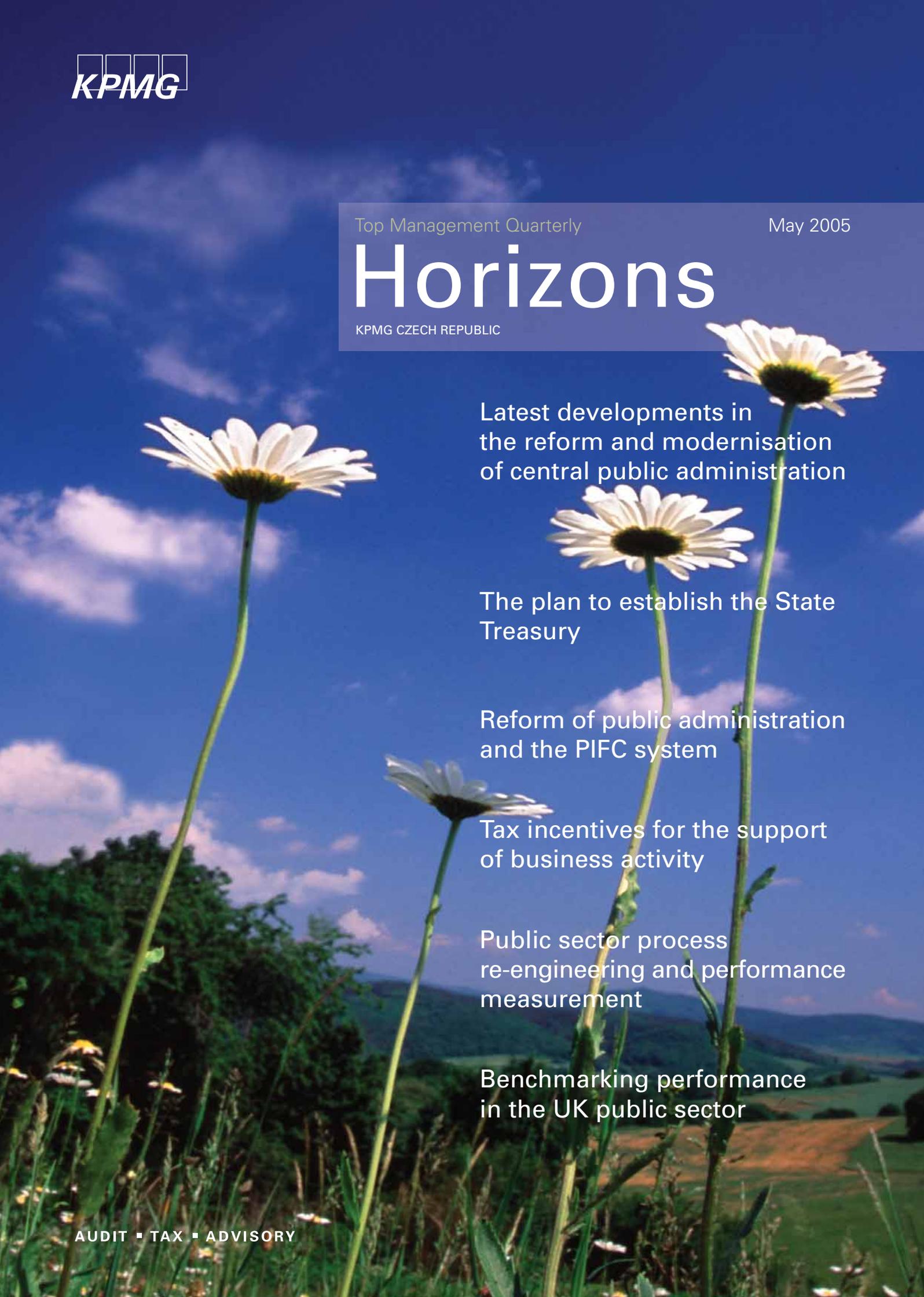


Horizons

KPMG CZECH REPUBLIC

A photograph of several white daisies with yellow centers, growing on tall green stems in a field. The background shows a blue sky with light clouds and a green landscape with rolling hills.

Latest developments in
the reform and modernisation
of central public administration

The plan to establish the State
Treasury

Reform of public administration
and the PIFC system

Tax incentives for the support
of business activity

Public sector process
re-engineering and performance
measurement

Benchmarking performance
in the UK public sector

“Join us in looking beyond the limits of typical advisory services and become familiar with modern approaches to solving your business problems.”

František Dostálek
Managing Partner
KPMG Czech Republic

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Partner, Risk Advisory Services



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Editorial

Stanislav Červeňan
Partner, Risk Advisory Services



“The reform was launched last year and its objective is to gradually reduce the budgetary deficit and at the same time increase the quality of public finances.”

The reform of public administration and reform of public finances are two phrases which the media quote almost every day. They seem to be some kind of “magical mantra” of Czech politicians.

The reform of public administration is inherently connected with the term “officer” which does not always conjure up positive connotations. For most of us, it is associated with long queues at various public offices and lengthy procedures. The number of public offices and their employees keeps growing but this does not always guarantee an improved quality of service. It may even be counterproductive, as officers create their own world and rules and citizens are perceived as an obstacle rather than a customer.

Some politicians promise that the reform of public administration will change the situation. Others oppose the reform and say that it will only increase the number of politicians and thus increase costs in return for no real benefits. Establishment of a new office does not necessarily mean that bureaucracy will also increase. The result might be that the staff will be able to focus on the important things and produce higher quality work; the agendas of individual offices will no longer overlap and offices will spend more time working for the public benefit rather than doing work for each other. However, well-functioning offices and professional bureaucrats are in short supply.

The reform of public finances is connected with money, or more accurately, lack of money, i.e. it addresses the public budgetary deficit. The reform was launched last year and its objective is to gradually reduce the budgetary deficit and at the same time increase the quality of public finances. The government set these two objectives in its Manifesto. The reform of public finance is not only an opportunity to obtain much needed resources but also to ensure they are invested effectively. One of the key measures for improving the health of public finances is the establishment of a State Treasury.

How to dismantle redundant institutions and weed out bad officers? How to ensure the gradual reduction of the State budget deficit? Answers to such questions are not easily found. In this issue of Horizons, we will endeavour to answer them.



