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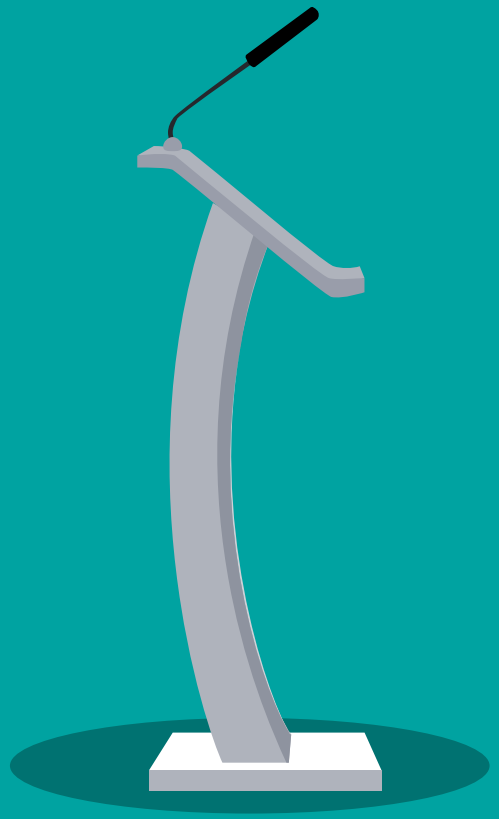
Aligning Spend to Outcomes

An interactive session on outcomes-based budgeting & technology enablement



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Today's agenda

AGENDA

Introductions	(5 min)
KPMG Presentation: Definitions & Challenges	(15 min)
Table Discussion	(30 min)
— What are the key challenges in our budgeting and financial processes?	
— Report Back	
KPMG Presentation: Case Studies & Trends	(15 min)
Break	(15 min)
Table Exercise	(30 min)
— How mature is your budget process?	
— Report Back	
KPMG Presentation: Technology Enablement	(30 min)
Table Exercise	(30 min)
— How mature is your operating model?	
— Report Back	

LEARNING OBJECTIVES

- ✓ Learn about emerging approaches to outcomes-based budgeting in Australia and New Zealand
- ✓ Identify common budget process challenges and how they impact outcomes based budgeting
- ✓ Conduct two maturity self-assessments to better understand your municipality's budget strengths and weaknesses
- ✓ Learn about technology enablement
  - ✓ Overview
  - ✓ Challenges and Benefits
  - ✓ Leading Practices
  - ✓ Emerging Technologies
  - ✓ Offerings and Differentiators

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Before we get started...

Organize yourselves into groups of 5-6.

Our strong preference is to have multiple organizations represented at each table. Please relocate if necessary.

Be open and honest in your self-assessments.

Chatham House rules.

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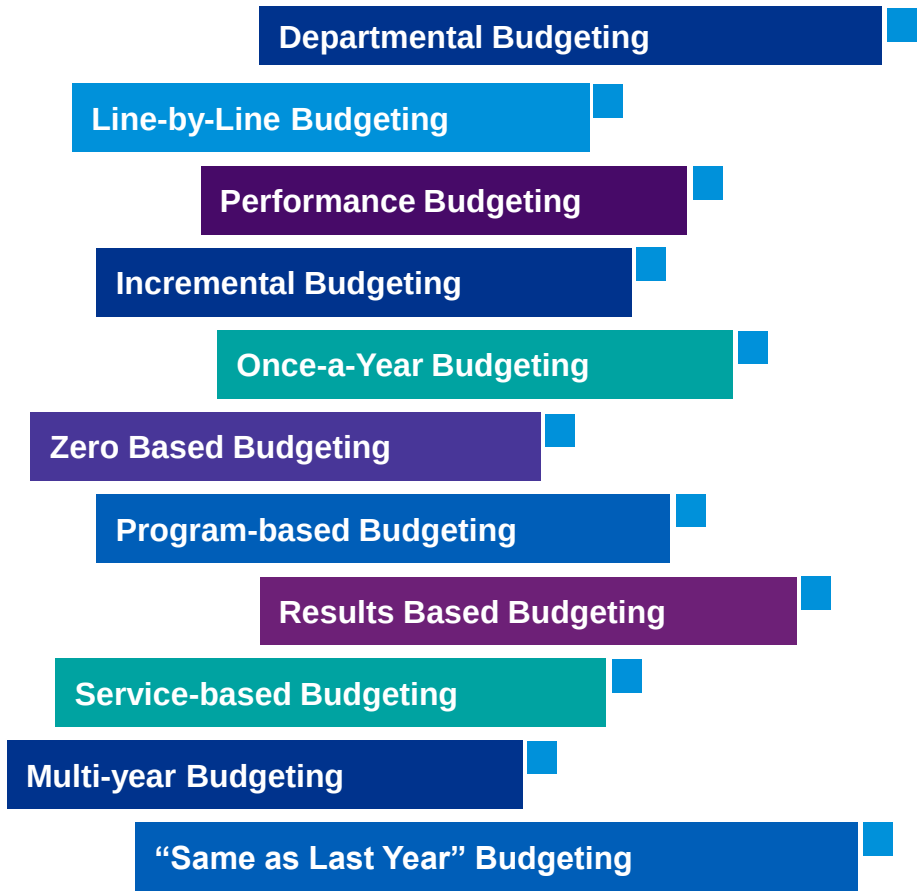
Definitions & Challenges

Great! Another approach to municipal budgeting!



[1] Adopted from: https://www.assemblyresearchmatters.org/2016/06/08/outcomes-based-budgeting/.

What is outcomes-based budgeting?

An approach to public sector budgeting based on the relationship between funding and expected results. It focuses on the outcomes of a funded activity.[1]

Outcomes are the impacts or consequences of a funded activity on the community. They’re what a municipality is trying to achieve.

Examples of municipal outcomes might include **longer, healthier lives**, **safer communities** or **better travel times**.

What are the potential benefits of outcomes-based budgeting?

- ✓ Improved allocation of limited resources
- ✓ Multi-year, longer-term focus
- ✓ Encourages whole-of-government thinking and departmental/agency collaboration
- ✓ Enhanced accountability
- ✓ Enhanced accessibility for stakeholders
- ✓ Enables discussions about tradeoffs and investments across municipal departments

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A great idea...that's not easy to do.

Macro Ontario Factors

- Rising citizen expectations for new, better and more easily accessible services.
- An aging population, slowing growth and rising/declining populations (depending on your geography).
- Growing concentration of population in urban and suburban centres.
- A shift from full-time to part-time work, the continued growth of knowledge/service sectors and accelerating technological change.
- Increasing expectations for transparency and accountability in government and government spending decisions.

Municipal Factors

- Municipal funding uncertainly, especially from other levels of government.
- Conventional decision-making processes with a short term, annual perspective focused on inputs.
- Split budget-making accountabilities across departments and agencies, often with limited oversight.
- Blurred accountabilities between Council and staff.
- Departments, divisions and agencies with well-defined, specific functions and activity-based alignments (and turf) rather than alignment to broader, whole-of-government outcomes.
- Inadequate, inconsistent or conflicting strategic direction on outcomes and priorities.
- Legacy technology systems that are non-integrated and highly manual

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Our key challenges

Discussion

Please take 20 minutes at your roundtable. Come up with five shared challenges and then rank them in priority order. Please be prepared to report back to the group.

1(a) What are the key challenges in our budgeting and financial processes?

1(b) Assign your challenges an urgency rating from 1-5 (with 5 requiring immediate attention)?

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Report Back

1(a) What are the key challenges in our budgeting and financial processes?

1(b) What challenges are most urgent and why?

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Case Studies & Trends

New South Wales

New South Wales began shift to outcomes-based budgeting in 2018/19

Motivating factors:

- Improve the focus of resource allocation against government priorities and improve decision making
- Provide a common framework for all stakeholders (decision-makers, service providers and residents) to understand how funds have been used, increasing transparency and accountability
- Foster more dynamic, creative approach to policy problems

Shift underpinned by new financial management IT system, which integrates financial and performance information across the whole-of-government and provides information to report financial and non-financial performance of all services. Also accompanied by legislative modernization and government-wide restructuring into eight service clusters.

Five year shift with maturity expected in 2021/2. Following introduction, improvements have focused on refining performance measurement and collecting better data and information to assess outcomes.

The NSW approach involved four critical elements:

1. **Clearly defined outcomes**:
46 State Outcomes were identified, which sit on top of and across the existing departmental and agency structure

2. **Financial and non-financial performance reporting**:
Performance measures were identified for each outcome.

3. **Outcomes assessment**:
Shift from ad-hoc assessments focused on efficiencies to structured, in-depth reviews of whether outcomes are being achieved and the effectiveness of the programs designed to achieve them

4. **Budget decision-making**:
The new approach enables more informed resource allocation decision and enhanced monitoring, reporting and accountability

Adopted from: https://www.treasury.nsw.gov.au/sites/default/files/2018-12/TPP18-09%20Outcome%20Budgeting.pdf/ and https://www.budget.nsw.gov.au/sites/default/files/budget-2019-06/Budget_Paper_3-Budget_Estimates-Budget_201920.pdf.

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New South Wales: Defining Outcomes

> **A State Outcome means the primary purpose for which budget funding is being expended, which clearly explains to the public the goal that a sub-national government is seeking to achieve for its citizens.**

Outcome development took approximately one year and was refined following introduction.

Design principles used to guide development:

- The phrasing of State Outcomes should be **short and succinct**, and their meaning readily understood by the people of NSW (such that they understand the purpose for which the money is being spent);
- State Outcomes should not be too aspirational or vague, but determined at a level where **meaningful Outcome Indicators to track progress can be identified and reported** on at least annually. State Outcomes should serve as investment signals, i.e. be sufficiently specific to enable resource allocation decisions during the Budget process; and,
- State Outcomes should also be **relevant for agencies to manage resources**, showing what has been 'funded' or is 'fundable' to deliver the Outcome.

2019/20 budget included 38 State Outcomes, down from 46 in 2018/19, including:

State Outcomes to be delivered by the Stronger Communities cluster

State Outcome	Description
Safer Communities	Delivering law enforcement activities to prevent, detect and investigate crime, maintain social order, promote road safety and support emergency management.
Enable people with disability to live independently	Supporting the transition of clients to the National Disability Insurance Scheme and more inclusive communities.
Resilient to disasters and emergencies	Delivering emergency management to enhance response and recovery efforts and build community resilience.
Effective and efficient resolution of legal disputes	Supporting the administration of courts and tribunals and the delivery of legal services in New South Wales.
Maintain rights and records	Providing client services, including support for victims and vulnerable people.
Build inclusive communities	Delivering community support to increase community participation and promote social harmony and cohesion.
Foster a vibrant, valued and active sport and recreation sector	Improving participation in sport and recreation, supporting athletes, and delivering quality venues and facilities.
Breaking cycle of reoffending	Supporting and managing adult and juvenile offenders in correctional centres, and in the community.
Protect children and families	Supporting the safety and wellbeing of vulnerable children, young people and families.
Provide a safe and affordable place to live	Providing assistance for people unable to access or maintain appropriate housing, including homelessness services.

Adopted from: https://www.treasury.nsw.gov.au/sites/default/files/2018-12/TPP18-09%20Outcome%20Budgeting.pdf/ and https://www.budget.nsw.gov.au/sites/default/files/budget-2019-06/Budget_Paper_3-Budget_Estimates-Budget_201920.pdf.

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New Zealand: Wellbeing Budget

> **“Wellbeing is when people lead fulfilling lives with purpose, balance and meaning to them…It means improving the state of our environment, the strength of our communities and the performance of our economy.”**

New Zealand unveiled its first “well being” budget in 2019.

