worth more than money
the role of the local government finance director
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Introduction

Why has this paper been written?

1. Chief finance officers play a pivotal role in maintaining the health of local government. Along with chief executives and monitoring officers they are the custodians of probity in the conduct of local government business; they help councillors to align resources with policy priorities; they are responsible for sound financial administration and can be key players in corporate management. They are also an important link between the external auditor and the council, sharing a common interest in the soundness of the council's finances and in ensuring that any concerns about them are addressed. The size of the budgets for which they are responsible varies greatly: a large county or metropolitan council may have a turnover fifty times greater than a small district council. But whatever the sums involved, it is vital that the public can have confidence in the arrangements in place to manage public money effectively.

2. Issues of probity have been causing increasing unease across the public sector. In 1994 the Public Accounts Committee emphasised the need to maintain standards of probity during a time of change (Ref. 1). The Commission's own work on fraud has highlighted the extent to which local government has been targeted by professional fraudsters (Ref. 2). In July 1997 the Nolan Committee's report on local government (Ref. 3) noted that while the incidence of abuse and misconduct has been low, the publicity surrounding a few high-profile incidents may lead the public to believe that there is greater cause for concern than is in fact the case.

3. Concerns about probity exist against a background of continuing financial constraint for councils. One of the most important factors influencing the way in which finance directors'* jobs have changed in recent years is the pressure on both revenue and capital resources. That pressure will continue. Allocating available resources effectively and securing best value for money are important tasks even when resources are not under pressure. But when resources are limited, these tasks take on additional strategic importance. Although they do not have sole responsibility for these tasks, finance directors make a major contribution to both. Effective finance directors can therefore make a substantial difference to their council's ability to achieve its principal objectives across all its areas of activity. This gives them a role whose corporate significance is often second only to that of the chief executive.

4. Chief finance officers have more explicit statutory powers than other statutory chief officers, but many feel that their role is in danger of being downgraded. New structures are being set up in which day-to-day finance activities are devolved, externalised or floated off into business units which are independent of the chief finance officer, even though he/she remains responsible for administration of the council's financial affairs. In some cases, chief finance officers are no longer full members of

* In this paper the term 'chief finance officer' refers to officers who hold the statutory role set out in section 151 of the 1972 Local Government Act. The term 'finance director' has been used more broadly to refer to the most senior financial manager in a council whether or not he/she holds the statutory role.
council management teams. Compulsory Competitive Tendering (CCT) prompted a few councils to think radically about whether finance work is sufficiently strategic to justify keeping it in house. Although none has externalised the chief finance officer's personal responsibilities, a handful of councils has out-sourced some activities that are traditionally seen as core tasks, such as budget preparation.

5. A further reason for examining the role is that key players in local government have different views on both the purpose and position of the role. Although many chief executives see the finance director as one of their most important colleagues, others have deliberately created structures in which the chief finance officer no longer even reports directly to them. Service chief officers too often see finance directors as clinging on to centralised controls or imposing financial management frameworks which are out of line with service delivery responsibilities. Similarly, front-line service managers sometimes complain of poor financial information that arrives late and advice that focuses on problems rather than solutions.

6. There are also tensions inherent in the role, and local government treasurers' associations asked the Commission to help to identify good practice in managing these tensions. It is sometimes the finance director's job to say 'no', so a degree of tension between the finance function and others will always occur: a finance director who is permanently popular may not be doing fully that part of his/her job which entails challenging others. When a finance director has to tackle possible misconduct or corruption, he/she will inevitably be criticised by those whose behaviour is being challenged. However, such instances of misconduct or corruption are relatively rare. In the majority of councils it should be possible to manage the inevitable tensions arising from the regulatory elements of the finance director's role constructively. All parties share responsibility for creating the constructive working relationships that are necessary to achieve this. But a finance director is most likely to be respected when he/she needs to say 'no' if councillors and colleagues believe that he/she will always look first for an appropriate way of implementing a proposal and will say 'no' only when a proposed action really is either improper or impossible.

7. Finance directors face other challenges besides managing these inevitable tensions. New approaches to funding local government activity and to partnership working are creating opportunities for councils but they also present technical and management problems. Much of the recent legislative change affecting local government has made its finances more complex. The proposed new duty for councils to secure Best Value may result in a less complex framework than the CCT regime that it replaces. Best Value will nevertheless present a different challenge by requiring councils to draw cost and quality considerations into a single conceptual framework.

8. The rapid pace of externally driven change has been matched by a range of internal changes. These include:

- users of finance services demanding more influence over service standards and costs;
- a trend for finance directors to be made responsible for a range of other central support functions such as information technology, personnel, property, administration and legal services; and
- changes in councillors' and officers' expectations of the finance director.
9. These changes are often welcome developments, but taken together they represent a significant set of challenges. How can finance directors meet these challenges? Should they be concerned about the status of their role? How can the public be reassured that council taxpayers’ money is in good hands? How can finance directors combine a forward-looking approach to strategy with their role as custodians of probity?

10. This paper answers some of these questions by:
- examining the finance director’s responsibilities and the varying ways in which these are carried out in practice;
- exploring some barriers to effectiveness and ways in which these might be overcome; and
- looking at case studies of good and innovative practice.

The paper ends with thoughts on the future development of the role.

For whom has this paper been written?

11. This paper has been written to help councils to review:
- whether they have the right arrangements in place for the finance director’s duties to be carried out effectively; and
- whether they are gaining the maximum possible benefit from their finance director’s work.

12. The paper is likely to be mainly of interest to councillors, chief executives, local government finance directors and other senior officers. It may also be of interest to finance directors in other parts of the public sector or the private sector and to central government.

The evidence on which this paper is based

14. This paper is based on visits to 16 councils throughout England and Wales and a survey of all chief executives and finance directors. Local government practice has also been compared with a small sample of private sector companies. The views of CIPFA, local government treasurers’ societies and other senior local government officer groups have informed the paper.