Latest developments in the reform and modernisation of central public

One of the most widely discussed government projects is the reform and modernisation of central public administration. This project, which from the spring of 2004 has been in progress under the auspices of the Office of the Czech Government is aimed at correcting certain deficiencies in the management of central public administration, in particular concerning the effectiveness and transparency of the central authorities, low staff motivation and the lack of accountability for the quality of regulations submitted for government approval. At this stage, the project will cover 26 entities classified as central public administration authorities, comprising 15 ministries and 11 central authorities (see the table below).



Ministry	Central authority
Ministry of Finance	Czech Statistical Office
Ministry of Foreign Affairs	Czech Office for Surveying, Mapping and Cadastre
Ministry of Education, Youth and Sports	Czech Coal Board
Ministry of Culture	Industrial Property Office
Ministry of Labour and Social Affairs	Office for the Protection of Competition
Ministry of Health	Administration of State Material Reserve
Ministry of Justice	State Office for Nuclear Safety
Ministry of Internal Affairs	Securities Commission
Ministry of Industry and Trade	National Security Authority
Ministry for Regional Development	Energy Regulatory Office
Ministry of Agriculture	Office of the Czech Government
Ministry of Defence	
Ministry of Transport	
Ministry of the Environment	
Ministry of Information	

The reform process covers five areas in which individual projects will be implemented:

- A. to rationalise public administration processes
- B. to improve management in public administration
- C. to improve the quality of public administration
- D. to implement and improve public services
- E. to rationalise the funding of public administration.

Until now, the objectives of the individual ministries and central authorities have been described in respect of area A. Once they have been approved by the government, these objectives will be used as the input for other reform projects, in particular those describing and analysing public administration processes. A pilot audit project has been launched at the Ministry of Finance; subsequently, audits should be carried out in the other central authorities. The most significant output from the audits will be the identification of activities that could be transferred to “agencies”.

The following four priorities have been defined for the next three years:

- to carry out audits of all central authorities, the Czech Telecommunications Office and the Council for Radio and Television Broadcasting
- to implement tools for improving the quality of regulation
- to define rules for efficient horizontal communication
- to establish mechanisms to support the creation of national strategies and cross-functional solutions.

The aim of the individual projects within the reform process is to bring the methods of management in the public sector into line with methods commonly used in the private sector, specifically:

- CAF (Common Assessment Framework) model for assessing performance
- Balanced Scorecard for assessing customer satisfaction
- Project and target management.

The reform process should also concern software support for management tools and quality management models. The CAF method has the highest priority; this would enable comparisons to be made between the individual authorities leading to measures to improve their performance.

An indispensable goal of the reform process is to significantly increase the quality of documents referred to government and thus make its work more effective. The issues that are common to more than one Ministry must be addressed collectively and the activities of all parties involved should be coordinated as early as in the draft stage.

This year, pilot projects assessing the impact of selected regulatory Bills should be launched. From 2007, an impact analysis will be compulsory for all Bills submitted to the government.

One of the priorities of the present government is to reduce the administrative burden on business. The first proposed measure is an analysis of the existing legal regulations to be carried out this year. This should focus on the administrative burden which individual regulations create for businesses. Based on the analysis, the regulations will be amended to gradually reduce the administrative burden.

The establishment of so called “agencies” is another notable feature of the reform. The agencies would be entities to which the activities of central administrative bodies that are not of a conceptual, strategic, methodological, legislative or control nature could be transferred. These activities would include executive activities relating to the operation of the office, such as supervision of day to day operations, provision of services and adherence to individual acts. Recently, a trend has been seen in many countries of the European Union (EU) or OECD (Organisation for Economic Co-Operation and Development) to transfer such activities away from central administrative bodies. The use of agencies in other EU countries and the possibility of adopting the agency model in the Czech Republic should also be analysed and plans for their operation should be drafted. The conditions for the activities of existing agencies should be unified.

The reform and modernisation of public administration is a very ambitious programme which will have significant implications for the functioning of the central administrative authorities in the Czech Republic. The reform process should turn the central public administration into a flexible organisation able to provide better quality services to the public. If the aim of the programme is to be achieved, political pressures need to be put aside, in order that the reform can be carried through and is not threatened by political changes. The first phase of the reform should be completed in 2007. A preliminary assessment of the success of the reform in relation to its aims will be carried out at the end of this year.



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The plan to establish the State Treasury

At its February meeting, the Czech government approved the plan to establish the State Treasury. This will have significant implications for the functioning of public finance.



“The main objective of the State Treasury is the implementation of a central accounting system that integrates and consolidates accounting data collected in real time. This will minimise the risks relating to decision-making processes.”

The State Treasury should reform the management of public funds by using modern methods of financial management in public administration. The main objective of the State Treasury is the implementation of a central accounting system that integrates and consolidates accounting data collected in real time. This will minimise the risks relating to decision-making processes. The system should also increase the quality of management of public finance and prevent the occurrence of uncovered liabilities in the future.

Similar projects in neighbouring countries are further developed. The main advance has been in Hungary where the State Treasury – an independent entity which functions as a bank within the payment system (it has direct access into the clearing system) – has been established since 1992. Slovakia has adopted a similar model: its State Treasury is an independent entity with banking powers responsible to the Ministry of Finance. At present, individual public administration entities are linked to the State Treasury. Poland is only a step ahead of the Czech Republic; the supplier was selected last summer. In the Czech Republic, the State Treasury will not be an independent entity; it will operate under the Ministry of Finance.

The State Treasury model is based on the recommendation of the World Bank and the International Monetary Fund. The State Treasury would be responsible for recording national revenues and expenses, management of state with assets and liabilities, central bookkeeping on an accrual basis (e.g. full accounting for liabilities), implementation of automated checks, management of State budget funds and reporting on the economic results of the State. With the establishment of the State Treasury, the management of public finance should approach the mechanisms on which private companies operate.

Taking into account the scope and complexity of public finances, the establishment of the State Treasury is not an easy task. One of the first steps is designing the State Treasury's process model which itself is a difficult task. From the factual point of view (the model should comprise preparation of budgets, accounting records, reporting and cash-flow management) and process-wise (the model will need to be discussed widely within the public administration).

The integration of existing individual information systems at Ministries with the new system at the State Treasury will also be very important.

The establishment of the State Treasury is planned in several stages and should be completed by 2010. The total cost is estimated at CZK 2.44 billion.