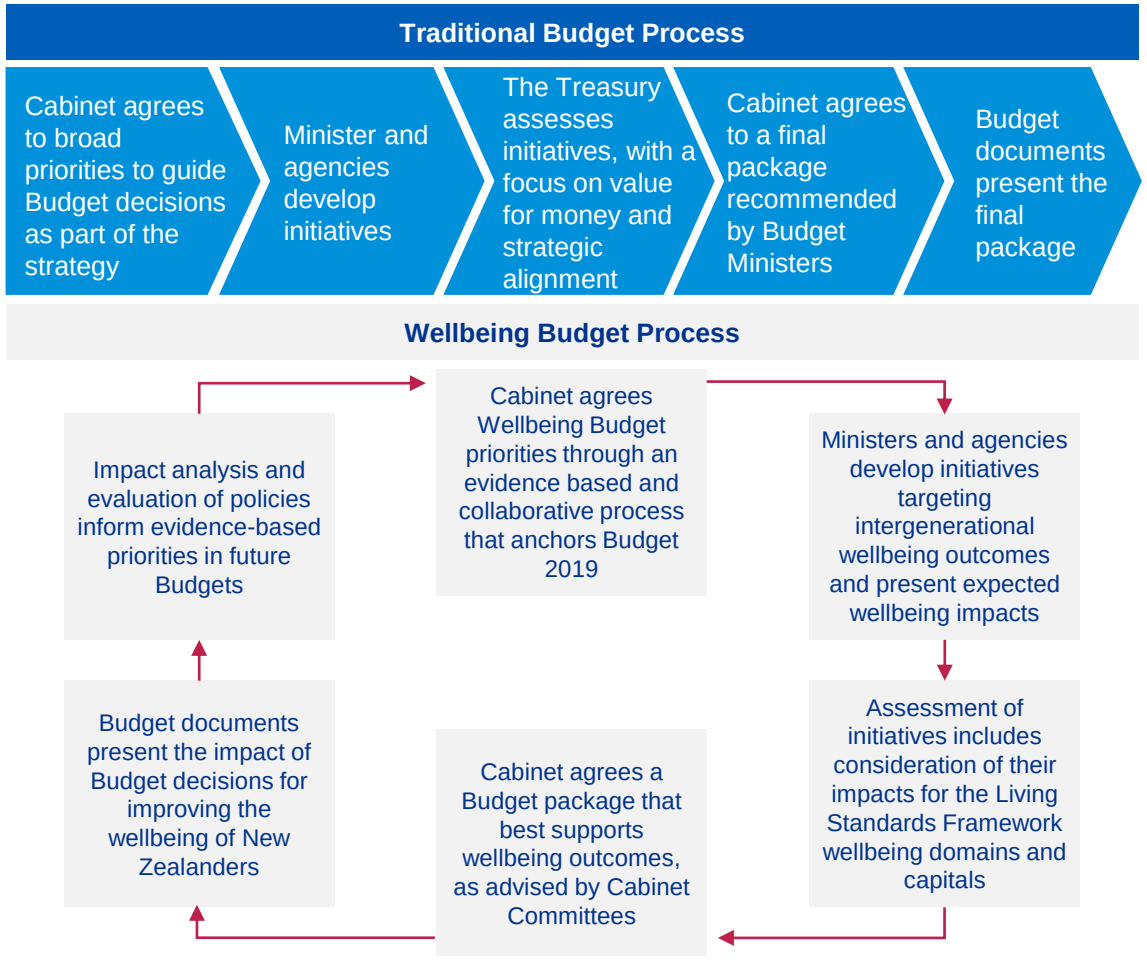
Based on idea that measuring the long-term impact of policies on people’s quality of life is better that focusing on short-term output measures.

Key drivers:

— Despite sustained economic growth, strong feeling that certain groups had been left behind and other long term social and environmental goals were not being achieved.

Three ways that the well being budget considers social, environmental and economic implications together:

1. Breaking down agency silos and working across government to assess, develop and implement policies that improve wellbeing
2. Focusing on outcomes that meet the needs of present generations at the same time as thinking about the long-term impacts for future generations, and
3. Tracking progress with broader measures of success, including the health of finances, natural resources, people and communities.



Adopted from: https://treasury.govt.nz/sites/default/files/2019-06/b19-wellbeing-budget.pdf.

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New Zealand: Five Priorities

Five priority wellbeing areas selected using a collaborative and evidence-based approach.

Prioritization included data from government sources as well as advice from sector experts to identify areas where New Zealand "could and should be doing better."

Budget process required staff to show how proposals would help achieve the wellbeing priorities. Staff were encouraged to work together across departmental lines, focusing on how to collectively address the underlying challenges.

The new budget is supported by the Treasury's Living Standards Framework (LSF). The LSF builds on OECD and other research to help consider the intergenerational impacts of policies and proposals. It's an analytical tool that helps Treasury provide advice about how policy and other decisions are likely to impact living standards – across human, social, natural and financial/physical aspects of wellbeing. It's supported by a dashboard with a range of different indicators that, together, track changes in wellbeing outcomes.

1. **Taking Mental Health Seriously –** Supporting mental wellbeing for all New Zealanders, with a special focus on under 24-year-olds
2. **Improving Child Wellbeing** – Reducing child poverty and improving child wellbeing, including addressing family violence
3. **Supporting Māori and Pasifika Aspirations** – Lifting Māori and Pacific incomes, skills and opportunities
4. **Building a Productive Nation** – Supporting a thriving nation in the digital age through innovation, social and economic opportunities
5. **Transforming the Economy** – Creating opportunities for productive businesses, regions, iwi and others to transition to a sustainable and low-emissions economy.

Adopted from: https://treasury.govt.nz/sites/default/files/2019-06/b19-wellbeing-budget.pdf.

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Emerging design principles

From these and other case studies, we're seeing the following design criteria:

1. **Be focused on delivering outcomes for residents.**
2. **Take a longer-term, multi-year focus to resource allocation decision.**
3. **Support existing government constructs with better information for decision making.**
4. **Enhance evidence-gathering and synthesis through capability builds across government (not just in finance functions).**
5. **Empower clusters (over department silos) to deliver outcomes for citizens.**
6. **Have the hard conversations about outcomes and what we're trying to achieve.**
7. **Technology enablement required to drive new approach.**

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Emerging models for outcomes-based budgeting

Traditional Model	Emerging Model
Segmentalist culture — Hierarchical, organizational silos	Integrative culture — Horizontal coordination mechanisms, devolution of decision making
Closed, introspective (budget secrecy) — Low accountability and transparency	Open, communicative and consultative — More accountability and transparency
Inward-looking	Outward-looking, inter-departmental
Centralized control environment — Direct control of expenditure, rules based organization	Decentralized control environment — Monitoring of fiscal development and risks; risk-based and performance oriented control systems
Narrow strategic perspective — Primary focus on central government; short term perspective to policy making	Broad strategic perspective — Holistic view of public finances; medium-term perspective to policy making
Process oriented — Centralization of functions within the finance organization	Policy oriented — Many tasks devolved to the business
Multiple and non-integrated financial information systems — Each function/agency has its own system with limited interfaces	Integrated financial information system — Coverage of core financial functions / agencies, integrated with other systems (e.g. payroll, budgeting)
One-size-fits-all approach — Budget and planning functions are the same across all service types	Tailored-to-service — Budget and planning functions are tailored to specific service types, i.e., critical services are more formalized while non-critical services are more flexibility and adjusted in-year based on demand/outcomes

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Maturity model for outcomes-based budgeting [1/5]

	Foundation	Intermediate	Advanced
Budget Policy and Legislation	Primarily focused on aligning incremental spend to outputs.	Budget Policy supports output to program alignment and accountabilities. Primarily hybrid of incremental and other.	Budget Policy supports program to Outcome alignment and accountabilities. Use performance evidence to identify, plan and implement policy reform
Whole of Government Planning	Cabinet has an active role in setting the budget's policy parameters at the beginning of the budget process	Through the FRA and budget strategy formulation process there is formal communication through treasury to Ministers, Clusters and component agencies	Sectorial/ cluster based priorities are established at the beginning of the budgetary cycle
	Baseline allocation is to outputs only with limited alignment to service delivery and primarily based on incremental decision making	Agency and thus cluster develop and articulate program based insights aligned to service delivery	Clear articulation by cluster and agency of high level outcomes and their relationship to program and activity level outputs and investment
	Communication of fiscal policy objectives	Communication of fiscal policy objectives is made and linked to actions across clusters to deliver against this	Spending limits (ceilings) are provided to ministries/agencies at the beginning of the budgetary cycle and are explicitly linked to the government's priorities; these are then mapped to actions

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Maturity model for outcomes-based budgeting [2/5]

	Foundation	Intermediate	Advanced
Budget Governance and Mechanics	Disparate approaches to budget formulation, supported by suggestive guidance	Some consistency in methods and mechanics of budget formulation supported by detailed guidance	Consistent guidance on budget formulation including costing agreed to across government including how to deal with differing funding models
Budget Integration/ Submission	Granular submissions with no focus on materiality; primarily at the program level	Partial aggregation and selection at the Cluster level, prior to submission; primarily at the program level	Single submissions at a program group level (aligning to outcomes)
	Manually produced Budget proposals utilising inconsistent methods and tools	Integration is managed through a single interface but with many divergent methods/approaches and levels of compliance	Annual budget allocations managed in context of medium term plans that reconcile outcome priorities, future cost pressures, fiscal constraints and evidence of effectiveness and efficiency. Focus is on material changes rather than full zero based. A consistent method and level of detail and compliance is evidenced

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Maturity model for outcomes-based budgeting [3/5]

	Foundation	Intermediate	Advanced
Prioritisation and Decision Making	Treasury performs a coordinating function, responsive to spending priorities and decisions taken elsewhere in government; accountability resides centrally.	Treasury provides guidance and recommendation to ERC on submissions but is primarily base on subjective measures and incrementally based. Accountability is shared across treasury and the clusters/Agencies	Treasury is the central leadership function within government on fiscal strategy, setting the direction for operational and investment expenditure by focusing on outcomes. Accountability is devolved to the clusters and agencies
	Annual budget allocations are managed reactively and incrementally, aiming to meet year by year agency pressures and commitments; quite subjective within boundaries.	Annual budget allocations are managed reactively and incrementally, aiming to meet year by year agency pressures and commitments. Incremental submissions still inform decisions.	Annual budget allocations managed in context of medium term plans that reconcile outcome priorities, future cost pressures, fiscal constraints and evidence of effectiveness and efficiency. Focus is on material changes rather than full zero based.
	Annual based expenditure management; incremental reviews and conversations only.	Differential expenditure appropriation approaches and management approaches across recurrent/capital expenditures. Decisions made on different types of submissions, Incremental, Growth, Partial Zero Based, Hybrid. Decisions are made based on aggregates at the cluster level	Move towards a multi year focus in expenditure management aligned to outcomes. Decisions are made based on the total view of monies and appropriate allocations of these.

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Maturity model for outcomes-based budgeting [4/5]

	Foundation	Intermediate	Advanced
Performance Management	Focus largely on financials, with limited performance information providing information on inputs and outputs but not routinely incorporated into decision making	Using evidence to build consensus and negotiate across government in support of common goals	Systematic monitoring and evaluation in place linking financial and performance aligning outcomes, programs and activities
	Outcomes are a virtual concept used for reporting only and no physical accountability is attached	Accountability for outcomes is a virtual structure lead by a nominated Minister and or lead agency and managed through a tight governance structure	Establishing clear accountability for outcomes (particularly for programs)
	Managing expenditure/inputs	Managing programs and outputs	Managing shared (cross cluster) outcomes
Capability	Transactional engagement with ministries/agencies focused on completing specific budget tasks. Heavily focused on compliance, accuracy and fire fighting	Checks and balance focus leveraging insights to support improvement and decision making with ministers and agencies.	Strategic capabilities supporting engagement with ministries aimed at achieving strategic priorities, reviewing impacts as well as financial performance. Internally customer focused with a customer centric focus to support treasures stakeholders.

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Maturity model for outcomes-based budgeting [5/5]

	Foundation	Intermediate	Advanced
End to End Technology Enablement	Numerous disparate systems containing financial and management data	Enterprise application architecture established	Fully Integrated Platform designed "end to end"
	Hybrid of manual and automated approaches with inconsistent adoption	Utilisation of automated workflows to manage budget submissions	Business intelligence capability deployed with "self service" on line drill down capability

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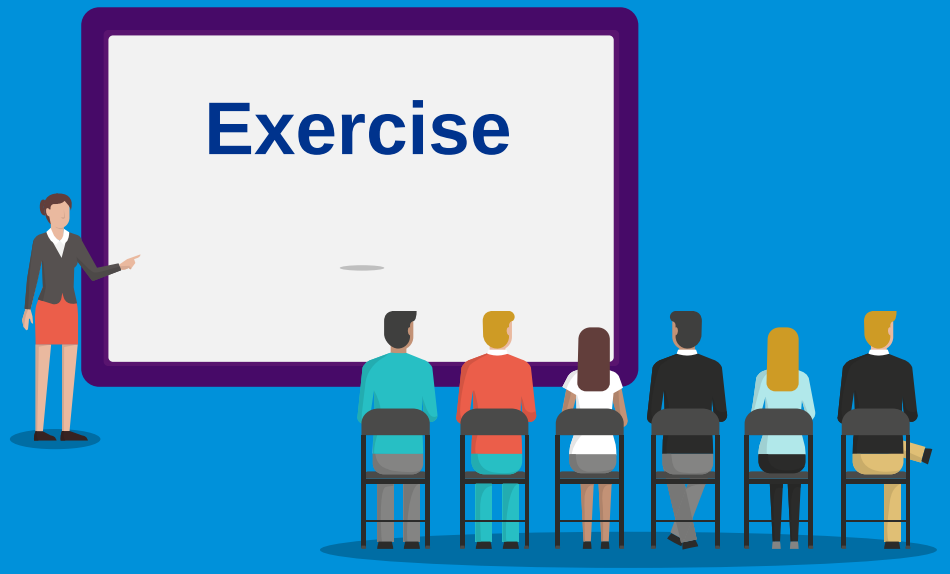
Maturity assessment



Exercise 2

On the page opposite pages, take 15 minutes and plot your organization's maturity against the maturity model with an X and then discuss the questions below as a group.