15. The Commission’s findings were discussed with two groups of councillors, chief executives and finance directors, and with an advisory group which acted as a sounding board throughout the project. However, the conclusions of the paper are those of the Commission alone.

A finance director is most likely to be respected when he/she needs to say 'no' if councillors and colleagues believe that he/she will say 'no' only when a proposed action really is either improper or impossible.
1. What the role is about

Statutory foundations

16. By law, the council must nominate one person to have responsibility for the proper administration of its financial affairs. That individual, who must be a member of an accountancy body, has certain more specific responsibilities to force councils to consider a report on potentially illegal transactions [BOX A]. In local government, the holder of these statutory responsibilities is commonly referred to as the 'chief finance officer'. However, confusingly, the holder of this office may not always be the council's most senior financial manager. For reasons that this paper will examine later, the statutory chief finance officer in some councils is not on the management board and reports to another director, usually a director of central services or resources.

A role whose corporate significance is often second only to that of the chief executive

BOX A

The chief finance officer's statutory role

The statutory basis of the role derives mainly from two Acts:

- **Local Government Act 1972 S151**: councils must 'make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs'. In the rest of this paper, this is referred to as the chief finance officer's 'financial administration responsibility'.

- **Local Government Finance Act 1988 S113/4**: the officer referred to in S151 of the Local Government Act 1972 must be a member of a specified accountancy body. Section 114 requires the chief finance officer to make a report if it appears to him/her that the authority has or is about to make a decision that would involve it in incurring expenditure that is unlawful. The authority is required to consider the report within 21 days. During the time between the report being issued and its consideration by the authority, the authority is prohibited from making any payment other than those which are contractual commitments. In the rest of this paper, section 114 is referred to as the chief finance officer's 'stop powers'.

CIPFA's guidance

17. While the focus of the legal requirements is on probity, financial control and the prevention of overspending, illegal transactions and fraud, the actual job of a council finance director goes far beyond this role. The Chartered Institute of Public Finance and Accountancy (CIPFA) produced a statement in 1993 (Ref. 4) [BOX B] to help practitioners to carry out their duties in an environment which is very different from that of 1974, when previous CIPFA guidance was published. The introduction of CCT and Local Management of Schools (LMS) were particular triggers.

18. The CIPFA statement has strong support from finance directors. It outlines the fundamental ingredients of an important framework of control that all councils should have in place. These ingredients underpinned the re-establishment of sound financial management in an authority experiencing problems [BOX C,
WHAT THE ROLE IS ABOUT

However, around half of finance directors think that there is a need to build on this guidance to reflect their close and active involvement in strategy and policy development and to address the impact of financial devolution on the way in which the statutory duties of the person nominated as chief finance officer are fulfilled.

19. The CIPFA statement addresses the core statutory responsibilities of chief finance officers but was not intended to be a comprehensive statement of what an effective finance director does. The Commission's research indicates that there are four additional and important functions, which will be outlined in turn [EXHIBIT 1]:

- financial strategy and planning;
- corporate management;
- supporting councillors; and
- delivering services to the public.

**BOX B**

CIPFA's 1993 statement on the role of the chief finance officer

The statement interprets the statutory duties as giving three principal roles:

1. financial adviser to the council
2. responsibility for financial administration
3. responsibility for 'proper stewardship' of council funds

It identifies the three key attributes of the chief finance officer as:

1. integrity
2. independence
3. professionalism

The three roles are drawn out into nine specific duties:

1. financial advice to support front-line service delivery
2. financial advice to support strategy development and to ensure effective use of resources
3. advice on the optimum use of available capital and revenue resources
4. provision of financial information
5. completion of statutory accounts and returns
6. provision of effective internal audit
7. provision of effective income and payments systems
8. treasury management
9. advice on risks and safeguarding assets

EXHIBIT 1

The finance director's functions

Effective local government finance directors contribute to councils in six main ways.

EXHIBIT 1
MANAGEMENT PAPER • WORTH MORE THAN MONEY

Financial strategy and planning

20. In the past, many people in local government saw finance as an end in itself rather than simply the means of providing services and achieving policy objectives. That attitude was reflected in resource allocations that were dictated more by historic patterns or the views of finance directors rather than by the policy objectives of councillors:

In my formative years, what the borough treasurer said went. He prepared the budget and he decided who was going to spend what.

(Councillor)

To an extent, such attitudes are still present: some finance directors still see the authority’s resources as 'theirs', and are reluctant to acknowledge that the principal purpose of a financial strategy is to enable a council to pursue its policy and service objectives. But many finance directors recognise that, while it is essential that budgets are legally sound and properly controlled, it is equally important that financial strategies serve policy objectives.

<table>
<thead>
<tr>
<th>BOX C</th>
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Re-establishment of proper financial management in a London borough

In early 1992 a combination of factors, both internal and external, had caused serious financial problems at a London borough. The main problems were:

- a substantial gap between resources and expenditure;
- poor budgetary control;
- inadequate provisions for bad debts;
- final accounts not closed for several years; and
- a lack of confidence in financial administration, particularly among councillors.

A new finance officer was appointed with a remit to sort the problems out. The key objectives were relatively easy to identify:

- to bring expenditure into line with resources;
- to re-establish a coherent framework for financial administration and financial discipline; and
- to rebuild the credibility of the finance function throughout the council.

A strategy was devised to:

- set fixed cash limits for directorates and cost centre managers but with wider discretion for managers within those limits;
- clarify the responsibility of managers for ensuring effective financial administration within their area of control by revising the council's disciplinary code and strengthening financial regulations;
- provide disincentives to overspending but allow underspends to be carried forward;
- provide cyclical financial reports to councillors;
- reinforce the role of corporate finance staff as watchdogs of directorate financial activity;
- improve the quality, quantity and frequency of financial information from and to the chief finance officer;
- strengthen internal audit; and
- set achievable budgets for the short and medium term.