It is expected that the introduction of the State Treasury will reduce the cost of managing of public finance, improve it and make it more precise.



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Reform of public administration and the PIFC system

The reform of Czech public administration has been in progress since the beginning of the 1990s. Once the regions had been created (1st phase) and the districts abolished (2nd phase), the reform and modernisation of the central public authorities (3rd phase) was launched. The completion of the 1st and 2nd phases enabled the responsibility for public services to be transferred from central government to the regions and municipalities. In the meantime, other systems and ministries have been going through a similar reform process with varying rates of progress and their own implications. The key element of the reform processes is the reform of public administration. The European Commission advised the candidate countries of its policies at the end of the 1990s by means of an appeal to be ready both to contribute to and draw from the European Union (EU) funds and an appeal to cooperate on a new system of administration for public finances. This gave rise to the PIFC (Public Internal Financial Control) system. The new EU member states have been developing this system and are now applying international standards and sharing best practice with other EU member states and OECD (Organisation for Economic Co-Operation and Development) countries. The aim is to improve the quality, transparency and capital strength of the administrative authorities, regions and municipalities.



“The reform of public finances is the main element and driver of the changes to the institutional and legislative framework for public administration and local self-government.”

Reforms

The aim of public administration is to provide public services to stakeholders. Public services are funded mainly from public funds (public budget expenditures), which similarly to private funding, are governed by their own principles and procedures although some common features do exist.

Although public and private funds should complement each other and should not be interchanged, financial transactions and related primary, secondary and tertiary legislation may have some common ground – permanent care of Internal Control (IC) systems.

The modernisation of a production factory, establishment of a new holding company and reform of public administration and local self-government systems can only be successful if accompanied by:

- continual strengthening of the responsibility of individuals for the outcome and implications of their decisions, made within their individual competencies; development of internal management systems
- internal checks ensuring that management and control systems are functional and have potential for further development (internal audit)
- internal checks ensuring that the behaviour of public and private entities complies with legislative, institutional and ethical frameworks (external audit)
- external checks that the results and implications of public sector activities create added value (civil initiatives)

- external inspections of administrators of public goods and property by private property holders.

To strengthen personal accountability and ensure the development of management systems, checks and inspections are key components of the public finance reform. This has direct implications for the public sector in terms of improved effectiveness and efficiency and indirect implications for the prosperity of the private sector. The reform of public finances is the main element and driver of the changes to the institutional and legislative framework for public administration and local self-government.

While preparing for EU accession and participation in the programmes of structural intervention of the European Commission, the Czech Republic adopted the National Programme for the Adoption of the Acquis (NPPA). This programme needs to continue because of:

1. the unsatisfactory rate of development and implementation of primary, secondary and tertiary legislation
2. need to improve the quality and speed of development and harmonisation of the European legislative and institutional frameworks.

The successful and early completion of the ongoing and planned future reforms and the related risks are closely linked to a number of other priorities. Besides the PIFC system and structural interventions, these include the adoption of the Civil Service Act and related aspects of the reform and modernisation of the central public administration, modernisation of budget rules, modernisation and



implementation of the Act on Public Tenders, preparation of the Licensing Act and the Act on Bankruptcy of self-governing entities.

The PIFC system

The EU is encouraging the new member states to adopt the fundamental principles of sound administration and public finance management. In this context, the PIFC system, which is based on an IC (Internal Control) system, is being widely discussed. In the public sector, the IC system supports the organisational background and the development of methods and procedures to ensure that government (national, regional and local) programmes produce the planned results and that the resources allocated for these programmes/ projects are used for the intended aims and objectives of the given public authority. IC is a system of programmes /projects aimed at preventing waste, fraud and corruption and ensuring the availability of timely and reliable information.

The first letter in the abbreviation PIFC stands for “public” – meaning focusing on public administration. This is the environment in which best practice and international standards in respect

of IC systems should be shared and adhered to. The convergence of financial transactions carried out in the private and public sector stimulates improvement in the quality of financial management and controls. This convergence is a prerequisite for successful partnerships between the private and public sector, including the design, implementation and assessment of PPP (Public Private Partnership) projects.

The third letter stands for “financial”: the financial systems of the new member states (i.e. planning, management and supervision of financial transactions) have operated under different principles for many years. In order to establish a common platform, the European Commission has opted for the PIFC system as a single basis for development.

The PIFC system is based on three pillars. The first is financial management and control (FM/C) for which the executives of public national, regional and municipal authorities are responsible. The second pillar is internal audit (IA) which the executives can use to strengthen their responsibility. Both are based on internationally agreed

standards and best management practice (such as COSO, INTOSAI, COBIT and other standards). The third pillar of the PIFC system deals with the harmonisation of internal and external processes within public authorities.

Harmonisation of internal processes comprises:

- modernisation of the system of accountability and management, including information and communications technologies (ICT), education and training
- internal audit services to politicians, managers and public authority officers.

Harmonisation of external processes comprises:

- political support for the development of the PIFC system when executed by state government, regions and municipalities
- strengthening of the role of the Supreme Audit Office and the Supreme Public Prosecutor's Office.

Structural intervention

The European Commission initiated the development of the PIFC system in new member states and by means

“PIFC will create opportunities for the development and modernisation of ICT for public administration and the related infrastructure and ensure that politicians, managers and officers are ready for the changes in the European environment.”

of development programmes and other activities it supports, in cooperation with other OECD countries, the modernisation of the IC systems and audit systems within public authorities. One of the objectives of the PIFC system is to do away with multi-track management and control of public expenditure from different funds such as the structural funds, cohesion fund, national and municipal budgets and other foreign and national public and private funds and to replace it with a single unified system of management and control.

This year, two important documents will be drafted. The first is the second Czech National Development Plan (the first plan was drafted for a shortened programming period from 2004 to 2006). The second is the National Strategy for a financial framework 2007 – 2013 specifying the allocation of

funds and the contributions required by the European Commission from the member states.

In order to support harmonisation and strengthen the PIFC system in new member states, the European Commission has introduced a new financial instrument: the “Transition Facility”. Member states may use this instrument to support the reforms and to implement the PIFC system in their legislative and institutional structures by 2006.

For the upcoming programming period 2007 – 2013, the European Commission recommends that the following areas should be financed from the structural funds and Cohesion fund:

- support for business and competitiveness
- development of new information technologies
- human resources development
- availability of public services and technical infrastructure.