2(a) How mature is your outcomes-based budget process?

2(b) Where are you most mature, least mature? What's surprising?

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Report Back

2(a) Where are you "most mature"? Where are you "least mature"?

2(b) Where are you most mature, least mature? What's surprising?

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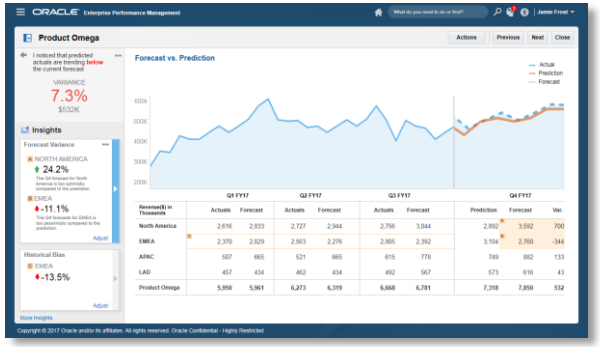
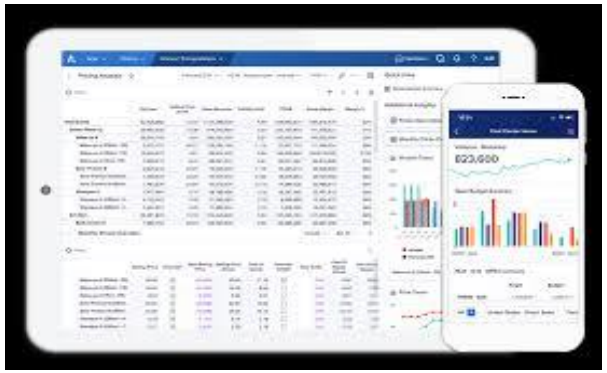
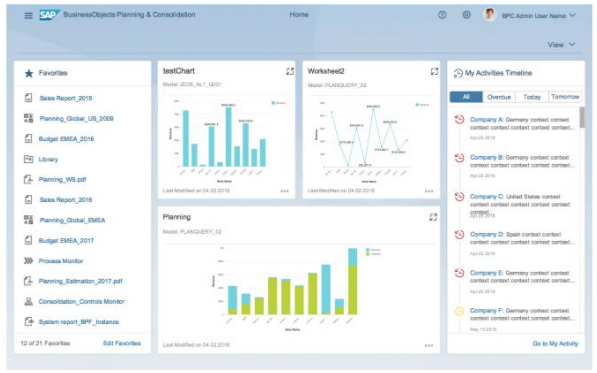
Technology enablement

Gartner Magic Quadrant

Cloud Financial Planning and Analysis Solutions







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Vision & Definition

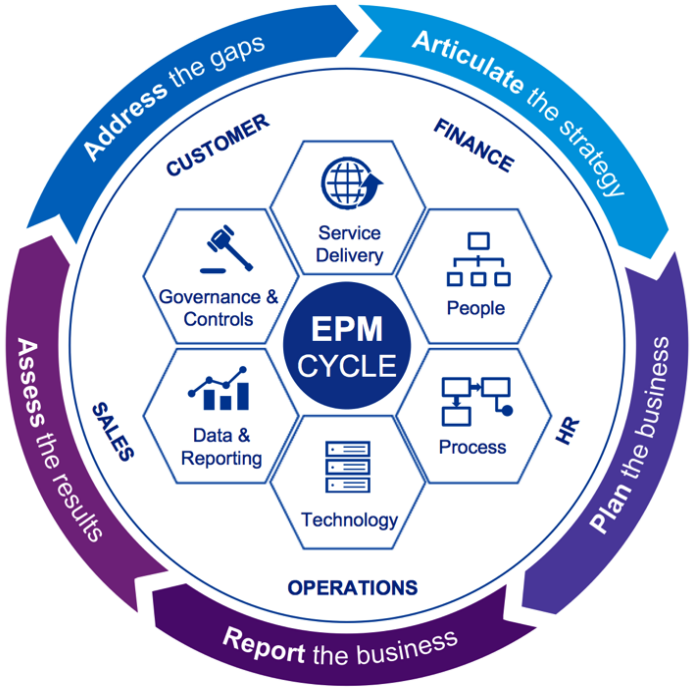
EPM Framework - Business Led, Technology Enabled

Enterprise Performance Management, EPM, is an enterprise-wide capability, enabled by technology, that provides the holistic view needed to translate strategy into action for improved performance.

An integrated Enterprise Performance Management framework is required to realize and sustain value with EPM.

This consists of:

- ✓ **A continuous management cycle and operating rhythm;**
- ✓ **supported by integrated and collaborative processes;**
- ✓ **inclusive of leading capabilities;**
- ✓ **enabled by cloud and digital technologies;**
- ✓ **with proper governance to sustain and evolve!**



A continuous "Plan-Do-Check-Act" management cycle and operating rhythm

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With EPM, the CFO/CAO embraces the role proactively and helps close the gaps

Challenges

Do you struggle with:

- **Unclear communication and articulation** of the government strategy as it relates to daily operations and functions
- **Strategy disconnected** from planning processes, which are disconnected from reporting results
- **Information lags and inaccuracies** hinder the ability to make decisions and take corrective actions
- **Lack capabilities** to effectively make decisions or take actions that have impact
- **Weak enforcement and accountability** with operations and at the individual level

How EPM closes these gaps

Definition and alignment on what is relevant to **measure** and **manage**	Plans and targets **cascaded** to functions and individuals **aligned** with priorities
Clear understanding and visibility of **drivers** and events impacting KPIs and outcomes	**Integrated** operating and financial plans with the capability to **predict** and accurately plan and **forecast** performance
Accurate and timely picture of revenues and costs across multiple dimensions	**Common data definitions** and integrity with cloud access to improve timeliness
Access to the right information on a timely basis to make impactful decisions	**Tools and capability** (skills) to analyze and influence the drivers and measures
Governance to ensure accuracy, consistency and use of the data and information	People held accountable to take action and make **decisions** that impact performance

EPM delivers:

- **Improved insights** and **decision making**
- **Dynamic measurement** and management of goals and performance
- **Integrated** operational and financial planning **across all functions** and **domains**
- **Aligned behaviors** and **actions** with strategic objectives

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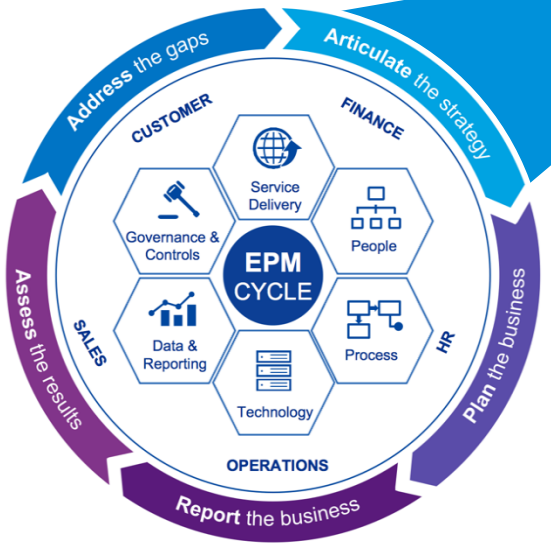
Articulating the strategy is accomplished by aligning the strategy to organizational key performance indicators

- **Key performance indicators (KPIs) are used as inputs** for main analysis and insights into the government's strategy development
- A global set of connected, common and cascading **key performance measures** should be in place
- **Clearly defined linkage** between strategy, plan, forecast and actuals across functions is needed to articulate the strategy

KPMG's EPM framework



Articulate the strategy

- **Articulate the strategy** is about translating the strategic vision of the organization into clear measures and targets in order to focus the organization on executing the strategy and achieve outcomes.
- Many governments run using legacy **key performance indicators (KPIs)**, or "industry standard" KPIs, which can allow them to operate in a controlled manner. Conversely, this is not necessarily contributing to the strategic position the organization is aiming for. In addition, without well-defined relevant measures, you will not know where it is on this journey.
- These measures are **not just financial**, but look at the organization holistically, as although the strategy is generally focused on delivering value, the non-financial measures underpin these goals, from citizen through to operations and people/culture.
- The definition of the KPIs is critical to **ensure linkage to underlying drivers of value** and to ensure departments, programs and/or services are able to focus on strategically aligned core targets to drive outcomes.

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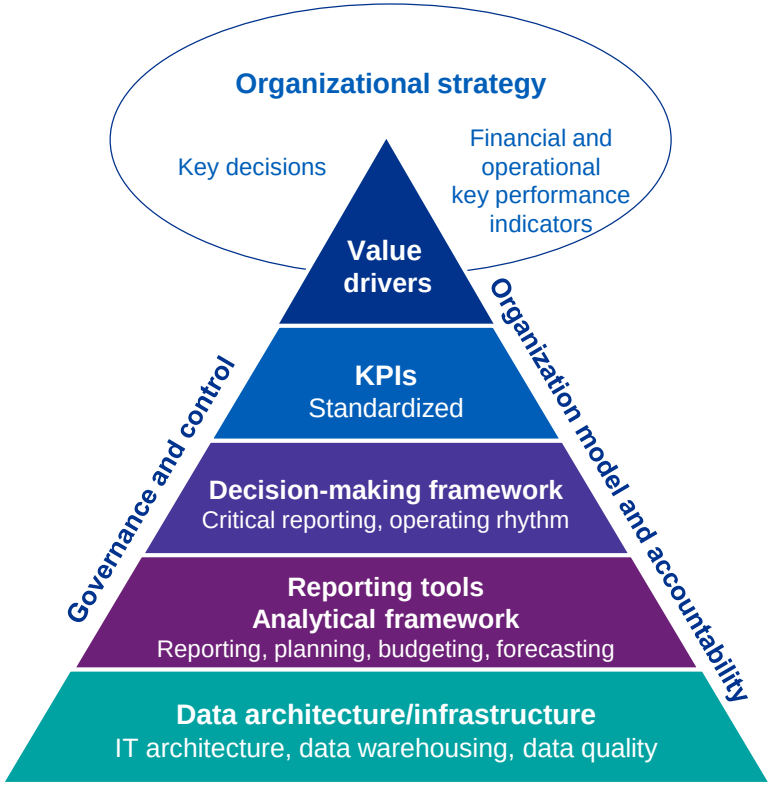
EPM strategic and KPI framework and principles

The EPM strategic and KPI framework articulates the strategy and value drivers and delivers the measures (KPIs) that matter to drive strategy execution and align and optimize performance across the enterprise.