The strategy needed councillors' support to succeed and a key task for the chief finance officer was therefore to convince them of the value of being able to make decisions within clear short and long-term financial frameworks. The new chief finance officer's response demonstrates the strengths of a traditional model of the role.
21. Effective finance directors therefore need to take a proactive approach to financial strategy and planning. An individual's success in doing this will be determined by several factors, including not only his/her skills and approach but also the extent to which the management style of an authority enables the finance director to develop beyond a narrow role. Because each council's objectives will vary, there is no blueprint for the financial strategy needed to achieve them. Some councils aim to minimise local taxation by tightly controlling their own expenditure while others, equally legitimately, seek to maximise the level of services that is offered to local residents. Financial strategies can also aim to achieve more specific policy objectives; examples include gearing budget plans to economic regeneration objectives [CASE STUDY 1] or securing alternative sources of funding to help to cope with future demands for services.

**CASE STUDY 1**

**Linking financial plans to policy objectives: Dartford Borough Council**

The Council has placed the redevelopment of redundant industrial land at the heart of its strategic plans. Partners include global private sector concerns, other local authorities, health trusts and universities. The scale of the redevelopment is unusual for an authority of Dartford's size and presents both opportunities and considerable challenges. The chief finance officer has had to place the Council's redevelopment goals at the heart of financial strategy. In practice this means:

- building up balances to help the Council to 'ride out' unforeseen financial consequences of the partnerships;
- strengthening the Council's balance sheet by debt repayment;
- building up a network of contacts and a database of relevant information about the way in which the Council's partners work;
- active involvement in the partnerships, effectively acting as the director of finance to the partnership 'entity'; and
- delegating day-to-day responsibility for the provision of financial services.

To date, in excess of £2 billion has been invested in the area. The redevelopment process is still underway and continues to present the Council with serious challenges, including the difficulty of maintaining routine service delivery at accustomed levels while also responding to the development agenda. But Dartford's experience nevertheless highlights the importance of linking policy and financial objectives.
22. Although there are important differences between private sector and local government finance directors’ jobs, they share the responsibility to develop policy-driven financial strategies. Seeing the finance function as the means to an end has long been characteristic of a private sector perspective:

The finance director’s job is to make sure that the company has the resources it needs to achieve its business objectives ... to expand the sphere of what it is possible for the company to do.

(Finance director of an international plc)

23. There are limits to the extent to which council finance directors can adopt this approach because of the different frameworks in which the public and private sectors operate: while most private companies wish to expand their operations, councils’ activities are constrained by statute and by financial controls, and they do not always wish to increase their spending. For councils, therefore, expanding the sphere of what is possible means maximising the extent to which their policy objectives can be achieved. But as long as those objectives are legitimate ones, finance directors should find no difficulty in reconciling this approach with their regulatory duties.

Corporate management

24. The finance director must be directly involved in the council’s corporate management. To some extent this is the same duty that all chief officers have for tackling cross-council issues and developing the way in which the council is structured and run. But it also involves making sure that financial management arrangements are in line with both broad policy objectives and the council’s overall management approach [CASE STUDY 2].
CASE STUDY 2

Bringing financial management in line with organisational objectives: City and County of Swansea

Following reorganisation, the Council aims to become a customer-oriented multi-purpose authority. This requires the chief executive and management team to focus on corporate strategy and working. Financial administration is one vehicle for developing this corporate strategy and the chief finance officer's particular contribution is to:

- act as an enabler and facilitator of service delivery;
- support and promote the corporate vision and associated culture change - for example, adopting the corporate initiative of 'face-to-face' meetings in place of 'management by memo';
- actively contribute to corporate policy development - for example, ensuring that a review of early retirement policy took full account of the impact of policy options on the general and pension funds;
- deliver best practice in customer-oriented service delivery; and
- communicate effectively and demystify finance.

The chief finance officer is meeting these expectations by establishing relationships with service managers that are based on mutual trust and respect – just as the service directors have to own their financial problems, the chief finance officer has to own the problems of the service directors. That shared ownership is reinforced by a strong working relationship with the chief executive and regular financial reporting to members.

25. Although financial management arrangements will vary between councils, it is the finance director's job to make sure that they complement service management responsibilities. So if services are delivered on a decentralised neighbourhood basis, for example, the financial management framework should be geared to supporting that approach. The finance director is then responsible for creating and supporting a culture in which non-financial managers take responsibility for effective management of whatever resources are devolved to them. This task requires leadership and influencing skills plus the ability to demonstrate the council's chosen management style through personal example.

26. In most circumstances, therefore, finance directors should be playing a central role in promoting and supporting their authority's corporate management approach. Occasionally, however, a council may adopt service delivery arrangements that make proper financial management difficult, or a culture may develop in which poor or improper use of resources is tolerated. In such cases, the finance director's corporate management role is to challenge bad practice and propose ways of correcting it. Box C (p10) provides an example of this.
Supporting councillors

27. Finance directors do not just provide advice to councillors on the allocation of resources. Their role in budget preparation puts them at the heart of the political processes that determine the allocation of resources between competing priorities. In particular, finance directors must:

- help leading councillors to manage the budget process; and
- ensure that objective advice is available to all committees and all councillors.

Finance directors also have a significant role in helping councillors to monitor expenditure and scrutinise the value for money achieved in specific activities. In practice, service chief officers and their staff should also play an important part in this process, and the finance director will be principally concerned with:

- making sure that proper arrangements are in place for both reporting on spending and scrutinising value for money; and
- reporting on overall capital and revenue spending.

28. In order to work successfully with councillors, finance directors need a thorough understanding of the formal and informal processes through which councillors reach conclusions. They also need to understand the considerations that councillors may wish to take into account in making budgetary decisions and, together with council lawyers, give clear advice about what considerations can legitimately influence decisions. By its very nature, this is one part of the job in which tensions are most likely to arise between different groups of councillors, between councillors and officers, or between officers with different responsibilities. The measure of a successful finance director is not that they avoid these tensions but that they deal with them firmly but constructively. In particular, finance directors must be able to give advice that may be unsolicited or unwelcome but which will nevertheless be respected. Excellent communication skills are essential and must be allied to a reputation both for firmness and for political impartiality.