The public sector in the Czech Republic has an opportunity to prepare for negotiations with the EU concerning support for the reform processes and co-funding of investments related to the implementation of the necessary ICT for public administration within the PIFC system. This will ensure the timely development and modernisation

of ICT for public administration and the related infrastructure and ensure that politicians, managers and officers are all ready for the change.

Summary

From monitoring the three above described activities – public sector reforms, implementation of the PIFC system and the use of structural interventions from the EU, at national, regional and local level for stakeholders, the following conclusions can be drawn:

1. Personal accountability for management, control and audit of strategic measures initiated and adopted by the government in the Czech Republic is unsatisfactory and is in need of modernisation.
2. The priorities of a national, regional or municipal development plan usually include strengthening of fiscal policy, capital strength, political and managerial accountability and the tools for measuring public expenditure and the achieved results and for assessing the impact of invested funds, so called Smart Public Administration.



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Tax incentives for the support of business activity

Research and development and innovation are essential prerequisites for improving the competitiveness of any economy. In this context, at the end of 2004, Eurostat (the Statistical Office of the European Union) published some very interesting figures. Expenditure on research and development of all 25 EU member states in 2002 achieved almost two percent of GDP. Since then, these expenses have increased dynamically, by four percent per year, however, the European Union (EU) still lags behind its competitors – the USA and Japan.

What measures to encourage research, and development and innovation have been adopted in the Czech Republic?

New tax-deductible allowance

A new tax-deductible allowance equal to 100 percent of the “tax-deductible” costs of research and development can be claimed for the first time in the taxable period starting in 2005. This means that such expenses will be, de facto, claimed both as tax-deductible expenses and as a tax-deductible allowance, provided the statutory conditions are met.

Such expenses must meet the definition of research and development set by the Act on Support for Research and Development from Public Funds. Among other conditions, research

and development must be carried out systematically, i.e. expenses incurred on a one-off activity can not be claimed as tax-deductible. Expenses incurred in certifying the results of research and development may also be claimed as tax-deductible under this provision.

Only tax-deductible expenses can be included in the tax-deductible allowance. This means, for example, only that part of the annual depreciation charge that relates to machinery actually used for research and development can be claimed as a tax-deductible allowance in the current year. The taxpayer must keep separate records of the expenses

included in the deductible allowance, which should ensure that only those expenses actually related to research and development projects are claimed as tax-deductible.

The tax-deductible allowance can not be claimed in respect of services or intangible results of research and development acquired from other persons. Thus, support is provided for primary research and development in the Czech Republic and repeat claiming of a tax-deductible item (by the research entity and by the entity purchasing the results) is eliminated. Inputs such as the purchase of services or intangible results of research and development (e.g. purchased software) used in the taxpayer’s own project must be excluded from the tax-deductible allowance. Other expenses such as wages and salaries, raw materials, depreciation, and other expenses relating to the project may be included. Expenses of certification, usually purchased as a service from a third party (specialist firm) are an exception to this rule.

Previously subsidised expenses

Expenses which were subsidised from public funds can not be claimed as tax-deductible. It remains to be defined whether a partial subsidy will disqualify the whole amount of the relevant expenses or whether it will be possible to separate the expenses of a particular category (e.g. payroll expenses) into subsidised expenses, which are excluded from the deductible allowance and non-subsidised expenses. The definition of expenses in respect of which a subsidy from public funds was provided and the method of recording the expenses included in the tax deductible allowance will be the key factors in the final decision-making.





An item should be tax-deductible even if the result of the research and development is disposed of following tests or after it has been concluded that the results can not be used. The amendment provides for the situation in which the taxpayer will report a tax loss and will not be able to claim a tax deductible allowance. In such cases, the allowance can be carried forward up to three years. The takeover of unutilised tax-deductible allowances by the legal successor following the conversion of two or more companies needs to be further clarified. The Income Tax Act provides for the inheritance of tax-deductible allowances in sections 23a and 23c. These provisions refer to section 34 (3) and subsequent sections, which used to provide for reinvestment allowances before the amendment. The question is whether the existing wording covers the newly introduced tax-deductible allowances sufficiently or whether there is a loop-hole in the Act. We consider that the existing wording of the Act leaves room for interpretation in favour of the taxpayer.

Technological centres and strategic services centres

In the Czech Republic, strategic services have been supported since 2000 based on a government resolution. Since 2002, technological centres have also been subsidised under various framework programmes. In 2004, all of the various forms of support were consolidated under a single framework programme.

Support for technological centres includes support for innovations of products, production processes and technologies, in particular in the areas of aviation, office equipment, IT technology, electronics, telecommunications, pharmaceuticals and motor vehicles, etc.

Centres of strategic services comprise:

- customer care centres
- shared services centres
- centres for development of new software
- expert and solution centres
- high-tech repair centres.

Support provided within the framework programme in 2004 can take the following forms:

- Grants for business activities – these are provided over ten consecutive calendar years. They are calculated every year as a percentage of the admissible tax-deductible expenses – the acquisition cost of the specific item of tangible or intangible fixed assets or the amount of paid wages and salaries including compulsory payments of the employer in respect of health insurance and social security. These grants are provided to cover expenses related to business activity, in particular wages and salaries, including statutory social security, purchase of raw material, energy, goods and services from suppliers with a registered office in the Czech Republic.
- Grants for training and retraining of employees – these are calculated every year as a percentage of the costs of training and retraining and are provided over three consecutive years (or five years where the beneficiary creates more than 100 new job positions within five years). These grants should be used to cover the general or specific training costs in respect of newly hired employees.

Conditions

To be eligible for the grants, the investment must satisfy the following conditions.

Type of project	<ul style="list-style-type: none"> ➤ Technological centres ➤ Software development centres ➤ Expert and solution centres ➤ Headquarters of international corporations 	<ul style="list-style-type: none"> ➤ Customer care centres ➤ High-tech repair centres ➤ Centres of shared services (excl. headquarters of international corporation)
Min. investment	MCZK 15	MCZK 30
Min. number of new job positions created	15	50
Contribution from beneficiary's own funds	MCZK 7.5	MCZK 15
Link to production (only in respect of technological centres)	Assumption that the results of the technological centres will be used for the production	

The above conditions must be fulfilled within the three subsequent calendar years following the year in which the Decision to provide support for the project was delivered.