KPI framework principles

Focus	**KPI's** for an organization are few, mutually supportive, understandable, actionable and enable management to **more easily focus on the fundamental drivers of performance**
Alignment	**Improve alignment within and across the organization** (departments, BUs, support functions and group) by establishing clear linkage between government strategy and performance measures
Accountability	The measures included in the scorecards promote clear management accountability aimed at driving improved decision-making
Balanced perspective	The KPIs provide a balance across the key dimensions of performance. Reliable processes in place to establish scorecard targets and to collect and calculate the right information in the most efficient manner
Integrated management system	Structured and focused performance reviews with focus on corrective actions

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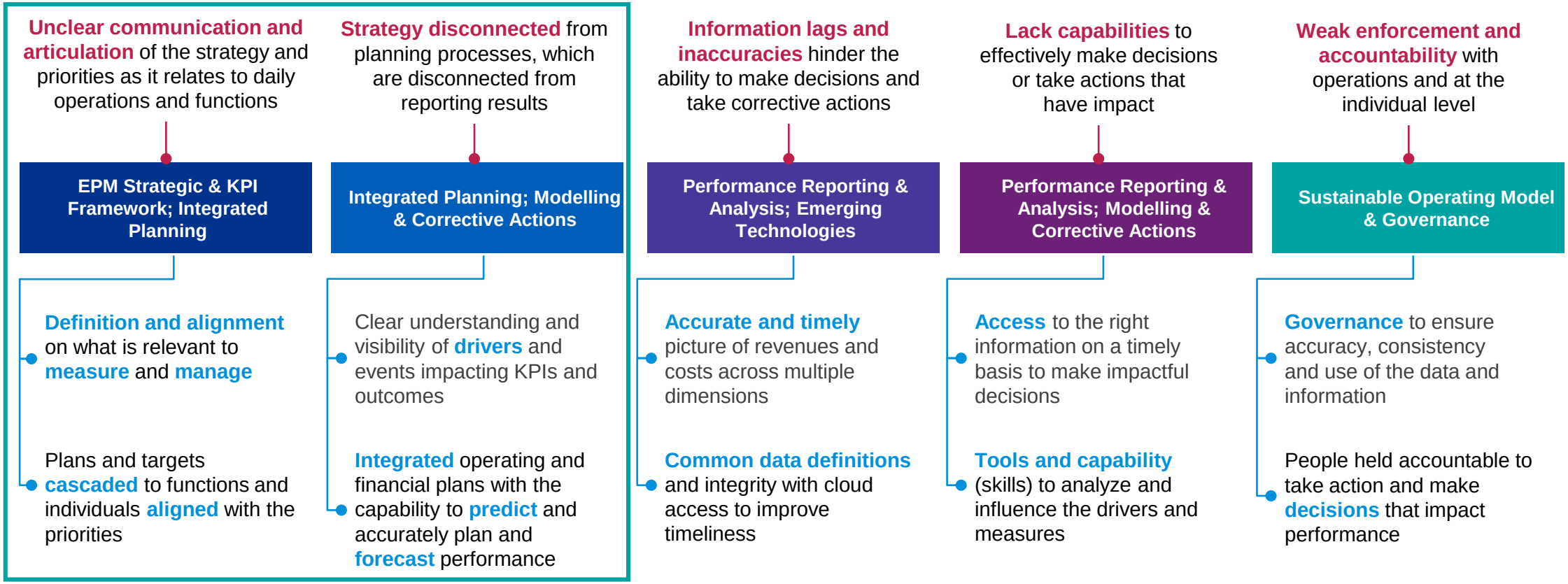
Challenges and potential benefits

Challenges to planning and optimizing enterprise performance

Successful strategy execution is enabled through a consistent performance management framework embedded in the organization

Articulate the Strategy responds to these challenges



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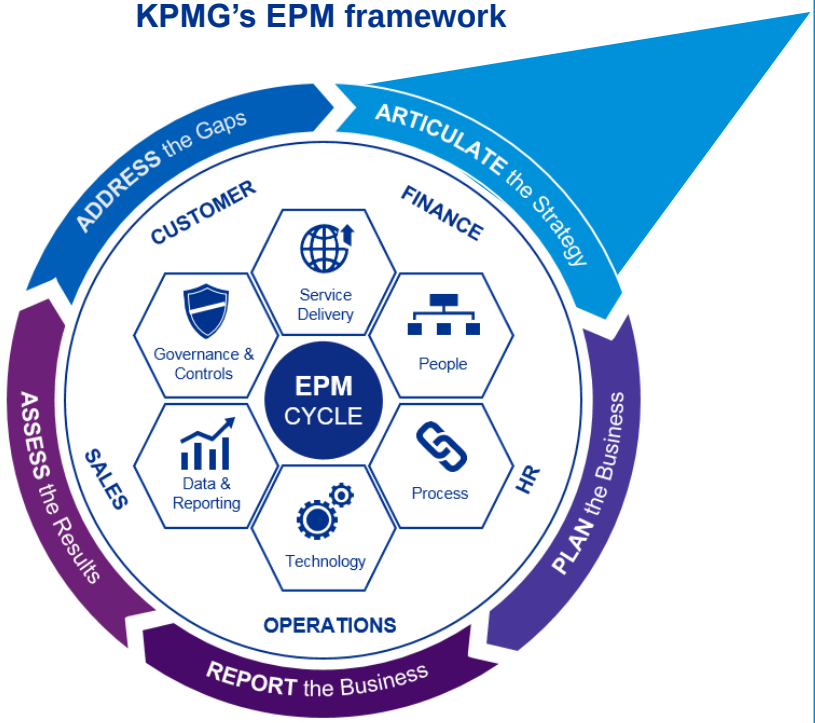
When you do it right, you can get the benefits...

KPMG's EPM framework



Potential benefits

- Focus executive and management's attention on the right measures and indicators to execute strategies and optimize performance
- Create an integrated operating and financial plan and set targets reflective of the strategies and priorities
- Improve alignment within and across the organization (departments, BUs, support functions and group) by establishing clear linkage between strategy and performance measures
- Provide a balance across the key dimensions of performance
- Compare plan versus actual: Report performance and provide analysis capability leveraging cloud and mobile solutions to quickly evaluate plan versus actual and take action
- Enable analytical capabilities with focus on the right decisions
- Identify hidden revenue opportunities with the use of predictive analytics
- Enable comparison of information internally and externally
- Adjust plans, strategies and actions: Take corrective actions and adjust the plans and forecasts to continuously be looking forward
- Improve consistency and alignment of key organizational data

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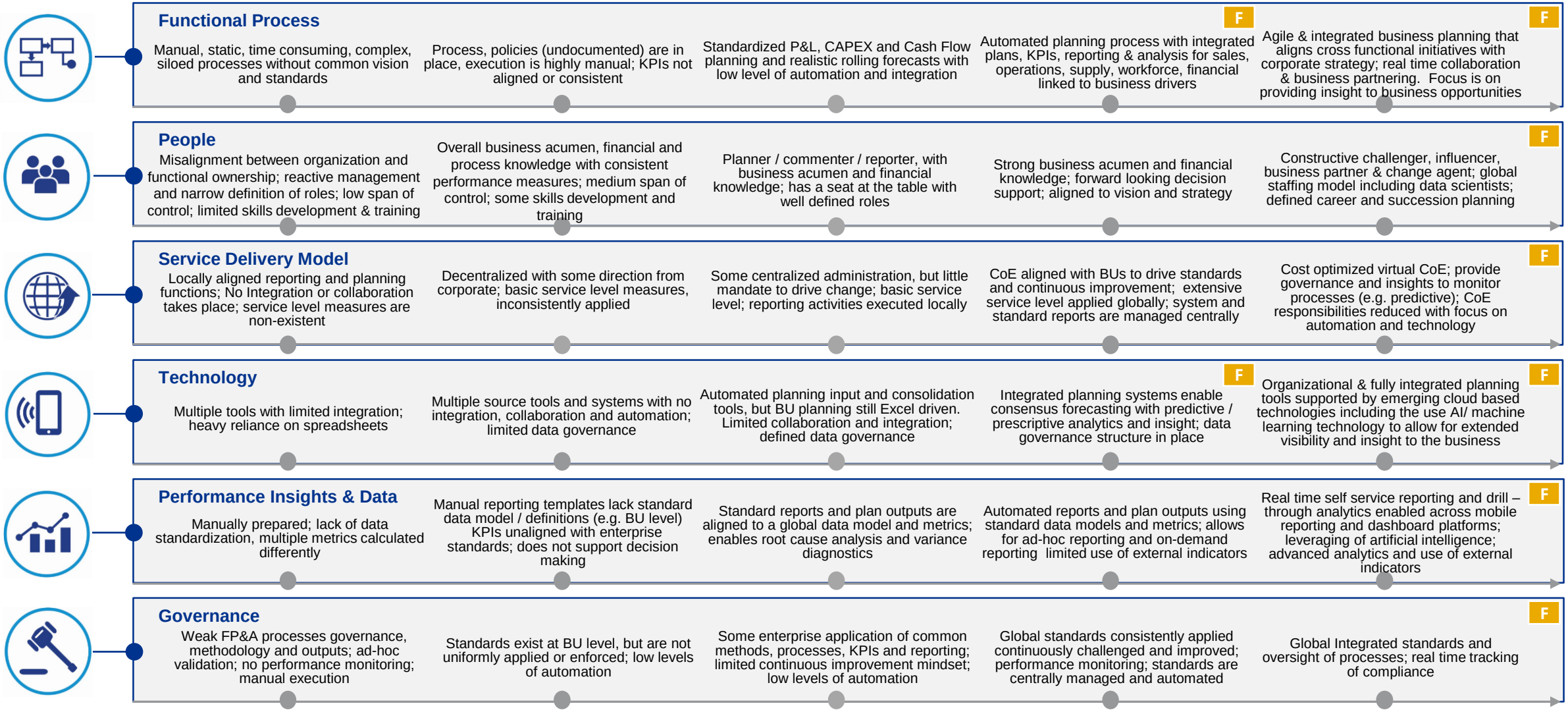
Operating model maturity assessment

How mature is your operating model?

F *Aligns to Future of Campaign*



Functional Process	Manual, static, time consuming, complex, siloed processes without common vision and standards	Process, policies (undocumented) are in place, execution is highly manual; KPIs not aligned or consistent	Standardized P&L, CAPEX and Cash Flow planning and realistic rolling forecasts with low level of automation and integration	F Automated planning process with integrated plans, KPIs, reporting & analysis for sales, operations, supply, workforce, financial linked to business drivers	F Agile & integrated business planning that aligns cross functional initiatives with corporate strategy; real time collaboration & business partnering. Focus is on providing insight to business opportunities
People	Misalignment between organization and functional ownership; reactive management and narrow definition of roles; low span of control; limited skills development & training	Overall business acumen, financial and process knowledge with consistent performance measures; medium span of control; some skills development and training	Planner / commenter / reporter, with business acumen and financial knowledge; has a seat at the table with well defined roles	Strong business acumen and financial knowledge; forward looking decision support; aligned to vision and strategy	F Constructive challenger, influencer, business partner & change agent; global staffing model including data scientists; defined career and succession planning
Service Delivery Model	Locally aligned reporting and planning functions; No Integration or collaboration takes place; service level measures are non-existent	Decentralized with some direction from corporate; basic service level measures, inconsistently applied	Some centralized administration, but little mandate to drive change; basic service level; reporting activities executed locally	CoE aligned with BUs to drive standards and continuous improvement; extensive service level applied globally; system and standard reports are managed centrally	F Cost optimized virtual CoE; provide governance and insights to monitor processes (e.g. predictive); CoE responsibilities reduced with focus on automation and technology
Technology	Multiple tools with limited integration; heavy reliance on spreadsheets	Multiple source tools and systems with no integration, collaboration and automation; limited data governance	Automated planning input and consolidation tools, but BU planning still Excel driven. Limited collaboration and integration; defined data governance	F Integrated planning systems enable consensus forecasting with predictive / prescriptive analytics and insight; data governance structure in place	F Organizational & fully integrated planning tools supported by emerging cloud based technologies including the use AI/ machine learning technology to allow for extended visibility and insight to the business
Performance Insights & Data	Manually prepared; lack of data standardization, multiple metrics calculated differently	Manual reporting templates lack standard data model / definitions (e.g. BU level) KPIs unaligned with enterprise standards; does not support decision making	Standard reports and plan outputs are aligned to a global data model and metrics; enables root cause analysis and variance diagnostics	Automated reports and plan outputs using standard data models and metrics; allows for ad-hoc reporting and on-demand reporting limited use of external indicators	F Real time self service reporting and drill – through analytics enabled across mobile reporting and dashboard platforms; leveraging of artificial intelligence; advanced analytics and use of external indicators
Governance	Weak FP&A processes governance, methodology and outputs; ad-hoc validation; no performance monitoring; manual execution	Standards exist at BU level, but are not uniformly applied or enforced; low levels of automation	Some enterprise application of common methods, processes, KPIs and reporting; limited continuous improvement mindset; low levels of automation	Global standards consistently applied continuously challenged and improved; performance monitoring; standards are centrally managed and automated	F Global Integrated standards and oversight of processes; real time tracking of compliance