Delivering services to the public

29. Finance directors in district, metropolitan, unitary and London borough councils are responsible for collecting council tax and non-domestic rates. In many councils they also manage council tax and housing benefits. Although not high on the list of popular public services, council tax collection brings finance departments into contact with a higher proportion of households than almost any other council service. Benefits administration brings with it responsibilities to protect the council from a major area of fraud and to deliver a sensitive, efficient service to some of the most vulnerable people in the community.

30. Tax and benefit services are qualitatively different from the majority of finance directors’ responsibilities: *the customers are the public rather than other officers or councillors, and they may often be unhappy or confused about council decisions. Few finance directors spend significant amounts of their time overseeing these activities, but the leadership that they provide to front-line finance staff is important in securing high standards of performance and service to the public.

Conclusion

31. Finance directors are expected to fulfil a wide range of functions, including strategic, operational, regulatory and service delivery activities. These activities are complex as well as diverse. Finance directors therefore need to consider carefully how they can most effectively carry them out. The next section looks in more detail at how finance directors can overcome some of the barriers to effectiveness.

* Finance staff dealing with debtors, creditors and insurance claimants may also deal regularly with the public.
2. Achieving effectiveness

32. Achieving effectiveness for financial directors is essentially about:
• finding the right balance between operational, regulatory and strategic activities; and
• combining a robust approach to financial probity with a constructive, enabling approach to financial strategy and management.

This typically means working both within their department and as a member of the authority’s corporate management team, dividing their time between providing advice to support strategy development and service delivery, advising on the optimum use of available resources, providing financial information and overseeing internal audit. Activities such as preparing the statutory accounts or providing income and payments systems usually take up less than 5 per cent of their time. Of the activities undertaken outside the basic statutory role, the most common are corporate management, departmental management, information technology (IT) strategy, pension fund management and preparations for competitive tendering.

33. With such a wide-ranging remit, some barriers to effectiveness are perhaps inevitable. Four challenges need to be addressed:
• managing pressures on time and attention;
• reconciling the tensions inherent in the role;
• matching skills and behaviours with changing requirements; and
• delivering better financial services within limited budgets.

Pressures on time and attention

34. Many finance directors say that it is difficult to find the time to do all the things that they think they should. This is unsurprising and would probably be replicated in a survey of any group of chief officers. However, some finance directors report having not only insufficient time to deal with important tasks but also spending too much time on things that they rate as of lower priority. And across a range of activities identified by CIPFA as central, what finance directors actually do differs from what they think they should be doing:
• almost 80 per cent of finance directors spend less than a quarter of their time working on strategy development and effective use of resources, but 40 per cent think this should account for more than a quarter of their work;
• over 50 per cent of finance directors spend less than 5 per cent of their time ensuring that internal audit is effective, although 60 per cent think that this should take up to a quarter of their time; and
• 85 per cent of finance directors spend less than 5 per cent of their time advising on risk management although one in three think that this should take up to a quarter of their time.
35. This overall picture masks some variations between types of councils. Although they experience some mismatches, district finance directors are most likely to believe that they are able to allocate their time as they would wish. County, London and metropolitan finance directors feel particularly strongly that they would like to spend more time on strategy development. Metropolitan finance directors buck the trend of views on spending more time on audit effectiveness. Perhaps because of the pressures of reorganisation, unitary council finance directors feel particularly strongly that audit effectiveness is an area needing more of their attention.

36. The most common reasons finance directors give for why they cannot spend their time as they think they should is simply the pressure of other demands and their inability to control them. Although internal structural problems and having a brief for other central services also cause problems, the overwhelming impression is of significant numbers of finance directors who are so immersed in day-to-day firefighting that they are unable to fulfil their principal roles as effectively as they otherwise could.

37. This situation is not wholly surprising: in a complex organisation that delivers a range of services and acts as a political representative body, unpredictable events will always make it difficult for senior officers to allocate their time as they might like. However, there are ways of limiting this problem, including some fairly straightforward techniques such as effective delegation and good personal time management. There is, however, a strong cultural tradition of finance directors attempting to control all financial activities directly. This tradition is
part of a wider local government habit of measuring an officer’s importance by the size of his/her empire and may still discourage finance directors from implementing alternative arrangements. There are a range of ways in which finance directors can make more time for strategic work by changing arrangements for the delivery of financial services.

38. A few councils have voluntarily externalised some or all of their day-to-day finance activities. Although externalisation is not usually adopted to free up the finance director’s time, it can help them to better focus on strategic activities as a result [CASE STUDY 3]. Some councils have found that moving to a contract-monitoring approach does produce time savings by focusing attention more on the outputs of activities rather than direct management of them. However, the chief finance officer is still accountable for financial administration even where activities are delivered by a contractor and must retain sufficient involvement for that accountability to be real.

CASE STUDY 3

Establishing client contractor arrangements at South Oxfordshire District Council

In 1992, South Oxfordshire District Council contracted out its central finance services to achieve improved value for money. Externalising central financial services, including budget preparation, was unprecedented then and is still unusual. Considerable care was taken to make sure that the new arrangements safeguarded the statutory responsibilities of the chief finance officer. These measures included:

- strengthening systems of performance monitoring; and
- taking meticulous care over the selection and appointment of the contractor.

The resulting arrangements include a contract manager within the external provider who has managerial responsibility for the provision of the Council's central financial services. However, the S151 responsibilities have remained with the Council’s chief finance officer, who is the client for the contracted-out services. The arrangements have freed the chief finance officer from the day-to-day management of financial services to concentrate on the output of finance services and on the development of council policy and strategy.
39. A different approach to focusing on strategic tasks is to separate out management responsibility for operational activities:

There's a world of difference between advising on financial strategy and running financial services.

