

Skilled up

what the finance leader needs to know

Developing ideas from the Devolution Summit

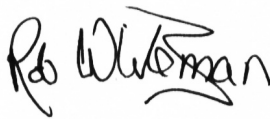
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\ foreword

To paraphrase the old saying: we truly live in interesting times. Few in the public sector finance community will have previously worked through a period of such sustained pressure against a backdrop of uncertainty and opportunity.

There are many reasons to celebrate the resilience, inventiveness and effectiveness of the finance community who have coped admirably with almost a decade of austerity. However as we move further into uncertain territory, driven by reforms such as the devolution deal-making process, the nature of the challenge changes. The skills and qualities that have seen senior finance officers and their organisations safely through recent years may not be what are needed to navigate the future.

The purpose of this short report is to offer some reflections on the financial leadership challenge arising from this environment. We touch on some of the big shifts required in organisational culture and individual mindsets, recognise some of the specific skills gaps identified by chief finance officers (CFOs) and examine some of the lessons from the past. Finally – we consider from where the sector can seek to learn new skills. We hope the document is thought-provoking and useful.



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\ introduction

This short report is aimed at senior finance officers across the public sector and considers the leadership and cultural challenges arising from emerging programmes of reform, particularly in relation to place-based devolution. It is recognised that these are still early days in the “devolution revolution”, but the challenges involved go to the heart of leadership in today’s public sector.

The report includes summary findings from research by both CIPFA and Grant Thornton UK LLP and references academic research on system leadership.

what does good financial leadership look like in today's public sector?

Good public sector leaders have always had to deal with change, complex partnerships and shifting patterns of funding; so in some way today's leadership challenge is no different. However, the scale of the current challenge facing senior finance officers and the level of uncertainty about the future will be unprecedented for most if not all finance professionals.

The shape of the state is changing, propelled by dwindling funding, growing demand and accelerating reform. Local government in particular is heading rapidly into uncharted territory with fundamental and pressing questions around the viability, remit and purpose of local authorities. The best organisations have proactively answered these questions on behalf of the places they serve, setting out their purpose very clearly and adapting as required. Others have struggled and a minority are at risk of falling short of the challenge.

CIPFA and Grant Thornton hear growing concerns from within the sector that the skills and experience required to successfully navigate these challenges are in short supply. In addition, because front-line services have been protected, savings programmes thus far have focussed on back office functions, leading to significant head-count reduction in the finance functions of many organisations and potentially a corresponding reduction in capacity.

Senior finance officers are absolutely central to the solutions for these issues, but as ever their challenge is compounded by the tension between shaping the future and looking after the present. This has been described as a “duality of role” by the senior finance officers at our Devolution Summit in 2015; the requirement to balance the budget in a given year and to create resource to build the future.

There are a handful of thematic shifts that start to describe good leadership in today's public sector:

- **From control to collaboration** – financial pressures and national reform have created powerful incentives for organisations to work together with the aim of collectively achieving more than they could by themselves. This can involve the blurring of organisational boundaries through sharing of posts, merging of structures or pooling of resources – or simply closer alignment of priorities and effort. Some senior finance professionals see themselves as influencing “whole system” budgets across services and local partnerships as much as controlling the budgets of their own organisation.
- **From leading organisations to leading systems** – system leadership can involve challenging decisions and a leap of faith for leaders in relinquishing some direct control for the greater good, and operating in potentially more risky and less well-defined territory. The mind-set and behaviours required to be an effective “system leader” run contrary to the clichéd view of traditional public services (siloed, cautious and inflexible) to instead create organisations that are responsive, flexible and mutually supportive – seeking to collaborate by default.

- **From service provider to co-creator, commissioner and social entrepreneur** – there are still some top jobs in local government that involve leadership of monolithic delivery structures, for example where councils continue to directly deliver certain services such as refuse collection or housing repairs. However, these are increasingly rare. The headcount of local authority employees has reduced significantly. Local authorities, whether overtly or tacitly, have undergone a long-term shift towards commissioning. There has also been an acceleration in the development of new and alternative delivery models such as local authority trading companies - leading to a far more mixed economy of service provision. Many modern organisations also focus on co-production and co-creation with local communities and partners. A blend of the skills required to deliver well, commission effectively and operate commercially are must-haves for the leaders of the future.

examples – how do good leaders lead?

So what does this mean in practice for senior finance officers? The headline is that, as well as possessing the technical skills and financial acumen required for the job, they must also be generalists with a wide range of leadership and people skills, and the ability to undertake a range of roles depending upon the context and demands of each situation.