The investments made and the new job positions created must be maintained for at least five calendar years.

The rate of public support is set by EU policies and is allocated proportionately to the individual regions (Prague – 20 percent, Střední Čechy – 50 percent, Morava-Slezsko – 50 percent). This is applied to (i) the acquisition cost of tangible and intangible fixed assets acquired in the first five years of the project or (ii) the average two-year gross salary of employees hired within the first three years.

“In conclusion, it has to be said that some activities may fulfil the definition of research and development and qualify under the Framework programme for support of technological centres and strategic services. We strongly recommend consulting the experts who will be able to help you to maximize the benefits of the existing legislation and choose the optimum combination.”



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Public sector process re-engineering and performance measurement

Upon the accession of the Czech Republic (CR) to the European Union (EU), balancing the State budget became a government priority. A significant step towards reducing expenditure is the restructuring of government authorities. The objective is to achieve savings of at least CZK 300 million per year and to improve the management and quality of the authorities' work. Organisational, functional, process and information audits will be carried out and a model of effective management will be implemented in cooperation with renowned advisory firms. The member firms of KPMG International are among the leaders in providing services to the public sector and have a wealth of experience from similar projects in Europe (e.g. UK, Belgium, the Netherlands) and the United States.



“The aim of a quick analysis is to assess the performance of the authority, to define the key areas for improvement and to prepare materials for a detailed analysis of selected areas and subsequent implementation of relevant measures.”

Based on experience with other similar projects, our team composed of professionals from several different countries has designed a standardised approach to project solutions within public administration. The approach is based on a unique process model of public administration, a benchmarking database and a methodology for improving performance and the quality of services (Business Process Improvement). Re-engineering projects for public authorities usually include four activities:

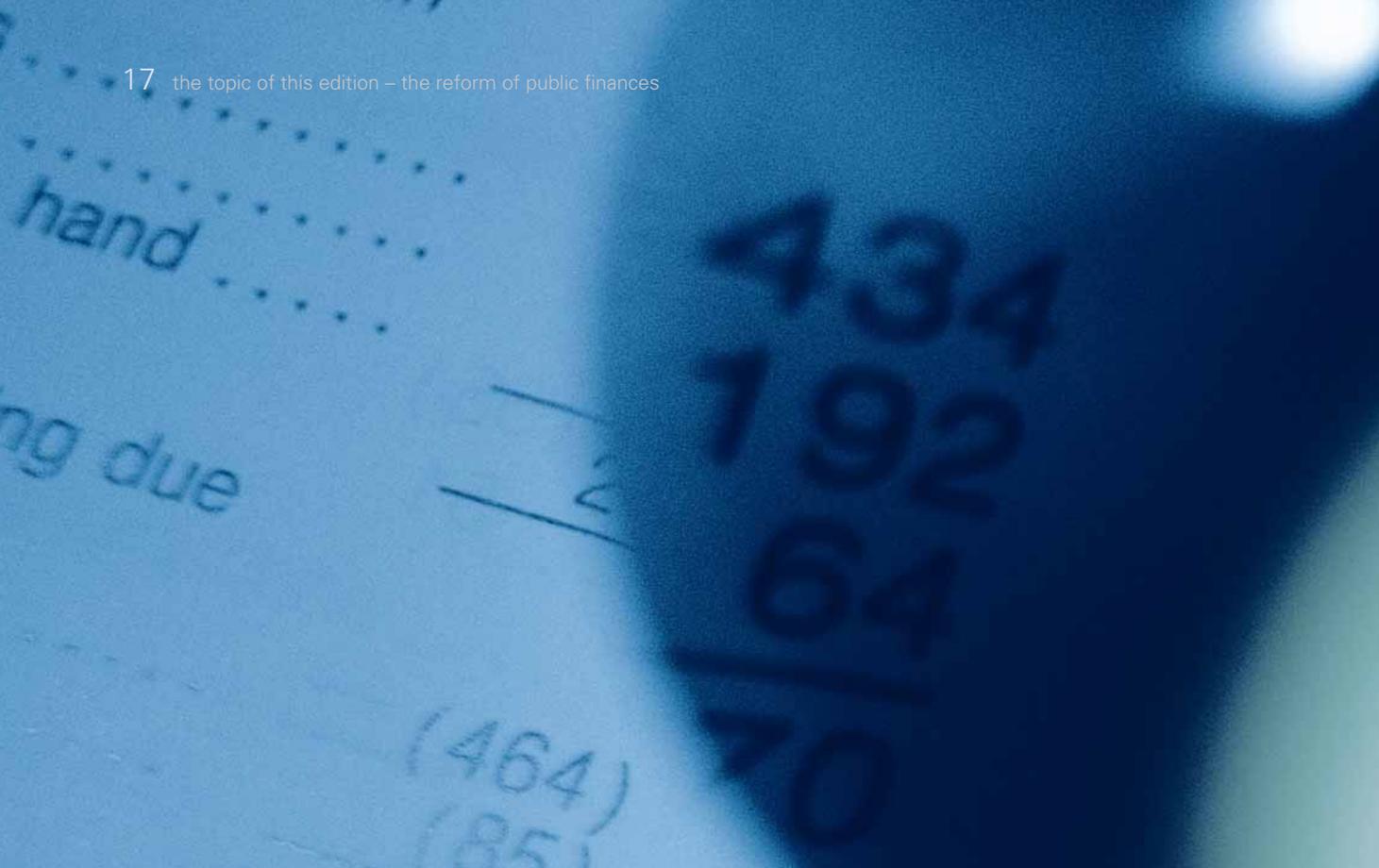
1. quick analysis of the authority's performance
2. detailed analysis of areas identified for improvement
3. implementation of proposed measures
4. support for project management

Quick analysis of performance

The aim of a quick analysis is to assess the performance of the authority, to define the key areas for improvement and to prepare materials for a detailed analysis of selected areas and subsequent implementation of relevant measures.

A quick analysis is a tool which, in a very short period of time (six to eight weeks) enables:

- identification of areas for immediate performance improvement (quick hits/wins)
- comparison of the performance of the authority against the best in class (process and financial benchmarking)
- implementation of procedures complying with best practice
- pair comparison of strengths, weaknesses, opportunities and threats
- determination of the key powers of the authority
- improvement of processes and quality in respect of performed activities and services provided
- optimization of the risks and the costs of managing them
- assessment of the costs and benefits of the proposed solution (business case)
- definition of priorities in respect of existing and new projects
- determination of a plan and deadlines for the implementation of systematic measures
- maintenance of high performance (performance measurement and management).