(Chief executive)

One of the Commission's recommendations in a previous study of finance activities (Ref. 5) was that councils needed to make this distinction between strategic and operational functions, and some councils have built it into their structure [CASE STUDY 4]. As with externalisation, the chief finance officer remains accountable for financial administration even if he/she no longer manages these activities directly, so he/she must have overall control of the framework.

40. Nevertheless, some finance directors are reluctant to adopt this type of approach and finance work remains relatively centralised [TABLE 1]. There are sound reasons why some activities - such as treasury management or internal audit - should remain the preserve of the centre. Some councils also have dual reporting lines (to a service director and the finance director) for decentralised finance staff; these may provide a greater degree of practical influence for service directors than the figures in Table 1 imply. But it is still somewhat surprising that so few service directors should receive financial advice and information from staff who report primarily to them.

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**CASE STUDY 4**

**Separating management of operational and strategic activities**

West Sussex County Council has set up arm's-length internal units to provide finance, IT and personnel support services to service departments. The finance unit has brought together staff from both the treasurer's department and finance sections in service departments. The unit sits outside the usual departmental structure. The head of the unit is advised by a small group of chief officers and reports to a board of members, although he is also a member of the Treasurer's departmental management team. The unit helps departments to manage their budgets effectively, provides them with financial information and advice and acts as a client advocate in all financial matters. There is a strong emphasis on developing service-oriented and 'can do' finance staff. The Treasurer has a key strategic role within the authority and, in addition to the budget setting, corporate finance, central accounting and audit functions, her department contains units that lead on corporate strategy for IT and personnel. The Treasurer retains line management responsibility for a number of operational activities (for example, payroll and pensions), and acts as 'head of profession' to all the finance staff within the Council.
Self-assessment checklist:
Finance director effectiveness

Instructions for completion

The purpose of the checklist is to help finance directors to assess their effectiveness in the light of their colleagues' and councillors' views. Finance directors should first answer the questions themselves, noting any actions that their answers prompt. They should then ask a selection of colleagues and councillors to answer the same questions without knowing the answers that others have given.

You will need to decide what scoring system you want to use, but obviously all those participating need to use the same system. A four-point scale like the example below may be helpful.

1. Completely
2. Mostly but some scope for improvement
3. Partially but with significant scope for improvement
4. Insufficiently: improvement needed urgently

Once the exercise is complete, the scores should be compared. The participants should then meet to discuss the results and identify any actions that may result.
ORGANISATION AND OBJECTIVES

| 1. Has the council set clear objectives for the finance director? |
|-------------|-------------|-------------|-------------|-------------|
| Finance directors | Chief executive | Other chief officers | Councilors |

| 2. Do these objectives reflect policy and management priorities? |
|-------------|-------------|-------------|-------------|-------------|
| Finance directors | Chief executive | Other chief officers | Councilors |

| 3. Are the finance director's objectives primarily concerned with strategic matters? |
|-------------|-------------|-------------|-------------|-------------|
| Finance directors | Chief executive | Other chief officers | Councilors |

| 4. Does his/her contribution to the management board support achievement of its strategic objectives? |
|-------------|-------------|-------------|-------------|-------------|
| Finance directors | Chief executive | Other chief officers | Councilors |

| 5. If no officer on the management board has responsibility for financial management: |
|-------------|-------------|-------------|-------------|-------------|
| Finance directors | Chief executive | Other chief officers | Councilors |
| • is the management board able to take a strategic view of the planning and deployment of resources? |
| • does the statutory chief finance officer have sufficient access to councillors and the board? |
| • are councillors and officers confident that they receive timely, high-level financial advice? |

| 6. If chief executive/finance director jobs are combined, are councillors confident that they receive objective, high-level financial advice? |
|-------------|-------------|-------------|-------------|-------------|
| Finance directors | Chief executive | Other chief officers | Councilors |

| 7. Are the council's systems of checks and balances reviewed regularly enough to ensure that best practice in corporate governance is achieved? |
|-------------|-------------|-------------|-------------|-------------|
| Finance directors | Chief executive | Other chief officers | Councilors |
### BALANCING STRATEGIC AND OPERATIONAL TASKS

8. Does the finance director allocate his/her time in accordance with personal targets and council-wide objectives?  

9. Has the finance director organised finance activities in a way that helps him/her to focus on strategic tasks?  

10. Does the finance director manage the tension between being both 'umpire' and 'player' successfully?  

### MEETING EXPECTATIONS

11. Has the finance director developed a financial strategy that supports the council's policy objectives?  

12. Do responsibilities within the financial management framework match service delivery responsibilities?  

13. Are councillors and officers satisfied that:  
   - they get what they need from finance services?  
   - they can contribute to financial strategy?  
   - the finance director and his/her staff give financial advice which they understand and can use?  
   - the finance director encourages service managers to take responsibility for managing effectively the resources allocated to them?  

14. Is the finance director actively engaged in:  
   - increasing the council's resource base?  
   - partnership working?  
   - building public confidence in local government?
WORKING WITH OTHERS

15. Does the finance director have strong, constructive working relationships with:
   - councillors?
   - chief executive?
   - other senior officers?
   - key external organisations?

16. Is the finance director (and the statutory chief finance officer if that is not the same person) able to give potentially unwelcome or unasked for advice where necessary?

17. Does the finance director take a 'can do' approach but also promote sound corporate governance?

DEVELOPMENT

18. Does the finance director routinely take account of councillors' and colleagues' views of his/her performance?

19. Is there an adequate continuing professional development plan for finance staff, with opportunities for mentoring, coaching and shadowing?