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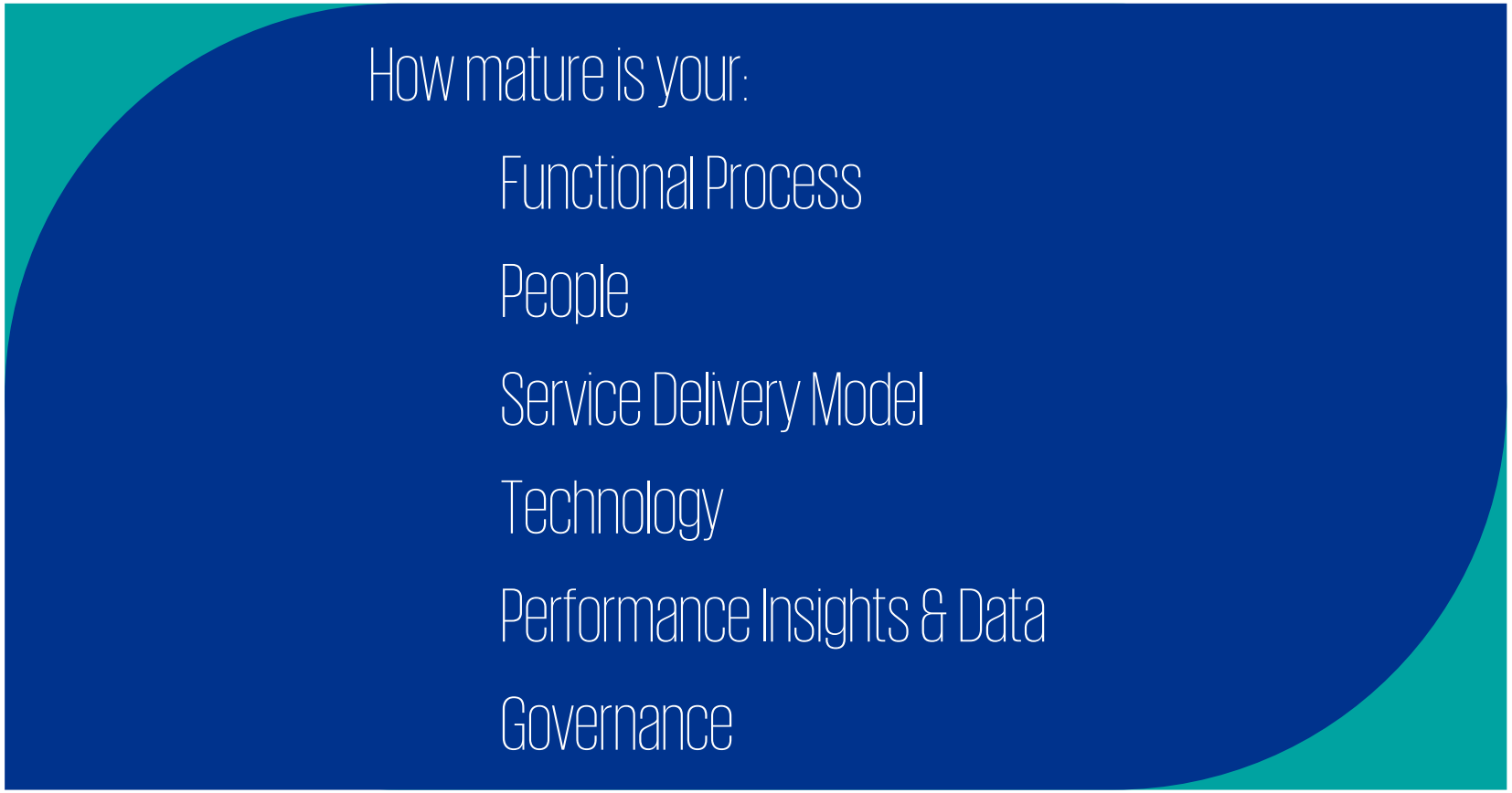
Exercise 3(a)

As a group, we will plot the audience's current state (most common by show of hands) operating model maturity. On a scale of 1 to 5 (Left to Right), 1 being the least mature, 5 being fully mature.



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Exercise 3(b)

As a group, we will plot the audience's future state (three to five years in the future) operating model maturity. On a scale of 1 to 5 (Left to Right), 1 being the least mature, 5 being fully mature.

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Discussion

Where are the biggest gaps?

What are the highest priority areas?

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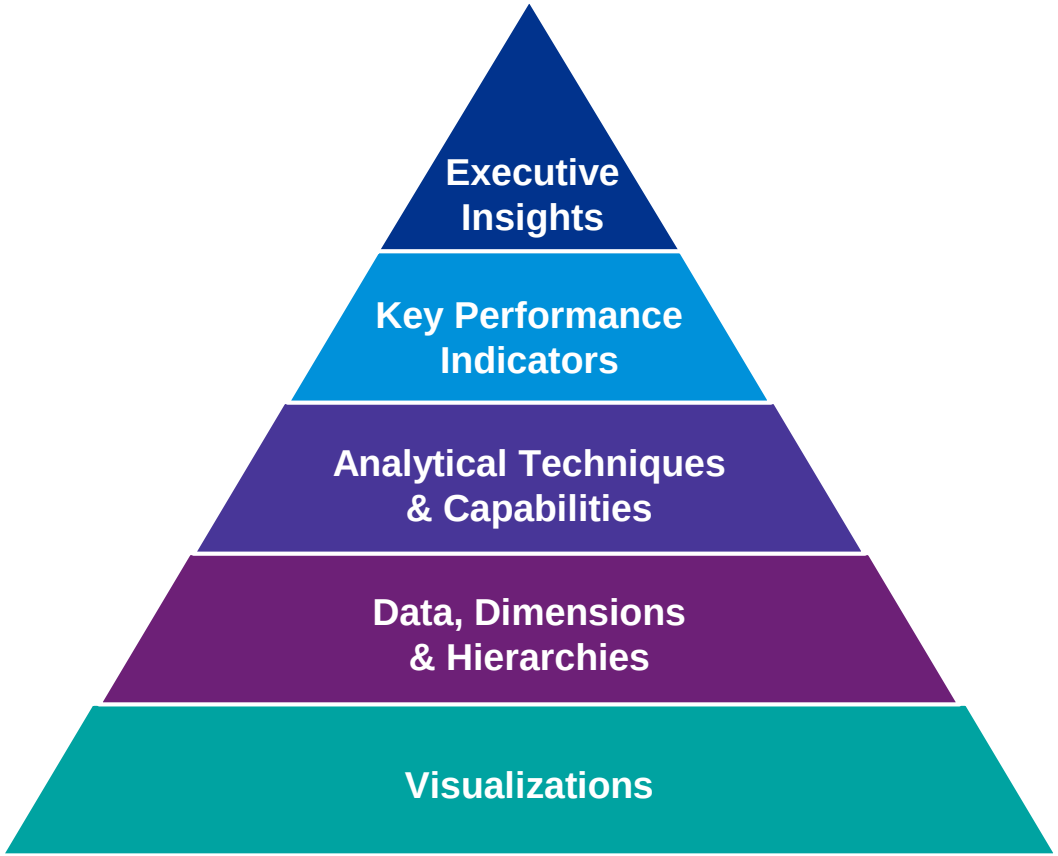
Leading practices and game changers

Value lies in the ability to drive performance by asking the right questions

In the face of current market challenges, you might be asking:

- How do I apply financial and data analytics to **achieve growth**?
- How do I **improve alignment with citizen values** and be more nimble to deliver value?
- How do I **drive operational productivities**, cost reductions and capital spending efficiencies to enable spending (i.e. find the money) on **new and necessary technologies**?
- What are the **impacts of innovation** programs on my operations?
- How do I you **derive competitive advantage** from changing regulation?
- How do I **attract and retain** top talent?



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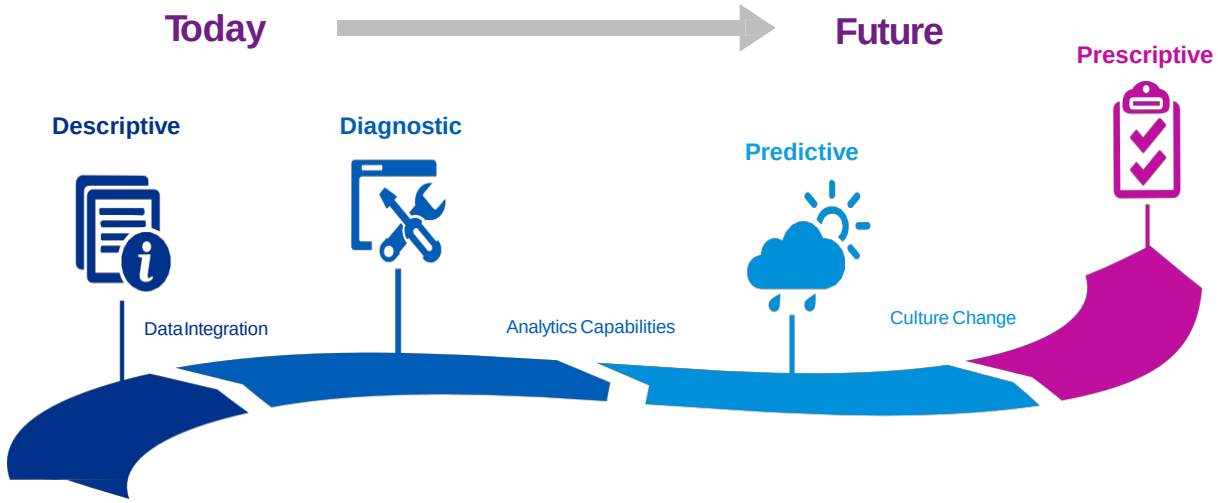
How will we get there?

Finance capability built to improve Enterprise Performance



What happened?

Example: Revenue by dimension, geography, department, program, service

Emerging technology: Cloud and In-memory computing

What will change: Automation and speed of transactions

Data: Financial, controlled, auditable

Why did it happen?

Example: Self-service and root cause analysis (explanations of variances)

Emerging technology: Enterprise Performance Management digital delivery, natural language generation

What will change: Speed of analysis with narrative capabilities

Data: Integration of non-financial and financial data for performance insights

What will happen?

Example: Future estimates of revenue and costs based on demand drivers

Emerging technology: Machine learning, unstructured data processing

What will change: Predictive analytics, scenario modelling

Data: Non financial - largely external for revenues and citizen prediction; internal for operational prediction

What should we do about it?

Example: Strategic scenario analysis of opportunities to improve growth (citizens, programs, services)

Emerging technology: Collaborative commentary, Artificial Intelligence/ cognitive big data analytics

What will change: Hypothesis generation; advanced citizen and outcome analysis

Data: Non financial – external and internal

Guiding Principles

1 Aligned to Strategy

Improve alignment within and across the organization, i.e., enterprise, segments, geographies, and corporate functions, by establishingclear linkage between strategy and its execution

2 Focused on forward looking insights

Use a core consistent set of metrics that are leading and enable management to more easily focus on the fundamental drivers of performance

3 Enabling enterprise-wide accountability

Integrated into scorecards to promote clear management accountability aimed at driving improved decision making

4 Improve trust in Reporting & Analytics data and processes

Reliable data and processes in place to collect, calculate and deliver the right information to relevant personas in a timely and efficient manner

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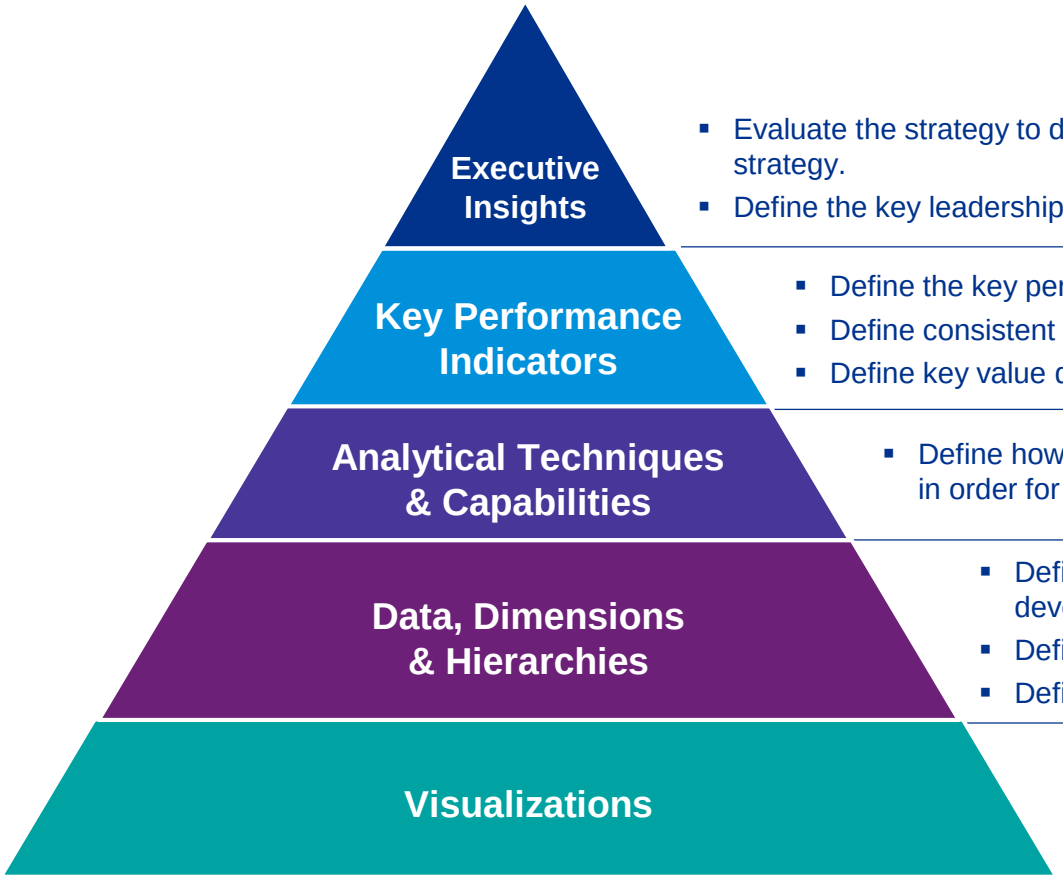
Insights should be driven using a Top Down approach

Begin this Top Down approach by asking the right questions followed by measuring the relevant data to gain insight into enterprise performance



- Evaluate the strategy to determine the insights, decisions and drivers needed to evaluate organizational strategy.
- Define the key leadership questions required to evaluate and predict performance

- Define the key performance indicators (KPI) for each leadership question to measure performance
- Define consistent metric definitions and calculations
- Define key value drivers and level of KPI measurement across the organization

- Define how key performance indicators should be analyzed and viewed across the organization in order for stakeholders to interpret results and take corrective actions.