Quick analysis of the authority comprises five steps:

1. **Assessment of the key activities of the authority** – in the first stage, key areas are assessed, such as strategy, resources, main processes, products/services and management and measurement of performance. The assessment of strategy (its structure and content) includes definition of the objectives and function of the authority and definition of the crucial success factors and how they are related to the defined objectives. At this stage, a general process map of the authority is drafted, processes are divided into three categories (strategic, key and resource management processes) and selected attributes of individual processes – process goals, inputs, activities, outputs, IT/IS elements used, risks, key success factors, performance indicators, quality and cost of outputs are assessed. Using the cost analysis, we define key cost drivers (for example cost centres, processes and services) as a database for a difference analysis. In addition, the process model designed by our professionals describes typical issues, ensuring that the analysis is appropriately focused and enabling preliminary identification of areas with potential for improved performance.
2. **Difference analysis** – the second stage includes a comparison of key financial and operational indicators against the best in class (benchmarking), a difference analysis of the current processes and best practice, a SWOT analysis and a pair comparison of strengths, weaknesses, opportunities and risks. A process performance chart is then prepared (based on pre-defined and approved criteria and showing the possible benefits and significance of the individual processes or defined area). These processes will be divided into three groups, thereby enabling the priorities for implementation of the proposed measures to be defined. Besides “financial” performance data, an outline of the conditions (best practice) necessary to achieve the desired objective (such as an integrated vs. decentralised information and document management systems) is provided.
3. **Assigning responsibilities and analysis of current performance** – in the third stage, the causes, and possible implications of the current performance are determined, as well as the associated responsibilities, the willingness to change (social and technological limits) is assessed and barriers to change are identified. Responsibility for the key cost types is then assigned, the causes of variations is determined and the potential for reducing expenses is weighed against the risks connected with implementing the system and the subsequent functioning of the authority.

4. **Analysis of costs and benefits of proposed measures** – in the fourth stage, a business case outlining the costs and benefits of the proposed measures is drafted, all reviewed areas are assessed using the selected criteria and a “performance portfolio” (based on costs, benefits, time framework for implementation of the measures, willingness to change, etc.) is established. Based on the “performance portfolio”, a plan for achieving the improved performance will be prepared, consistent with the strategy of the authority and complements finished projects and other projects in progress.

5. **Determination of priorities and draft of action plans** – in the final stage, we assist the management in determining the priorities in respect of the individual proposed measures and in drafting action plans for the individual areas. Each action plan will define the actions and deadlines, the goals and the criteria for assessing their fulfilment. The plan will also assign responsibilities, define success factors, risks and limitations and the requirements in terms of human resources and infrastructure.

Benefits of the quick analysis:

- the management of the authority receives, in a very short period of time, an independent view of the functioning of the authority (eliminating “operational blindness”) and may easily discover hidden issues
- identification of strengths and weakness, risks and competencies of the authority

- the results of benchmarking and best practice analysis for the management
- the management obtains a tool for a rapid improvement of performance and elimination of wastefulness (cost reduction of 15 – 30 percent)
- a system is put in place for measuring and maintaining high performance in the long run
- the management of the authority obtains supporting material, arguments and a tool for the change
- benefits of the analysis significantly exceed the costs.

Detailed analysis

The quick analysis is usually followed by a detailed analysis of the areas identified for improvement. Its aim is to develop proposed framework solutions. An output of the quick analysis may be for example a recommendation to outsource IT services. The detailed analysis will define the parameters and conditions under which this activity can be outsourced, set the economic rules or prepare service level agreements (SLA) for the management of the outsourced activity, define the conditions for selection of the provider or agree a short list of potential providers of the outsourced services.

Implementation of proposed measures

KPMG CR will prepare the outputs of both the quick analysis and the detailed analysis so that the authority is able to implement them on its own. We will also share our know-how and provide training to those responsible for the future project implementation. If required, we can assist on a periodical basis or provide ad hoc consultations.

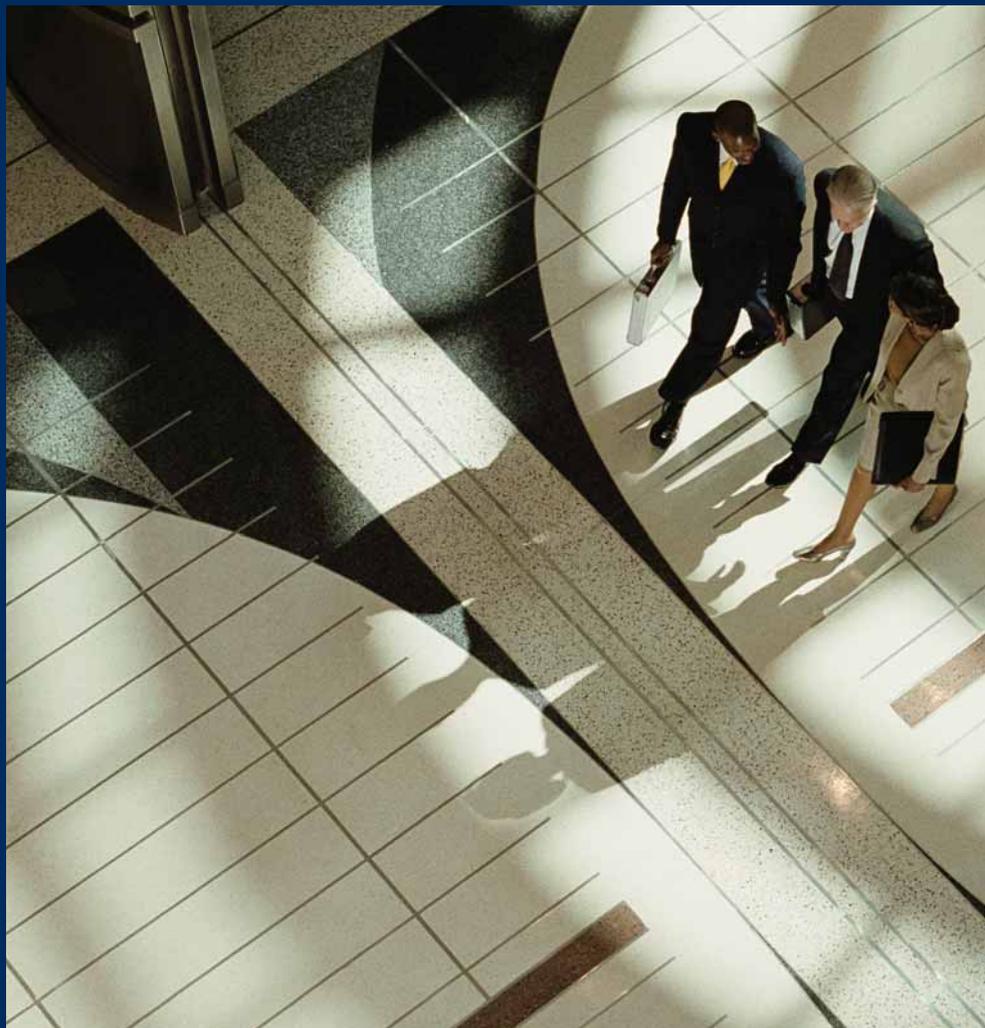
In our experience, audits carried out during the implementation in respect of the objectives defined in the action plans and subsequent update of the implementation plan is the best approach to ensure the desired results are achieved.