20. Are finance staff expected to develop both technical and management skills?
## Table 1

### Reporting lines of staff undertaking finance activities

<table>
<thead>
<tr>
<th>Activity</th>
<th>Entirely done by staff reporting to the finance director (percentage of councils)</th>
<th>Largely done by staff reporting to the finance director (percentage of councils)</th>
<th>Entirely or largely done by staff reporting elsewhere (percentage of councils)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial advice to support strategy development</td>
<td>71</td>
<td>28</td>
<td>1</td>
</tr>
<tr>
<td>Financial advice to support service delivery</td>
<td>37</td>
<td>47</td>
<td>16</td>
</tr>
<tr>
<td>Advising on optimum use of resources</td>
<td>75</td>
<td>23</td>
<td>2</td>
</tr>
<tr>
<td>Providing financial information</td>
<td>35</td>
<td>54</td>
<td>11</td>
</tr>
<tr>
<td>Statutory accounts and returns</td>
<td>83</td>
<td>13</td>
<td>4</td>
</tr>
<tr>
<td>Internal audit</td>
<td>90</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>Income and payments</td>
<td>49</td>
<td>40</td>
<td>11</td>
</tr>
<tr>
<td>Treasury management</td>
<td>94</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Advice on risks and assets</td>
<td>54</td>
<td>40</td>
<td>6</td>
</tr>
</tbody>
</table>

*Source: Audit Commission research*
41. There are a number of possible explanations. Council size may play a part. District councils tend to be more centralised than others and their relatively small size may present practical obstacles to devolving or decentralising finance staff. Although increasing numbers of councils are experimenting with new management structures, they have generally been slow to devolve support services to front line service providers. The statutory framework for white collar CCT may also have reinforced centralising tendencies. But if finance directors need to find ways of concentrating on strategic tasks, they could consider extending devolution. Devolved or decentralised financial management can involve risks that are not found in centralised systems, but these are manageable [CASE STUDY 5]. Well-designed and properly supported devolved arrangements can control risk and support value for money by giving service managers incentives for managing money well:

*If the people running departments and services feel responsible for financial control and know that if they get it wrong, they will be held responsible, it alters their perspective ... financial control is better if everybody is a financial controller.*

*(Chief finance officer)*

42. There is no blueprint for finance directors in balancing strategic and operational concerns and the model chosen must fit within an authority’s overall approach to service delivery. The advantages and potential disadvantages of the main structural approaches are summarised in [BOX D].

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**CASE STUDY 5**

**Devolving financial management: Kent Council**

Kent has had a devolved management model for a number of years. Budget management is highly devolved, with over 1,500 managers within the council having responsibility for front-line service budgets. A corporate finance section sets budget management standards and provides advice and guidance: ‘the role is about controlling standards without controlling functions’. The operating framework encourages finance staff to get involved in any issue where probity may be at risk, but front line managers, when operating within their budgets, are not otherwise routinely expected to justify their budget decisions.

The Treasurer no longer needs to be involved in day to day operations, leaving him free to focus on strategy and planning.
## BOX D

### Different structural approaches to shifting the strategic/operational balance

<table>
<thead>
<tr>
<th>Potential advantages</th>
<th>Other implications</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Externalisation</strong></td>
<td>• may not be easy to reverse quickly if unsuccessful</td>
</tr>
<tr>
<td>• frees senior council staff from day-to-day operational management</td>
<td></td>
</tr>
<tr>
<td>• may bring new or innovative approaches to service delivery</td>
<td></td>
</tr>
<tr>
<td><strong>Independent internal business units</strong></td>
<td>• great care is needed in choosing contractor</td>
</tr>
<tr>
<td>• frees core council staff of most day-to-day operational management</td>
<td></td>
</tr>
<tr>
<td>• may strengthen links between users and providers of support services</td>
<td></td>
</tr>
<tr>
<td>• may provide more flexible model of service delivery</td>
<td></td>
</tr>
<tr>
<td><strong>Devolution or decentralisation</strong></td>
<td>• needs to be consistent with council's overall competition strategy</td>
</tr>
<tr>
<td>• clears core council staff of most day-to-day operational management</td>
<td></td>
</tr>
<tr>
<td>• likely to strengthen links between users and providers of support services</td>
<td></td>
</tr>
<tr>
<td>• may eliminate duplication between centre and departments</td>
<td></td>
</tr>
<tr>
<td>• may improve alignment of financial and service delivery responsibilities</td>
<td></td>
</tr>
<tr>
<td><strong>Other implications</strong></td>
<td>• changeover may be disruptive for users of services</td>
</tr>
<tr>
<td>• change may be more apparent than real</td>
<td></td>
</tr>
<tr>
<td>• clear reporting and accountability lines for finance staff are essential</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Audit Commission*
Tensions in the role

43. There are two principal sources of tension within the finance director’s role, both stemming from the complex nature of the job, and requiring a mix of skills from postholders. The challenge of combining a tough approach to financial propriety with an enabling approach to financial strategy and management was discussed in paragraphs 20-8. The second source of tension concerns a related set of roles. The professional definition of the chief finance officer’s role (Box B) stresses its advisory nature, and this remains important. Part of this advisory role requires finance directors, like monitoring officers, to play an ‘umpire’ role that is particularly important when the council is planning an innovative or complex project such as a Private Finance Initiative scheme. But as complex projects of this type also need the practical involvement of senior finance staff during their development, the finance director cannot simply sit on his/her hands and wait to give advice when decisions are finally taken:

*The only way I can be in a position to advise members on a complex project is if I’ve been involved from the outset in putting it together, so it’s just not practical to say ‘I can’t get involved because I need to stay independent’.*

(County council chief finance officer)

44. This practical involvement can happen only if there is sufficient openness and teamwork across departmental boundaries: the finance director may simply be forced into giving advice at a late stage if he/she is not made aware of an important new project in another department. Even when corporate co-operation works well, the finance director must tackle the tension between acting as umpire and player. This tension cannot be eliminated, although it can be managed: day-to-day involvement could be delegated to another officer who can then help the finance director to formulate his/her advice to councillors.