A recent round-up on system leadership by the Stanford Social Innovation Review identifies three core capabilities¹ of system leaders, which we comment on here in the context of finance leaders:

- **The ability to see the larger system** – money is reassuringly measurable, but of course it is just one element of a much more complicated and less tangible system. A good finance professional will clearly have a firm grip on the money, but a leader will embrace complexity, encouraging a shared purpose and a “big picture” perspective. This also means understanding how and when to influence for common good, irrespective of whether budgets are on the agenda.
- **Making space for reflection and creativity** – as the pressure on public services increases the horizon can close in, making time to feel like a luxury. However, it is an absolute essential. Meaningful, shared reflection for teams and organisations enables challenge of accepted views and methods, which may no longer relate to the challenges of today. It is also crucial to building the trust required for meaningful change.
- **Shifting the collective focus from fire-fighting to co-creating the future** – change often starts against a backdrop of challenging circumstances and limited capacity in which there is a constant pull towards solving the problem of the day rather than thinking about the future. However a good leader will be able to involve the organisation in collectively developing a compelling vision of the future in times of uncertainty.

This is a daunting role profile and a lot for one individual to take on – so in order to be successful it is important that the heroic leadership approach – where one person effectively calls the shots – is rejected in favour of approaches that encourage distributed and collective leadership. Some other themes and practical considerations stand out:

- **Ensuring robust financial governance** – alternative models of service delivery and collaboration are becoming increasingly prevalent within local government. Examples include combined authorities, shared services, trading companies and public/private partnerships. The benefits of these approaches can be significant, but they present new risks to councils. Senior finance officers have a key role to play in ensuring that governance frameworks keep pace with change, demonstrating probity and transparency whilst protecting organisations from when things go wrong.
- **Clarifying vision purpose, and outcomes** – it has never been more important for local public services to have a detailed understanding of the places and people they serve and a clear specification of the outcomes they desire for them. Creating and communicating this vision is a mixture of art and science, with appeals to evidence and emotion, and requires a narrative that cuts across organisations and speaks to the public. Examples such as Durham County Council’s consultation on devolution start to evidence attempts at improving this understanding but the journey is not yet complete.²

¹ Stanford Social Innovation Review – the Dawn of System Leadership – Winter 2015

² www.durham.gov.uk/consultation

- **Leading from the top but backing ideas from the bottom** – good leaders must strike the right balance between control and bottom-up initiatives. There is a delicate balance between exerting too much and too little control and good leaders intuitively identify and inhabit this space, continually adjusting as required. Identifying, encouraging and supporting ideas from the grass roots of organisations is critical but not easy to do well – many “bright ideas” type schemes fail to unearth the real gems because they only pay lip service to the cultural conditions required for real bottom-up innovation. Creating an environment in which innovation is genuinely bottom-up may not be as efficient as a command-and-control approach, but it is highly likely to be more effective.
- **Recognising that every touch leaves a trace** – leaders are on show within and outside the organisation and despite the value placed on the technical aspects of the role this is no different for senior finance professionals. All interactions with colleagues, partners or the public can convey clear messages about organisational mind-set and culture and it is important that senior officers recognise this and ensure that they see and understand their own actions through the eyes of other stakeholders. It is often not what is done, but the way in which it is done that dictates success.
- **Succession planning** – another consideration, of course, is that good leaders often move around and in any case aren’t around forever; so effective succession planning and talent development are key.

building on a strong legacy

Since 4 September 2015 deadline for the submission of devolution proposals to Government, we have been speaking to senior finance officers from local authorities across England to explore the challenges from their perspectives.

The conversations have revealed a number of common themes and concerns, including the need to:

- establish and grow new funding streams as revenue support dwindles
- work within ever-more complex governance and partnership arrangements
- prioritise economic growth in order to reap funding incentives.

Our interviewees were clear that local government finance must now be considered as a relatively small component of the total resource available to places and communities, rather than in isolation. It will no longer be possible to make decisions based on a single organisational approach, with more complex decision making seen as inevitable. Organisations can and must achieve more together than would be possible by themselves.

It is clear that the rise of the combined authority model entails questions about how the role of senior finance officers will need to change, and consequently what skills will need to be acquired. Changing roles almost inevitably results in the need for new or adapted skills. It is important to note, however, that much of the conversation about the future was positive, especially about the ability of the profession to step up to the challenge.