- Define the key data sets needed to answer leadership questions and support the KPI development and analysis.
- Define the dimensions required to support the analytical techniques for analysis purposes
- Define the data hierarchies needed to support data analytical techniques

- Dashboards (Heat Maps, Graphs, Interactive reports)
- Standard reports
- Self Serve analysis
- Alerts when targets exceed a defined threshold (under/over)

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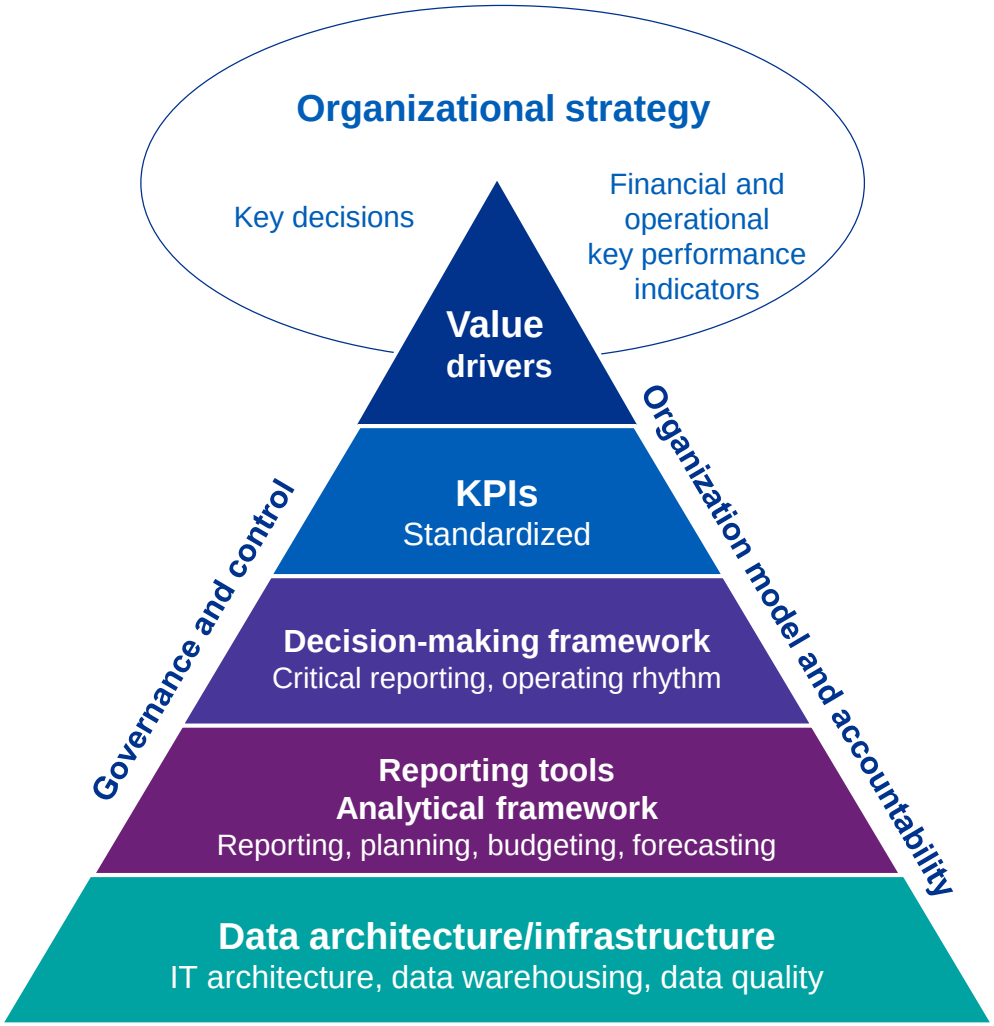
Leading practices and capabilities

Leading practices and capabilities

- Analysis and insights provided as an input to strategy development
- A global set of common and cascading performance measures that connect strategy to execution
- Clearly defined linkage between strategy, plan, forecast and actuals across Sales, Operations, Finance and HR
- Core focused set of KPIs based on a clear understanding of where value is created
- Clear KPI definitions and data sources communicated and clearly understood throughout organization
- KPIs focused on financial, operational and risk metrics
- Effective and efficient board reporting and decision-making with exception-based reporting
- Alignment of metrics and reporting throughout the organization, driving out redundant reporting
- Alignment of performance management and incentives to strategy
- Clear line of sight for individuals from personal objectives and strategic KPIs
- Harmonization of management processes
- Focused visualization for understanding versus source spreadsheet figures



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Emerging Technologies

Technology is rapidly changing the EPM landscape

Next-generation EPM systems will:

- Be delivered as SaaS and integrated across multiple platforms (cloud, on-premise, hybrid).
- Embed advanced analytics technologies to provide real-time insights.
- Deliver on the simplicity of mobile experiences.
- Embed real-time collaboration across the enterprise.
- Enable deep insights into the revenue stream.

Disruptive technologies are forcing a change in the philosophy around how EPM can be enabled.

New entrants/changes in technology platforms are **rapidly lowering the total cost** of ownership.

Technology capability (e.g. in-memory processing) **is providing analytical capability** not seen before.

Companies are **increasingly investing in technology** as infrastructure becomes more robust and cheaper.

Big data is providing governments with the opportunity to understand its citizens/ the public more rapidly and thus seek out advantages or respond rapidly.

Applications **are becoming easier to configure/manage.**

Cloud-enabled EPM services are providing structured upgrade paths around the applications, which is helping to avoid costly point-in-time major upgrades.

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Technology we have seen at the municipal level globally

We help you extend using our deep process and services experience with personnel trained and certified by our alliance partners. Enabling us to deliver wide-ranging solutions that cross multiple platforms and technologies.

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END OF PRESENTATION

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KPMG Offerings

EPM Strategy

Enterprise Performance Management is an enterprise-wide functional capability, enabled by technology, that provides the enterprise view and support needed to translate strategy into action for improved performance.

An integrated Enterprise Performance Management framework is required to realize and sustain value with EPM. This consists of:

- ✓ A continuous management cycle and operating rhythm;
- ✓ supported by integrated and collaborative processes;
- ✓ inclusive of leading capabilities;
- ✓ enabled by cloud and digital technologies;
- ✓ with proper governance to sustain and evolve

Articulate the strategy → Plan the business → Report the business → Assess the results → Address the gaps

EPM Building Blocks

EPM STRATEGY & GOVERNANCE

EPM PEOPLE
Leadership, Culture, Capability, Rewards

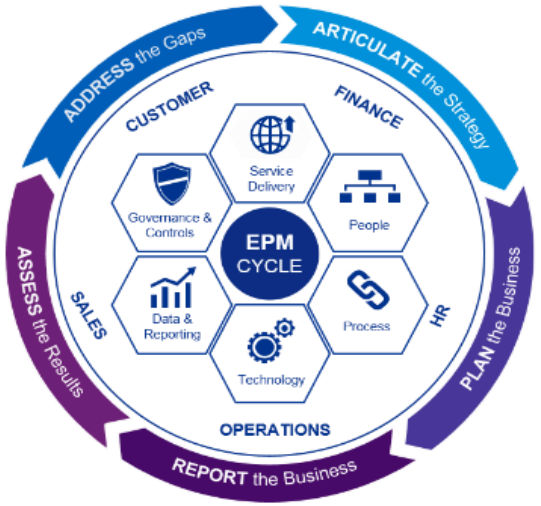
EPM CORE PROCESSES

Strategic Planning & Target Setting	Portfolio Value Analysis	Integrated Business Planning	Financial & Workforce Planning	Forecasting	Performance Reporting & Analysis	Action Planning

EPM TECHNOLOGY
Data, Information, Architecture, Tools

EPM SERVICE DELIVERY MODEL
Scope, Operating Model, CRM, Quality SLAs

Business Analytics & Modelling



A continuous "Plan-Do-Check-Act" management cycle and operating rhythm

EPM delivers:

- **Improved insight** and **decision making**
- **Dynamic measurement** and management of goals and performance
- **Integrated** operating and financial planning **across all functions** and **domains**
- **Aligned behaviors** and **actions** with strategic objectives

POTENTIAL BENEFITS

- A true EPM strategy and enterprise wide solution.
- An EPM operating model that can be put into operation.
- Ensuring people and stakeholder alignment.
- Delivering a transformation plan that truly embeds EPM.
- Implementing the right technology for your needs.
- An EPM solution that accelerates time to value and delivers on the promise.

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Reporting & Dashboards - Organizational Insights

A clear story-line enables structured and focused presentation and discussion of predefined content. This improves the context in which key financial and operational information is presented

There are five aspects to delivering effective management reporting in an organization

Key Elements of Management Reporting Framework

Reporting Process

Report definition, objectives and ownership → Reporting schedule and communication plan → Analysis and insights → Report review and future actions

Performance measure framework

Corporate level measures → (Vision / Strategy) → Division level measures → (Objectives) → Department level measures → (Initiative/ Targets) → KPI / BSC / MoS

Business Intelligence and Analytics

Analysis and insight: result analysis, business intelligence and forward looking insightful commentary

Report Design : report content, reporting dimensions and anchoring to data sources

Dashboards : visual presentation designing, automation and customization

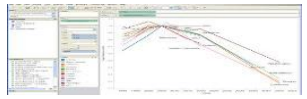
Data and Information management

Master Data Management | Data warehousing and mining | Data integrity and security management

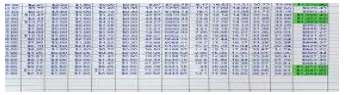
Technology Infrastructure

MIS Dashboard and Reporting tools

BI / Analytics tools



Databases



ERP Software

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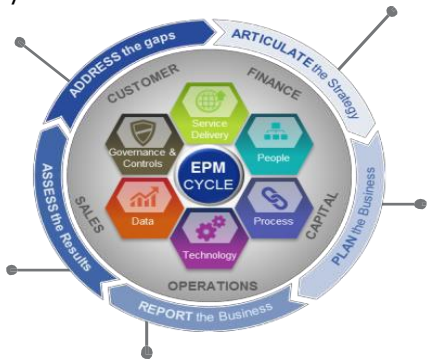
Driver-Based Planning, Budgeting & Forecasting

What good looks like?
A consistent way across the organization to set out strategic ambition, plan resources to meet it, forecast and review, then take action to meet or exceed this ambition.

Forecasting
- Forecasts are transparent and 'brutally honest'
- Driver-based with focus on materiality, volatility & controllability
- Corrective action modelling

Strategic Planning
- Sophisticated scenario capability
- Integrated process
- Top-down target setting

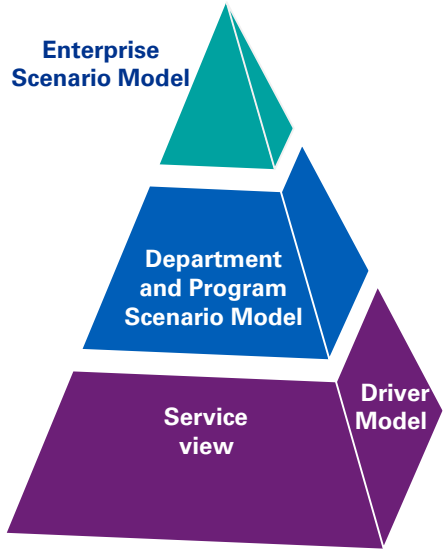


Planning and Budgeting
- Clear purpose to close gap between last forecast and strategic ambition
- Driver-based
- Culture of trust and empowerment
- Focus on management actions, not underlying

Insight and Analysis:
- Use forward looking indicators
- Self service analytics capability
- Leveraging cloud and mobile solutions

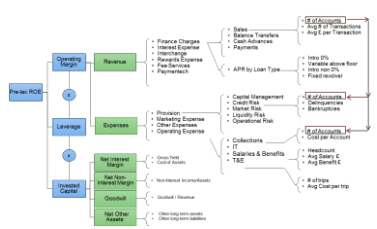
Performance Reporting:
- Visual and timely reports on a core set of KPIs
- Multi-dimensional (e.g. Legal Entity and BU views)
- Digitise executive and operational dashboards – anytime, anywhere

Build up of plan using operational drivers allows multidimensional aggregation of plan / forecast across Enterprise, Department, Program and Service



Product drivers

Example driver tree for one Department (replicated for multiple Departments) which roll up into Programs and Services



Strategy measurement

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Reporting & Dashboards - Analytics (1/2)

Overview

- EPM is a C-suite issue that helps enable leaders to holistically align their strategies with plans and actions that significantly impact the entire organization's performance—resulting in a competitive advantage.
- In a fast-moving business and regulatory environment, a holistic EPM solution enables you to dynamically manage execution of the strategy and performance—empowering you to act decisively on what matters most to your organization anytime, anywhere.