Changing skills and behaviours

45. Technical ability, while essential, is only one part of a successful finance director’s set of skills. Leading by example, demonstrating vision, negotiating skilfully and building constructive working relationships are just as important. Without them, technical knowledge will have a limited impact and the chief finance officer will be forced to rely on his/her legal status for their influence. Relying on rank or formal authority is often seen as the hallmark of the old style treasurer. Effective contemporary finance directors are more likely to rely on the influence and personal credibility generated by a track record and on developing good working relationships with others.

46. The finance director’s relationship with the chief executive is particularly important. While they have distinct corporate roles - and a degree of creative tension between them may be valuable - they must be able to work together effectively if councillors are to receive coherent advice. The importance of the relationship is such that, if it fails, the council’s budget decision-making process may be severely impaired and a change of personnel can become inevitable:
They must work closely together ... if the chief executive and the finance director fall out, one or other has to go.

(Chief finance officer)

47. Councillors must be able to rely on the finance director for honest, impartial and high-quality advice. While finance directors will usually have a closer working relationship with the council leader or finance committee chair than with other councillors, they must make sure that every councillor has the financial advice and information necessary for them to operate effectively. Local government finance is complex and prone to jargon, so councillors should not be expected to work out for themselves how it operates. A key job for the finance director is therefore to demystify finance, providing training for councillors (and non-financial officers) and making sure that financial reports are presented clearly [CASE STUDY 6].

**CASE STUDY 6**

**Demystifying finance**

**West Devon District Council**

Following difficulties experienced by the council in dealing with financial constraints in the early 1990s, a new chief finance officer has tried not only to strengthen the financial administration framework but also to encourage a new approach in which both service managers and councillors are empowered to manage money more effectively. Changes include:

- training for councillors on financial and business planning, the statutory framework of local government finance and initiatives such as PFI;
- improving the quality of financial reports and making them easy for councillors and other officers to understand; and
- linking financial planning with service plans.

**Kirklees Metropolitan Borough Council**

The Kirklees chief finance officer was one of the first to have to operate outside the management team. This has encouraged him to develop his influence within the council by informal as well as traditional means. Key elements of this approach are:

- making sure that all finance staff are 'bilingual' - that is, can communicate as effectively about financial issues with councillors and non-finance staff as with fellow finance professionals;
- promoting the development of management skills within the finance section;
- concentrating on setting up both lateral and vertical channels of communication; and
- adopting a 'can do' approach within the regulatory framework.

Effective finance directors rely on the influence and personal credibility generated by a track record
Delivering better services within limited budgets

48. The structural changes to delivering financial services outlined above have sometimes been driven by the demands of service users for more responsive financial services. Some finance directors have also adopted explicit service quality strategies that are similar to those of front-line service departments [CASE STUDY 7].

49. The impact of the finance director is often difficult to separate from that of the staff who provide internal finance services. Professional training has always played an important role in securing good performance, but a more wide-ranging approach to staff development is essential if up and coming finance staff are to acquire the full range of skills that they need both to deliver improved services and take on senior roles. Performance management systems should therefore focus on all-round performance [CASE STUDY 8]. Councils and national organisations with a training remit should consider whether a more structured approach to developing potential high flyers would produce benefits. As other officers and councillors value finance officers with a strong understanding of the perspective of front-line services, such an approach to development should address how this can best be acquired.

CASE STUDY 7

Focusing on service quality: Warwickshire County Council

Warwickshire’s finance department has well-established staff appraisal and business planning systems, securing Investors In People accreditation in 1995. Building on these initiatives, the finance director has developed a local quality improvement system that has been implemented with the assistance of an independent validation panel. The system encourages a climate in which individuals and teams accept a high degree of self-regulation and self-determination. Eight aspects of quality are evaluated:

- accuracy and reliability of service;
- responsiveness to customers;
- timeliness;
- creativity and style of service delivery;
- morale and motivation of staff;
- professionalism of staff;
- helpfulness of staff; and
- effectiveness of complaints procedures and remedial action.

Each team of finance staff makes an annual submission for its services to be quality-rated by a panel of their peers; ratings are made using five quality benchmarks. Action to improve performance is triggered by feedback reports and the determination of teams to achieve higher quality ratings. The quality improvement system has been in operation for just over 18 months so it is too early to assess its full impact, but it is viewed positively by staff and has stimulated a variety of initiatives to improve service delivery. In one example, Warwickshire received a Plain English Campaign Crystal Mark for one of its most technical publications, the statement of accounts.
CASE STUDY 8

Performance management and staff development: Hertfordshire County Council

Hertfordshire County Council has placed a high priority on the development of performance management and staff development systems across all service areas for over a decade. The implementation of performance management has had a significant impact on the way that the finance directorate fulfils its responsibilities. In particular:

- the organisation’s expectations of its finance staff, including the chief finance officer, are coherently and explicitly expressed and are aligned with the council’s policy priorities;
- the starting assumption is that finance staff must be multi-skilled, adding interpersonal and communication skills to a sound technical base; and
- secondments are used to broaden the experience of finance staff and enhance their customer and service orientation.

As a consequence, the culture and attitude of finance staff has become more ‘can do’. Staff are stretched by undertaking a wide range of tasks that lies outside their ‘comfort zone’.

Conclusion

50. This section has described some ways in which finance directors can increase the effectiveness with which they fulfil their current functions. But there are also important debates about the powers that chief finance officers should have and their proper place within council management structures. The next section explores these issues further.
3. Structures and powers

51. This section examines:
   - whether the statutory basis of the chief finance officer’s job is necessary; and
   - the proper position of the finance director (and of the chief finance officer if that role is not held by the finance director) within the hierarchy.

The statutory basis of the role

52. In its report on standards in local government, the Nolan Committee recommended that the statutory powers of the chief financial officer should be reviewed by the Government to determine whether they are workable and effective. This recommendation leads naturally to two questions:
   - Should chief finance officers retain their powers under section 114 to require councillors to consider reports on expenditure that may be unlawful and to prevent further spending until they do so?
   - Is the overall statutory framework still appropriate?