To support senior finance officers in developing the skills required, CIPFA produced a report on “The Role of the CFO”³ updated in 2015, which proposes five principles that define the core activities and behaviours specific to the chief finance officer in public service organisations. The report separately considers the role itself, the individual within it and the wider organisation and identifies five distinct standards.

We believe that the document is a useful reference for the profession and supports the view that chief finance officers already offer many of the required skills.



3 The Role of the CFO in Local Government, CIPFA, www.cipfa.org/policy-and-guidance/reports/the-role-of-the-chief-financial-officer-in-local-government

looking ahead

However, there are also recognised skills gaps. These include:

- specifying and measuring community outcomes and evaluating impact
- making use of large and complex datasets to understand need, target interventions and manage demand
- understanding the payoff of investing in economic growth and regeneration
- commercial skills
- softer skills such as communication.

Public sector organisations are very effective at learning from each other, but if these skills are not available in the first place, where can they be drawn from?

Historically the public sector has been governed by nationalised frameworks and approaches. Those days are increasingly distant and organisations find themselves in a diverse and diversifying range of contexts. This runs the risk of making peer group learning more complex. Some skills may be interchangeable, but the technical details are less easily transferrable. The sector must be awake to this new, if subtle change and develop a response.

Devolution poses its own challenges. Some commentators have criticised a perceived lack of transparency around devolution deals, which have been negotiated behind closed doors with HM Treasury and other government departments. Consequently, the authorities developing their submissions are not able to learn from those involved in deals that have been completed. This is a new challenge for local government leaders and not a natural public sector approach. It will be interesting to see how the sector has to adapt its natural peer group learning style to this more opaque world and the emerging process of deal-making.

duality of role – one foot in the present, one foot in the future

It is clear that the current pressures of reducing government grant and increased demand and responsibility have created significant uncertainty, requiring senior finance officers to re-evaluate their roles. Many recognise a shift away from compliance towards enabling growth, taking calculated risks and enabling change. At the same time, however, they are not in a position to move away from the technical expertise that often surrounds their post. This balancing of professional role between technical and regulatory expert with the new requirements of business growth and risk assessor is clearly a challenge. Commonly expressed concerns within our conversations with senior finance officers were that the technical expertise implicit in the role may be perceived by others as negative or overtly cautious. The ability to challenge constructively is a key skill and an essential part of the role.

“The CFO must be able to advise the leadership team directly, including elected representatives, in order to discharge responsibilities in relation to the authority’s financial health and long-term viability. The CFO must therefore be a persuasive and confident communicator with the status and credibility to challenge others”⁴

Many senior finance officers spoke about the need to develop a greater portfolio of technical skills relating to risk and investment. This is an area in which technical and strategic skills naturally come together. They also considered that many of the softer skills such as influencing, communication and negotiation necessary to take the growth agenda forward were already in the CFO armoury and had been developed over a number of years.

The idea of working in partnership was one where all senior finance officers felt confident. Shared service working has been in operation for many years and although the scale of the partnership activity and the complexity of tasks has increased, the skills needed to deliver were similar.

The debates around the new skills and changing role of senior finance officers are not new. If we look back to the 1980s and the introduction of compulsive competitive tendering (CCT), we see a similar situation. New skillsets were required for CCT and had to be acquired in a short period of time; for example contract negotiation in 1982 was one skill very few CFOs possessed. Similarly today, skills around European investment and growth strategies are rapidly being acquired.

Other skills were developed and honed over a longer period and needed to mature with time. Communication and understanding of partnership dynamics are not perfected overnight and come from experience.



The CFO must therefore be a persuasive and confident communicator with the status and credibility to challenge others.



⁴ The Role of the CFO in Local Government 2015, CIPFA, www.cipfa.org/policy-and-guidance/reports/the-role-of-the-chief-financial-officer-in-local-government

The following case study boxes look at two very different recent approaches.

Barnet London Borough Council – outsourcing and joint ventures with the private sector

Barnet LBC has set out a clear model for its 'Commissioning Council'. The council has recently signed contracts in excess of £360m. The council estimates that the contracts will generate savings of £165m over ten years.

By setting up one of the contracts as a joint venture, the council has more control over business development allowing it to ensure that a growing service is based in Barnet.

The first contract is a support and customer services organisation contract with Capita. The new organisation provides back office services including customer services, human resources, finance and payroll, IT, revenues and benefits, estates, corporate procurement and commercial services. It involves a significant transfer of staff to Capita and also secures investment in back office technology.