Challenges faced by the clients

- Lack capabilities to effectively make decisions or take actions that have impact
- Information lags and inaccuracies hinder the ability to make decisions and take corrective actions
- Limited predictive capability & Real Time Data driven insights
- Weak enforcement and accountability with operations and at the individual level
- Unclear communication and articulation of the strategy
- Limited automation in Reporting

Our Approach

Phase 1 : Strategy
- Solution analysis
- Requirement elicitation
- Prepare technology solution
- Test strategy and mobilization
- Project management & governance

Phase 2: High level design
- Current state assessment
- Gap analysis against leading practices
- Define target operating model
- Develop case for change and road map

Phase 3: Detailed design & build
- Agree design principles
- Detailed design specification
- Configure and develop the system
- Solution testing validation

Phase 4 : Implementation
- Functional, non-functional & UAT testing
- Change management
- Communication
- Knowledge transfer

Phase 5: Improvement
- Review and improve performance
- Support stabilization phase
- Embed continuous improvement

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Reporting & Dashboards - Analytics (2/2)

Enterprise Performance Management, EPM, is an enterprise-wide capability, enabled by technology, that provides the enterprise view needed to translate strategy into action for improved performance.

Expectation/need	How KPMG will address the need
Clear communication and articulation	► Definition and alignment on what is relevant to measure and manage ► Plans and targets cascaded to functions and individuals aligned with the priorities
Connected Strategy	► Clear understanding and visibility of drivers and events impacting KPIs and outcomes ► Integrated operating and financial plans with the capability to predict and accurately plan and forecast performance
Accurate information	► Accurate and timely picture of revenues and costs across multiple dimensions ► Common data definitions and integrity with cloud access to improve timeliness
Data Mining & Information Management	► By building data repository for Structured, Semi-structured and Un-structured data enables with large scale processing & analytics
Analytics	► By deploying advanced technology and statistical methodologies to collect, integrate, analyze the data ► Better understand, predict key performance areas based upon internal and external signals ► Use machine learning algorithms to get actionable insight

Value to Client

- Improved insight and decision making
- Integrated operating and financial planning across all functions and domains
- Aligned behaviors and actions with strategic objectives
- Real Time, Self Service Analytics and Dashboards

EPM offerings align to market needs

Integrated Planning	Consolidation & Disclosure Management	Data Mining & Information Management	Performance Reporting	Intelligent Automation & Data Analytics

Tools & Accelerators

Integrated Planning	Consolidation & Disclosure Management	Data Mining & Information Management	Performance Reporting	Intelligent Automation & Data Analytics
Anaplan, EPBCS, Board	Trintech, BPC, Blackline, Tagetik	SAP'HANA	Altaryx, R, Python, SAS, Alteryx, Hadoop, DRM	QLIK, Antworks, Tableau, IBM Watson, Blueprism, EPRCS, Power BI

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Cost allocation & benchmarking

Costing is required in order to design processes and effective cost center hierarchies to gain insights into cost drivers to identify inefficiencies, especially product costs to enable adequate analysis. This helps obtain timely insightful information, focus on drivers and helps enhance the available capacity (people, infrastructure, resources, etc.).

Setup costing systems to enable decision making

Enhanced view of financial metrics to drive decision making

Dimensionality
Line of sight on how dimensions (department, program, service, geography, etc.) add value through allocating revenues and costs to value drivers (as opposed to traditional cost drivers)

Comparison of costs for driving efficiencies

Cost benchmarking
Establish internal cost benchmarks across Department / Programs/ Services. Determine per unit output based cost benchmarks

Activity based costing (ABC)	***Product / Services costing***	***Standard costing***	***Cost allocation framework***
Setup ABC system to support and enable effective management decision making	Costing models to enable inventory valuation, product / services pricing decisions (such as transaction based pricing for ITeS companies), regulatory reporting, etc.	Setup standard costing systems for enabling supplier costing (should costing templates to evaluate and help negotiate with suppliers)	Develop framework for allocating indirect costs / overheads to enable efficient pricing of products / services

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Multi Dimensional Profitability

"In today's public sector, leaders need rich and relevant information on the actual effectiveness at the Department, Program, Service and Outcome Levels. This helps management to take an informed decision…"

Key Components for an effective MDP model

Strengthen quality of depth and insights

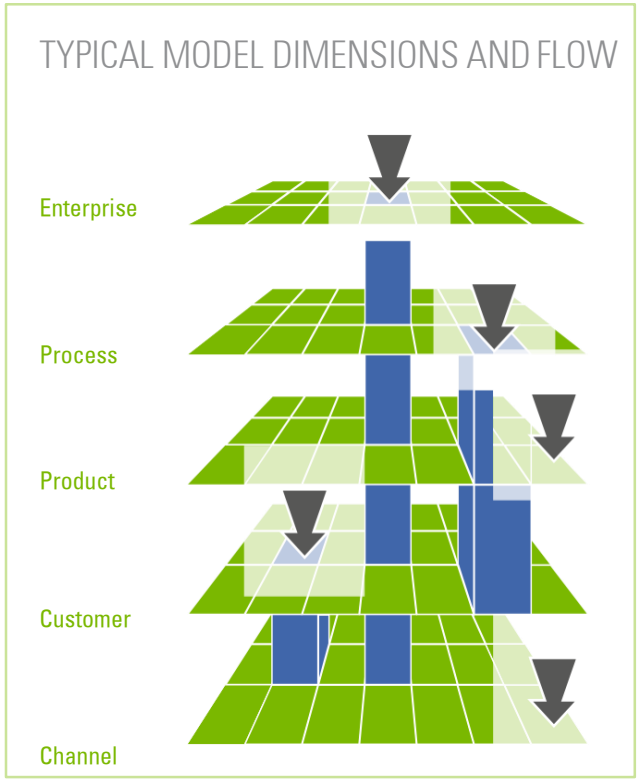
- Key decisions need to focus on WHAT products and services to be offered, WHO they and HOW and WHERE these are sold and serviced efficiently.
- Transparency and action on program and service profitability
- Engagement of stakeholder engagement, cross functional collaboration and governance

Design and build a model for efficiency

- The data model needs to align to both business and finance needs
- Review of the model should be part of the annual strategic planning cycle to work efficiently
- Data is structured appropriately for sustainable and efficient analysis across dimensions

Practical Industry-Wide Experience

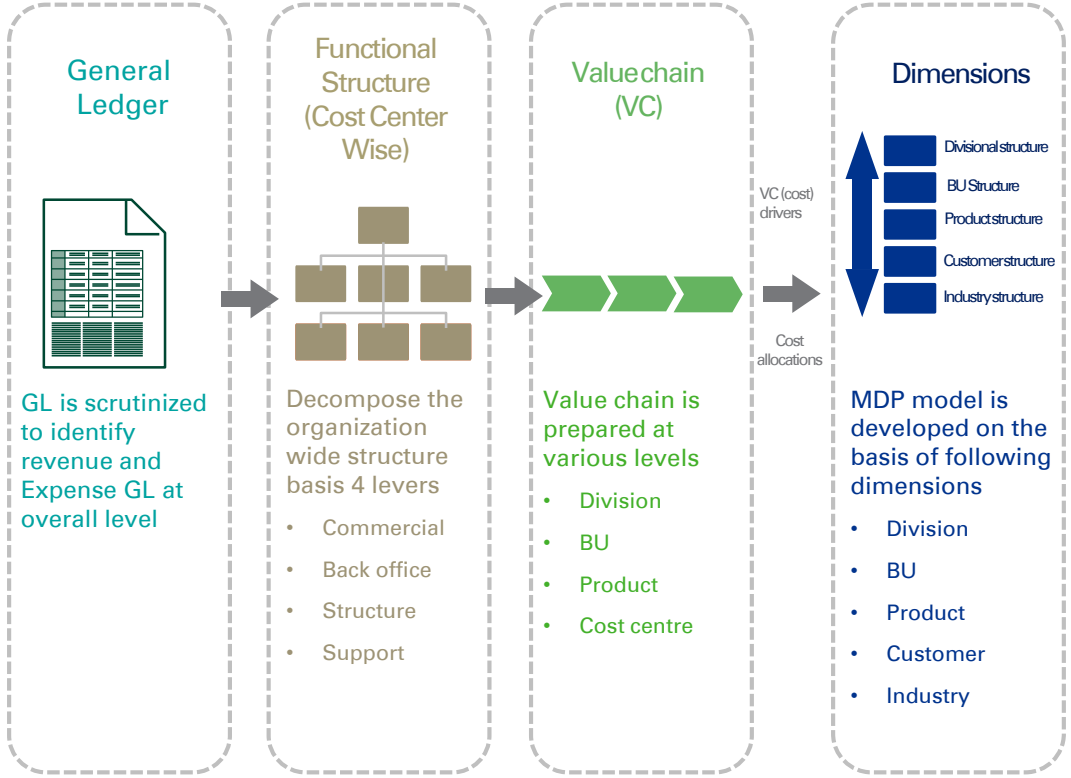
- A Centre of Excellence (CoE) for MDP can provide the organizational capability for increase in output quality and operating efficiency, helping to overcome people, process and tooling barriers..
- An effective approach is business owned and finance governed - business areas own the data, dimensions and insight, Finance ensure integrity and consistency across the organization.



An organization must have complete alignment with the income statement in terms of total net income.

This means that the net income on all elements in the structure must sum up to what is reported. As a result getting control over GL is critical for a profitability analytics solution.

Analytical dimension for MDP…



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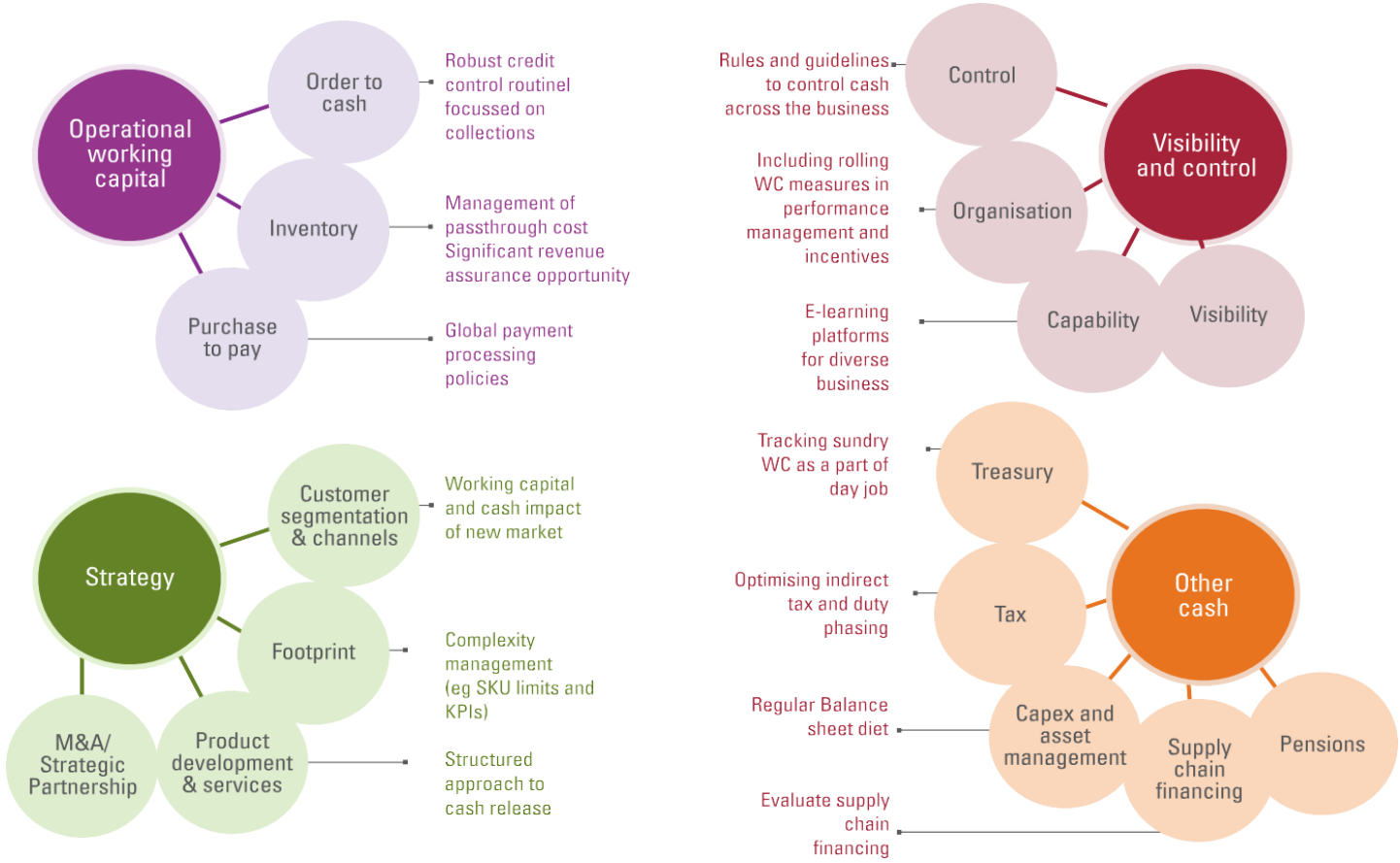
Working Capital Management

KPMG's 360 degree framework to optimise working capital



Do you want to release cash to fund growth?