Support for project management

If projects are large and complex, we recommend establishing a project management office to effectively manage and coordinate them. The role of the advisors is of paramount importance, especially when defining the principles and drafting the documentation of the office. Project management is often provided initially by an advisory firm and know-how gradually transferred to the authority staff.

Benchmarking performance in the UK public sector

There has been significant reform of the public sector in the United Kingdom (UK) since 1979. A wide range of initiatives has affected every area of activity, including central government, the National Health Service (NHS) and local government. A common feature of these initiatives is the drive to improve value for money.



“Benchmarking” as an efficiency tool is based on the principle of measuring the performance of one organization against a standard, whether absolute or relative to other organizations.”



Introuction

At the heart of many of the public sector reform initiatives in the UK has been the philosophy that value for money can best be achieved by a separation of roles between those who set the policy and those who deliver it. This shift to a more contract-based system gives managers freedom to manage the operational delivery of services, within the policy and resources framework established by the political authorities. Greater clarity of roles and responsibilities has proved to be a key feature in facilitating improved performance.

Within this framework, however, managers must have incentives to use their freedom to improve the efficiency and effectiveness of their organizations. In the private sector, this incentive is supplied by the competitive nature of the market – low quality organizations will simply go out of business. The majority of public sector services, by contrast, do not operate in a competitive environment and therefore do not experience this pressure to improve.

A significant strand of the UK Government's drive to improve the performance of the public sector has been the creation of a means to replicate the pressure to improve which exists in the private sector. This has included requirements set by central government for local authorities to put certain activities out to competitive tender and for all public services to consider areas of work capable of being transferred out to the private sector.

As experience with these initiatives grows, the focus is shifting from specifying the use of particular efficiency tools towards allowing organizations to select the techniques most appropriate to their particular circumstances, though they may be challenged to justify their choices. This freedom, however, is within the context of moving towards measuring and publishing organizations'

performance, as a means of identifying good practice and encouraging the pursuit of improvements i.e. benchmarking. Through this approach, the UK seeks to achieve continuous improvement of public services, while retaining public accountability for service provision.

Benchmarking

Amongst the more important individual initiatives have been the creation of Next Steps Agencies to undertake many of the executive functions of central government, market testing and compulsory competitive tendering of many operational functions across the public sector, the transfer of public businesses into the private sector where this was feasible and the creation of internal markets, such as in health and education, to replicate competitive environments. This quest for improved value for money has led to the development of a range of efficiency tools. Within this context, “benchmarking” is one of a number of tools which are increasingly being recognised as particularly valuable.

“Benchmarking” as an efficiency tool is based on the principle of measuring the performance of one organization against a standard, whether absolute or relative to other organizations. It can be used to:

- assess performance objectively
- expose areas where improvement is needed
- identify other organizations with processes resulting in superior performance, with a view to their adoption
- test whether improvement programmes have been successful.

Benchmarking can be effective at all levels of operation, from the conduct of individual processes, such as invoice handling, to the operational performance of organizations with tens of thousands of staff, such as a welfare benefits delivery agency. There are various

different forms of benchmarking that can be used – Standards benchmarking, Results benchmarking and Process benchmarking.

1. Standards benchmarking

At the heart of this approach lies a standard of performance which an effective organization could be expected to achieve. The publication of a challenging standard can motivate staff and demonstrate a commitment to improve the service provided. Information on an organization's performance against the standard can be used as a monitoring tool by its principals – whether ministers or councillors.

An example of an approach to standards benchmarking is The British Quality Foundation's ASSESS RapidScore methodology. RapidScore provides the means for organizations to use self-assessment to derive measurable and comparable data on their performance against the Business Excellence Model developed by the European Foundation for Quality Management (EFQM) during 1988 – 1991. It contains 91 questions, linked to the nine criteria of the model, which explore the approach, deployment and results achieved in key areas. This simple methodology allows realistic assessments to be made while reducing the demands on senior management time.

Another approach is represented by The Citizen's Charter programme. The Citizen's Charter, launched in 1991, is a ten-year programme which aims to raise the standard of public services and to make them more responsive to the needs and wishes of consumers. It covers bodies in the public sector, such as central government Next Steps Agencies and units of the National Health Service, as well as the private regulated monopoly utilities supplying electricity, gas and water.

The Charter is based on six key principles:

- standards
- information and openness
- choice and consultation
- courtesy and helpfulness
- putting things right
- value for money.

