realistic forecasts and allocations** can support delivery by reducing the need for multiple rounds of changes to the budget in-year.

Driving improvements in organisational productivity also requires finance professionals to support their organisations in the process of using their inputs to achieve intended outputs and outcomes. Optimising these processes requires a strong **understanding of how resources are used**; finance professionals' role in bringing together and reporting information is therefore essential. It also requires organisations to be adaptable; finance professionals need to have a **strong understanding of their organisation** and good working relationships with other teams, to enable changes to be made. Using technology to support this process is a critical element of organisational productivity. Finance professionals must be open to ways that existing technology can be improved, and new technology employed, to produce real benefits for productivity, while recognising an incremental approach may be the most effective way of sustaining improvements.

Ultimately, what matters most is outcomes, which Barber (2017) describes as the 'intended impact of spending money'. These outcomes are shaped by the outputs public services deliver, so as well as 'doing things right', the public sector needs to 'do the right things'. Finance professionals are critical in helping an organisation to **prioritise** its spending on those activities where it can make the most difference. They are experienced at **working collaboratively** within organisations across a range of teams, and this needs to be extended to work with organisations across the public sector. Finance professionals can also make the case for reallocating spending to address outcomes that are harder to achieve in a different way, by intervening earlier and coordinating different organisations' spending towards share outcomes.

Public sector finance professionals must grasp the opportunity to lead a sustained organisation-wide focus on productivity. Their ability to support prioritisation, coordination and reporting across the range of activities that organisations deliver gives finance staff the tools to drive this agenda forward. But, improving productivity cannot be delivered by a single initiative or even a series of reforms. Instead, a focus on productivity needs to embedded in every aspect of an organisation's activity and culture. Joining up finance professionals' traditional roles of budgeting and reporting with a systematic approach to managing performance will put in place a platform for a more productive approach.

Appendix: Measuring productivity

Case Study: South Africa

This table provides an example of the public sector productivity matrix used to assess productivity by the Limpopo Department of Social Development, a department of provincial government, which delivers social welfare and social services.

INDICATOR	WEIGHTING	DESCRIPTION OF CORE FACTOR
Labour (20%)		
Ratio of salary cost to total budget	5%	Indicators for labour measure inputs to the public service delivery chain. The indicators demonstrate a range of ways to assess labour productivity.
Days absent	5%	
Training of staff	5%	
Vacancy rate	5%	
Operational (40%)		
% score in implementing Operations Management Framework	10%	Operational indicators measure the organisational productivity and output elements of the service delivery chain. They assess organisational decision-making and implementation structures. They involve a greater degree of subjective judgment.
Workplace design (ergonomics and workflow)	10%	
% score in citizen feedback on service delivery performance	20%	
Performance (40%)		
Total performance rewards to employees	10%	Productivity indicators for performance largely focus on direct measures of staff performance. Consequently, they relate to organisational productivity, rather than organisational outputs and outcomes.
Number of employees on counselling and support due to work-related stress	5%	
Number of employees disciplined	5%	
% score in employee satisfaction survey	10%	
Budgetary performance	10%	
Total	**100%**	

Source: Measuring Organisational Productivity in the Public Service: Selected Case Studies, Department of Social Affairs, South Africa, 2017

Case Study: Kenya

This table shows the National Treasury's (TNT) 15 productivity metrics, which it describes as measures of quantitative assessment. Each of these metrics is mapped to an overarching objective (the headings shaded in grey) from TNT's strategic plan. They are also linked to an indicator, described by TNT as a specific observable and measurable characteristic of the achievement of the objective. Finally, they are given a percentage weighting, providing a proxy for the prioritisation of objectives.

PRODUCTIVITY METRIC	INDICATOR	WEIGHTING
Stable and sustainable macroeconomic environment		
Ratio of policies implemented against those developed	Effectiveness	14.63%
Percentage change in foreign direct investment	Financial sustainability	2.66%
Customer satisfaction score	Citizen experience	5.71%
Timely payment of debt	Efficiency	18.68%
Resource mobilisation for financing public expenditure		
The cost of borrowing in comparison to debt raised	Effectiveness	7.05%
Percentage change in amount of money invested in PPP initiatives in a financial year	Effectiveness	5.39%
Percentage change in the number of projects onboarded in the PIMIS in a financial year	Efficiency	2.76%
Ratio of active partnerships against a total number of partnerships signed	Sustainability	4.78%
Turnaround time for a pension payment	Citizen experience	2.84%
Organisational capacity and strengthening		
Employee satisfaction score	Handling of internal customers	3.46%
Percentage of employees trained	Handling of internal customers	1.90%
System availability	Maintenance of equipment	4.64%
Percentage of automated business processes	Innovation and technology	3.78%
Development planning and intergovernmental relations		
Timely disbursement of funds to ministries departments and agencies	Efficiency	9.17%
Tracking and reporting on implementations of policies, plan and budgets		
Ratio of policies implemented against those developed	Effectiveness	12.57%
Total		**100%**

Source: Productivity Management Framework for the National Treasury, Government of Kenya, 2024

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ACCA The Adelphi 1/11 John Adam Street London WC2N 6AU United Kingdom / +44 (0)20 7059 5000 / **www.accaglobal.com**