KPMG helps its clients to achieve an efficient working capital position and facilitate release of cash to fund additional growth initiatives. An efficient working capital management programme includes - robust systems, streamlined processes and management rigor with respect to costs and controls resulting in release of cash. We help clients in improving their cash operating cycles by reducing float in various finance processes and by building frameworks for effective cash forecasting.

What is in it for you

- Facilitate additional growth with existing working capital
- Optimization of the company's cash
- Procurement, accounts payable, inventory, and collection process improvement
- Reduce debt exposure and manage cost of capital
- Improved visibility and reliability of information and establishment of continuous control

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Differentiators

Why choose KPMG

We understand the public sector. Our deep knowledge embraces both current trends and future challenges. We know what's coming over the hill, from threats and disruptions to opportunities and innovations. We **know the issues and pressures you face—and we have the knowledge and experience to help you deal with them.**

We deliver the results that matter.

KPMG professionals' understanding of what is happening in today's markets is matched by a proven ability to produce effective, timely and appropriate solutions fit for purpose.

We know how the public sector works.

KPMG teams immerse themselves in your organization, your objectives and your priorities. That's why KPMG people will feel more like colleagues than consultants.

We know how to get things done.

KPMG can put together a hand-picked team of specialists, who will work to meet your needs. We can also draw on a wealth of tools, methods, assets and accelerators that enable us to help you achieve your strategic objectives.

We know how to exploit technology

KPMG teams combine deep functional and industry knowledge with proven technology implementation skills. Our focus on practical outcomes helps to maximize the return on your investment in technology.

We are on your side, all the way.

We are here to help engage your citizens, accelerate your priorities and drive your performance. From vision to value—we are here for you.

We can't reduce the competitive pressures in today's markets — but we can help you address them and find new opportunities for growth.

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Why KPMG for EPM?

Delivering Insight

Industry Depth & Insights
Content, Planning, Scenarios, Prototypes/Models

Financial acumen
Finance, Accounting, Tax, Risk, Forecasting

Outcome focused
Deliver measureable outcomes and value

Speed to Value

Fit for purpose **iterative solutions** vs. “getting perfect” that leverage prototypes, assets and accelerators

Deliver **access** on mobile devices **with real time** / alert updates

Customer experience is at core
Engaging, interactive design labs and insight centers

End-to-End Integrator

Strategy ➡ Implementation
A “Show vs. Tell” approach that is business-led and technology-enabled

Be accountable for the holistic solution; the “one throat to choke”

Advisor and implementer across **multiple service areas**

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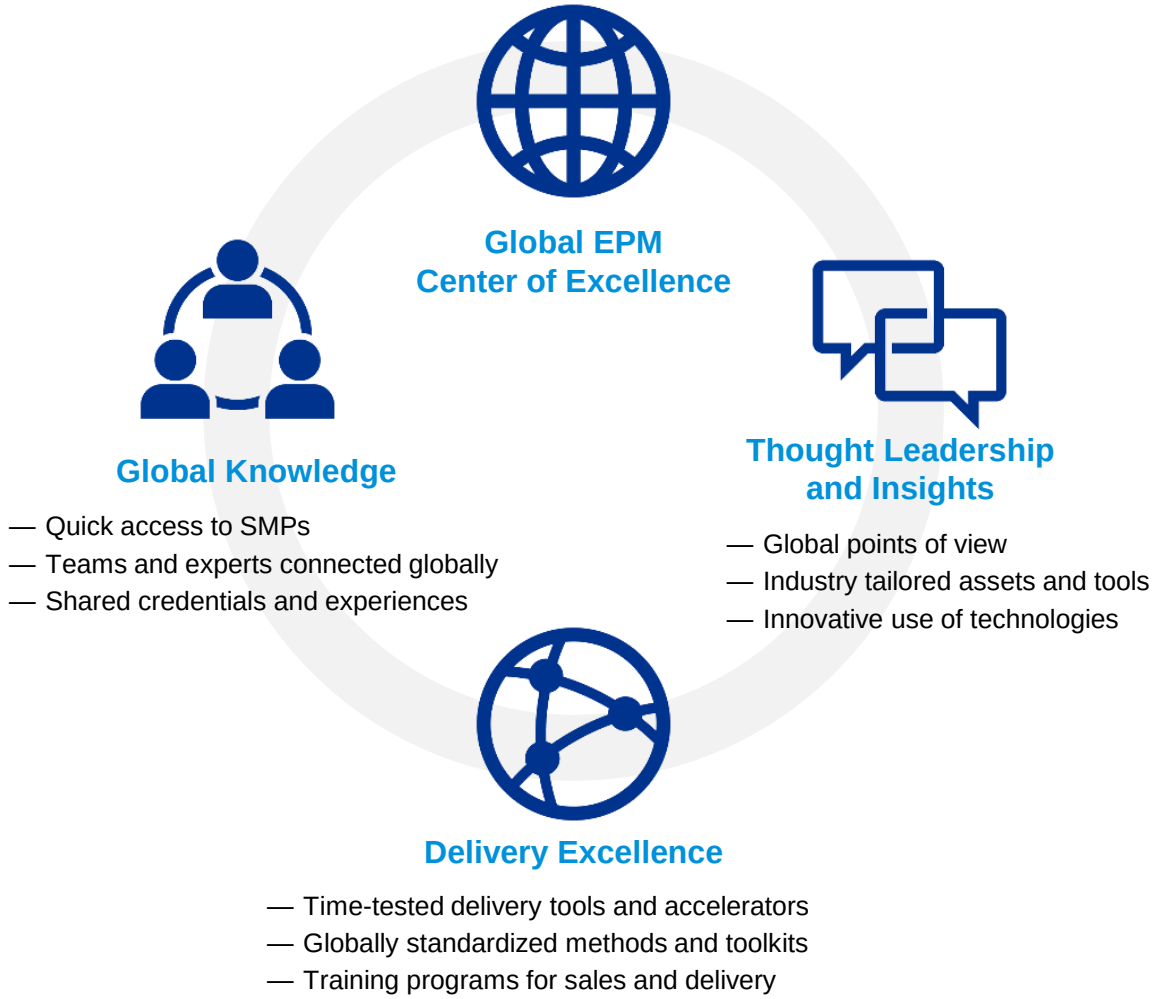
KPMG Global EPM Center of Excellence (COE)

KPMG's Global EPM COE is focused on enabling the EPM vision and capabilities to drive growth and deliver sustainable value.

KPMG's EPM professionals are committed to helping clients transform their organizations by providing value through a multidisciplinary service approach that combines functional, operational, and technology consulting skills with experience in audit, risk, regulatory, tax, and M&A issues.

Our Global EPM COE **captures and leverages innovation and learning** from across teams **to deliver knowledge and expertise** to member firm clients worldwide.



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KPMG's EPM Capability

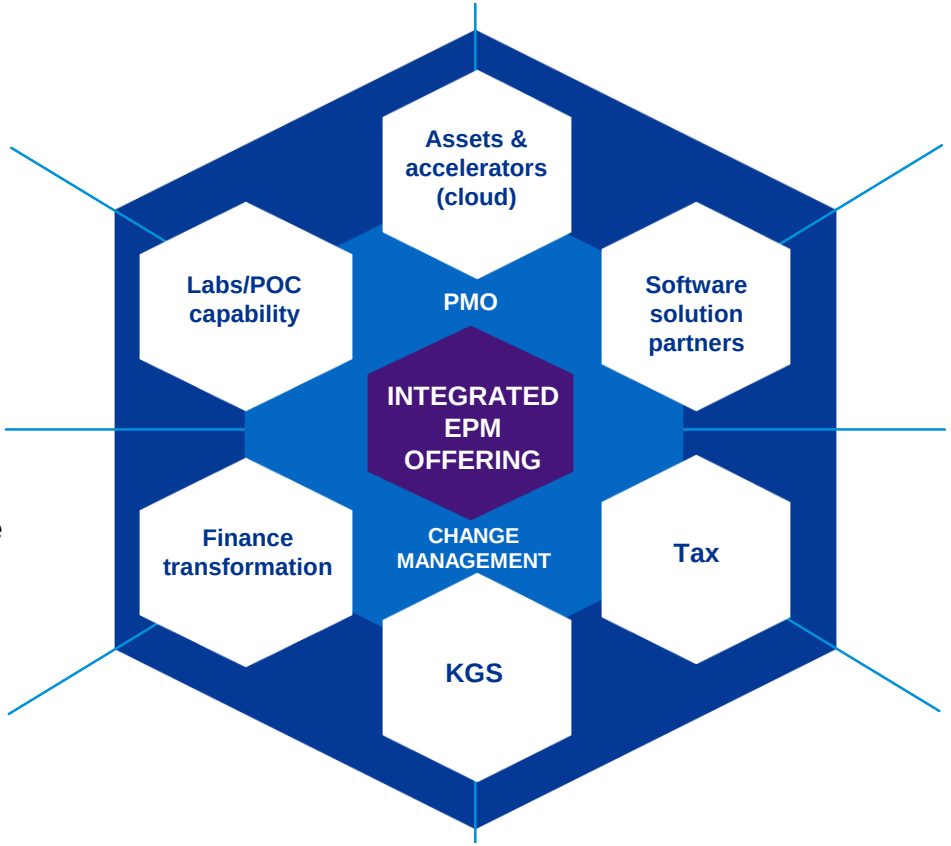
KPMG brings an 'integrator' approach to EPM that leverages a broad set of capabilities to deliver

Assets & Accelerators – Leading practice based, pre-configured assets and prototypes that help visualize solutions and accelerate iterative development.

Labs/Proof of Concept Capability – KPMG's leading technology-enabled environments that accelerate time to value leveraging prototypes based on solving specific sector issues.

PMO – Global complex program management capabilities and experience with tested methodologies supported by a Global Delivery Backbone and consensus building U-Collaborate approach to manage broader transformation programs.

Finance Transformation – Integrated and holistic approach supported by cross functional teams focused on solving strategic issues leveraging robust toolkits to accelerate project delivery.



Alliance enabled Innovation – Alliance and strategic relationships with forward-looking software solution providers that deliver leading end-to-end and fit for purpose EPM solutions.

Change Management – Industry recognized worldwide Organizational and Behavioral Change Management capabilities supported by a dedicated people agenda focused practice.

Tax – Tax Transformation practice addresses needs of tax stakeholders that boutique and systems integrator (SI) competitors can't handle.

KPMG Global Services – Enhances delivery capability based on global learnings to deliver efficient solutions and resources focused on critical project components at a cost effective price.

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EPM Industry Prototypes

To show how EPM can help executives address their challenges, KPMG's Global EPM COE built functioning cloud-based prototypes that **demonstrates what 'good looks like'** when you combine KPMG's leading practices and insights with enabling technology, they are:

— based on **leading practices**,

— **client informed**,

— **business led**, and

— **cloud** technology enabled

The following industry prototype models are available:

— Banking

— CFO reporting (cross industry)

— Consumer

— Insurance

— Power & Utilities

…more coming soon

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