The second contract establishes the joint venture between the council and Capita to provide development and regulatory services (DRS) in the borough. These services include: building control; land charges; planning (development management); strategic planning and regeneration; highways services; environmental health; trading standards and licensing; and cemetery and crematorium services.

The contracts provide a clear route for other councils. They establish that:

- councils need to analyse carefully what can be outsourced in terms of public services before starting to outsource service provision
- they need to develop appropriate benchmarking and outputs to ensure that they can present the value for money case to the public, and monitor it during the contract
- councils need to articulate savings in terms of cashable benefits from the outsourced service, and minimum income guarantees from joint venture companies
- similar contracts need to include clear governance arrangements to ensure conflicts of interest do not arise
- clear step-in rights need to be built into contracts for councils.

Manchester's devolution deal

- Responsibility for a devolved and consolidated transport budget, with a multi-year settlement to be agreed at the next Spending Review.
- Responsibility for franchised bus services (subject to consultation by Greater Manchester), for integrating smart ticketing across all local modes of transport, and urgently exploring the opportunities for devolving rail stations across the Greater Manchester area.
- Powers over strategic planning, including the power to create a statutory spatial framework for Greater Manchester.
- Control of a new £300m Housing Investment Fund.
- Control of a reformed earn back deal, within the current envelope of £30m a year for 30 years.
- Role of Police and Crime Commissioner.
- Responsibility for devolved business support budgets, including the Growth Accelerator.
- Manufacturing Advice Service and UK Trade and Investment (UKTI) Export Advice.
- Control of the Apprenticeship Grant for Employers in Greater Manchester and power to reshape and re-structure the further education provision within Greater Manchester.
- Control of an expanded Working Well pilot, with central government funding linked to good performance up to a fixed DEL limit in return for risk sharing.
- Opportunity to be a joint commissioner with Department for Work and Pensions (DWP) for the next phase of the Work Programme.
- Integrate care and deliver better outcomes to improve health and wellbeing.
- Build on the devolution and NHS five year forward plan.
- Delegate GM health and social care funding from April 2016.

financial management and planning

Not to be lost when skills are discussed is the importance of effective financial management and planning. Our discussions with senior finance officers placed great importance on the traditional skills of strong financial management skills and an appreciation of good governance and financial prudence. Being able to balance the books and have cost control is fundamental to avoid a damaging financial scenarios.

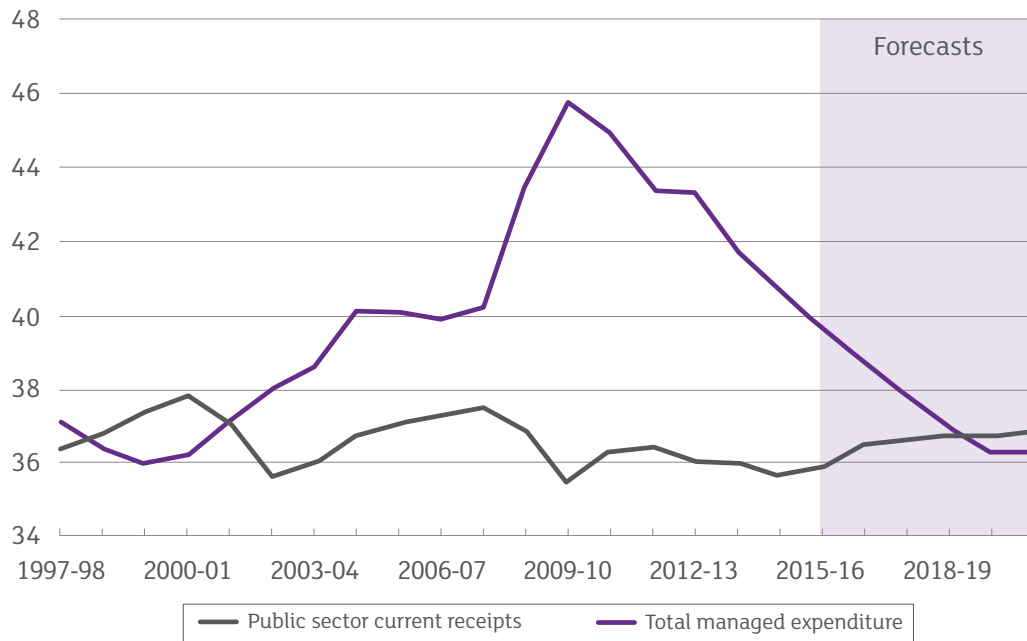
How reserves are used is often an indicator of effective financial leadership. Whilst it may seem counter intuitive that reserves increase during a time of spending cuts, there are sound reasons why this is the case, especially in a period when cuts are forecast into the medium-term. Decisions on how to use reserves have to be made by financial leaders in local authorities as, unlike central government or the NHS. Local authorities cannot borrow money over the medium-term other than for investment in assets and local authorities are required to balance their budgets on an annual basis.