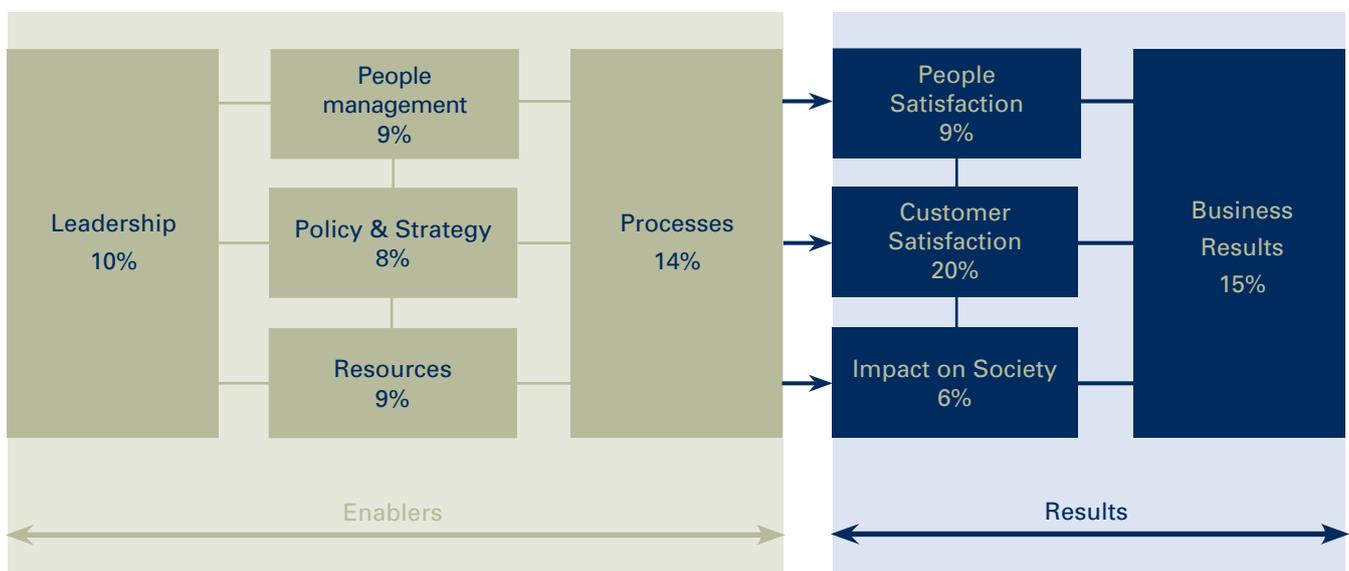
Standards benchmarking is the most recent technique to have been used. The Citizen Charter Mark Award scheme has allowed high quality customer service to be recognised across the whole range of public services and has publicly set the standard in this area of activity for which organizations should aim. The Next Steps Agency benchmarking pilot seeks to go further, by measuring the performance of agencies as a whole against the standards set by "best-in-class"

businesses. The initial findings of this exercise indicate that this approach may be highly effective, both at assessing the overall performance of organizations engaged in a wide range of activities and at providing a means of identifying best practice both within the civil service and beyond.

2. Results benchmarking

In results benchmarking, the performance of organisations providing similar services is compared. In the public sector, this technique can serve to allow the public to judge whether their local provider makes effective use of its resources, compared to other similar providers. In the absence of the competitive pressures which operate in the private sector, this can provide a significant incentive to improve efficiency.

The approaches described above have been largely concerned with benchmarking the activities of central government. In addition, there are initiatives to measure the performance of individual schools, hospitals and ambulance trusts, local authority and emergency services, to allow organizations to benchmark their performance against other, similar, services. The results are published in performance tables that are made available to the public.



An example of this approach is the benchmarking programme used in England and Wales which began in 1992. Responsibility for the programme of results benchmarking lies with the Audit Commission and its aim is to inform the public debate about the performance of public services. In publishing the information, the Commission has not, in most cases, attempted to define what constitutes good or bad service. In some cases this will be obvious but, in others, views will justifiably differ about whether or not a given level of performance is acceptable.

Results benchmarking has only been used since 1992, with the legal requirement being placed on the Audit Commission to publish data on local authority performance. This technique is highly effective where a number of organizations provide similar services. One of the benefits of results benchmarking is that it is not necessary to set performance targets, thereby avoiding any intrusion into the territory of decisions made by elected local councillors. The publication of data, identifying issues but without making judgements, has been shown to have a marked effect upon both public accountability and managerial attitudes to standards of performance.

3. Process benchmarking

Process benchmarking comprises a detailed examination within a group of organizations of the processes which produce a particular output, with a view to understanding the reasons for variations in performance and identifying best practice.

The July 1994 White Paper "The Civil Service: Continuity and Change" and the subsequent Command Paper "The Civil Service: Taking Forward Continuity and Change" acknowledged the very substantial improvement that had been made in the efficiency of departmental and agency operations and in the

standards of service that they provide. Process benchmarking was advocated as one of the management techniques which can help to further improve the efficiency and delivery of services.

One of the pilot projects was an initiative led by the Development and Equal Opportunities Division, a Cabinet Office (Office of Public Services), to explore the use of process benchmarking as a tool to improve human resource practices. The approach adopted was to form a consortium of ten central Government departments, where the departments would work together while at the same time carrying out separate projects. This provided a means by which participants could learn about process mapping and benchmarking, share their approaches, refine the techniques learned and develop sufficient skills to enable them to carry out benchmarking of other processes (not exclusively in the human resource area) in the future.

An alternative approach to process benchmarking is represented by the use of efficiency scrutinies and value for money studies. Efficiency scrutinies were started by the first head of the Efficiency Unit in 1979, while both the National Audit Office (for central government) and the Audit Commission (for local government and, subsequently, the National Health Service) have employed value for money studies since the early 1980s.

Process benchmarking is probably the longest established technique, dating back to the early 1980s, with the introduction of the Rayner (efficiency) scrutinies and the Audit Commission's

value for money studies. This approach can be very labour intensive and depends on the existence of a sufficient number of bodies performing similar processes. In the right environment, process benchmarking has proved itself to be a powerful efficiency tool and has led to significant improvements in value for money. However, given the range of public sector activity this technique can be used only in a relatively small proportion of public sector services.

Conclusions

The use of benchmarking techniques has been of increasing importance in the long-standing drive to improve the value for money offered by the public service in the UK, even though the term itself has only been recently adopted.

As in most other developed countries, the scope and scale of the public sector in the UK remains extensive and the bodies responsible for the delivery of services correspondingly large. The result has been a host of initiatives, which have employed a range of benchmarking approaches, each focused on the particular circumstances of the area under consideration.

As the pressure becomes more intense for the public sector to seek ever more effective means by which to deliver high quality services to the public within increasingly limited resources, it can be expected that the three main approaches to benchmarking will become standard efficiency techniques adopted throughout the public sector in the UK.



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