The use of reserves to fund on-going expenditure without having in place a sound medium-term plan only compounds the level of savings required in future budgets; this is especially the case when budgets are being cut year on year at the same time as demand for services is increasing.

This annual conversation requires the CFO to constantly justify the financial prudence of their decision making, often coming under strong political pressure. It was interesting to note that the Government's Spending Review in November 2015 made no reference to reserves.

The current Conservative Government, as the Coalition Government did during the previous parliament, has made it very obvious that clearing the deficit is the main objective and so spending will be reduced in line with this ambition. What this means is that the CFO must still manage the finances and deliver a balanced budget with decreasing grant income. Furthermore, the Revenue Support Grant is expected to come to an end by 2020 with local authority funding then drawn from council tax and non-domestic rates – meaning that the local tax base (domestic and business) is more important than ever. This means that senior finance officers must be comfortable with new funding streams and have the skills to maximise them.

Chart 1.A: Total public sector spending and receipts (percent of GDP)



Source: Office for Budget Responsibility

This scale of the financial challenge means that for many organisations it is no longer possible to balance the budget simply by becoming more efficient within individual organisations. In order to build financial resilience for the years ahead and have a long-term plan for the public sector, senior finance officers must support and promote systemic change. Moving from incremental to radical is now what is required. Part of this move will be an increasing need to become more commercially aware and develop an entrepreneurial approach.

\entrepreneurialism

Entrepreneurialism is not just identified by the sector itself as a valuable skill but it was also a theme within the Conservative manifesto. The manifesto linked this activity to greater value for money, productivity and the use of alternative delivery models as.



This will free up the entrepreneurial spirit of public servants and yield better value for money for taxpayers.⁵



5 The Conservative Party Manifesto, 2015

possible approaches to developing leadership skills

It seems clear that the role of the senior finance officer is changing, and that modern finance professionals face challenges and opportunities never experienced by their predecessors. This means that there is a constant need to update skills and acquire new expertise. There are a number of routes senior finance officers can take to becoming more proficient and often these will reflect a personal preference and either time or money resources.

Much will be learnt through experience and developing within the role, especially when working on the devolution agenda, as all senior finance officers have to keep up to date with the speed of the changes around them. However, many common personal attributes and characteristics can be identified. Below is a list developed as part of the CIPFA leadership academy on what is considered essential for today's senior finance officer:

- translating a vision into action
- making effective use of available time
- effective management of ambiguity
- respecting others perspectives
- developing strengths in others
- setting challenging/achievable goals for others
- communicating clear expectations
- clear communication of decisions
- contingent adaption of style to circumstances
- reviewing and reflecting on personal performance
- balancing detail with strategic perspectives.

The Global Centre for Public Service Excellence (GCPSE)2014 publication “Work in the public service of the future” considered the skills they felt would be needed by future public sector leaders, concluding that leaders:

“...will need to build trust and legitimacy in a new relationship between the state and citizens. They will also need to learn how to leverage new resources and partnerships within the community. The skill sets needed by such ‘public entrepreneurs’ would be a combination of technical and generic ‘portable’ skills, in particular, soft skills...”

This conclusion was echoed in our conversations with senior finance officers who recognised that they would need to work flexibly and fulfil the roles needed in their local context.



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\ conclusion

This consideration of leadership shows that there is a strong desire amongst the finance profession in local government to ensure that they have the necessary skills and capacities for the challenges ahead. Whilst there is good reason to believe that many have already developed some of these new skills, the profession itself recognises that gaps remain and in 2015 CIPFA updated its professional qualification to reflect the greater importance of partnership working, collaboration and commercial skills.

We talk about abilities such as commercialism and system leadership and recognise the direction for the future. In moving towards this it is also necessary not to undervalue the technical expertise and the statutory requirements that govern the activities of a CFO.

Perhaps the greatest skill needed of the future CFO is not a single attribute, but the ability to balance the skills in appropriate measures and at the appropriate time.



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