53. Few chief finance officers see an urgent need for their statutory powers to be either constrained or extended, although some councillors see the section 114 stop powers as unnecessary. These powers provoked controversy when they were first proposed but, perhaps because they have been used only rarely, many chief executives and councillors do not now appear to view them as a threat. Chief finance officers find it helpful to have such powers available to them, although they regard recourse to them as a last resort and, to an extent, a sign of their own failure. If the chief finance officer has set up a robust framework for financial management and secured organisational ownership of it, budget deficits are unlikely to arise. So although there are arguments for reforming the stop powers, they are not particularly compelling.

54. There is a good corporate governance case for retaining the statutory chief finance officer role. However, some local government officers (although very few finance officers) have argued that the strategic finance role is more a generic management than a specialist job and that the section 113 requirement for the chief finance officer to be a qualified accountant is unduly restrictive. This view may well be one factor contributing to the decision of a small but increasing number of councils to assign the formal statutory role of chief finance officer to an officer outside the management board.

55. While high-level management, political, inter-personal, strategic and negotiation skills are as important as accounting and other technical skills in achieving effectiveness at a senior level, the requirement for the chief finance officer to be an accountant does bring some important advantages. It is a guarantee that a council has financial expertise at a senior level and that its chief finance officer is bound by a set of professional standards. The key issue is, therefore, how to ensure that chief finance officers’ technical expertise is allied to other equally important skills. The traditional career route and the training within it tend to emphasise technical rather than management skills. Broadly based senior management training programmes can help to fill the gap, but if finance directors are to continue to be able to justify a place at the top table, a more structured approach to all-round continuing professional development would bring benefits.
Some of the most important high-level skills, such as working effectively with councillors, are hard to teach. Planned development should therefore allow for non-traditional approaches, such as shadowing and mentoring.

56. The Nolan Committee also recommended that the protection available to chief finance officers threatened with disciplinary action should be strengthened to bring it into line with that already available to chief executives. It is important that statutory officers are protected from threats of disciplinary action if these arise because the officer has been using his or her powers to prevent illegal or improper actions. Nevertheless, it is equally important to ensure that where a chief finance officer is incompetent, appropriate action can be taken to rectify the situation; any additional protection for statutory officers should be considered with this in mind.

What is the chief finance officer’s position in the hierarchy?

57. A vexed issue among senior local government finance staff is the position of statutory chief finance officers within the local government hierarchy. Many chief finance officers believe that their position is in danger of being downgraded. Councillors and other officers have a wide range of views on this issue. Although the majority of councils adopt the traditional approach of a management board-level finance director, a growing number are trying other approaches.

58. The chief finance officer who is a management board member is by far the most common arrangement, adopted in about 80 per cent of authorities. Within this large group, around half are solely responsible for finance and half have other central services responsibilities, most commonly IT but also central administration, legal services, personnel, property and construction-related services and, in a few cases, direct service organisations.

59. Around one in fifteen authorities have a combined chief executive/director of finance, but this overall figure conceals significant variation between types of authority. Few counties have adopted this model and it is found mainly in smaller district councils. However, a quarter of London boroughs and a small number of metropolitan councils have this arrangement.

60. Around one in fifteen authorities have a chief finance officer who is outside the management board. Although no figures are available, anecdotal evidence suggests that this model:

- is a recent development;
- has sometimes been prompted by the stifling effect that a narrowly focused chief finance officer can have on council management; and
- is being adopted by a growing number of councils.

61. In such structures the chief finance officer is usually a head of service who reports to a board-level executive director. In some cases, that executive director has an overall resources brief (that is, he/she can be seen as the council’s finance director) but in others the most senior officer within the authority with an explicit remit for financial strategy and management is not a member of the management board.

What should the chief finance officer’s position be?

62. Effective use and control of public money and the need for clear accountability are such fundamental imperatives that there must be one individual with responsibility for financial management and he or she must be on the board. It matters less what their title is, as long as everyone inside and outside the organisation can clearly identify who is responsible for the council’s finances. He/she should go beyond the narrow role of financial
administrator and actively contribute to strategy and corporate management. And if he/she does this effectively, then colleagues will not need convincing that he/she deserves a place at the top management table. For reasons outlined above, the finance director will usually be an accountant, but does not have to be - there are organisations with sound financial management in the public sector and among the FTSE top 100 companies where the director of finance is not an accountant.

There must be one individual with responsibility for financial management and he or she must be on the board

63. It is not essential that the statutory roles of the chief finance officer are taken on by the director on the board who is responsible for financial management - although that is the usual practice. It is also not essential that the roles of director of finance and chief executive be separate - although, again, this is usual practice. However, any council not adopting usual practice should consider what additional safeguards might be needed to ensure that there are sufficient checks and balances in place. The following paragraphs examine the pros and cons of the three main models.

Finance director incorporates statutory role of chief finance officer and is a board member (the traditional model)

64. The strength of the traditional model is that it combines the clear legal responsibility for propriety with strategic financial management and places financial management at the heart of the council's business. High-level executive decisions should then be taken only in the full knowledge of their financial consequences. A board level finance director will also be well placed to maximise his/her contribution to corporate management. In addition, having the finance director on the board is an effective way of making sure that he/she has an early overview of major initiatives in service departments that will have significant financial implications. However, adopting this model does not in itself guarantee effective financial management: the small number of councils that has experienced very serious financial problems have mostly been operating under the traditional model. So whatever model is adopted, the individual selected for the role must be a competent manager and they must be operating within a context where there is a council-wide approach to corporate governance.

65. Some councils, which have been looking to make savings by reducing the number of chief officers, have varied the traditional approach by asking their finance director to head a central services department. Some also see a finance director with broader central services responsibilities as a good way to secure an integrated approach to support services or to maximise the contribution of the postholder's skills. However, the combination of the finance role with other responsibilities can lead to a dilution of the finance role and some councils that have experimented with wide ranging resources directorates have subsequently returned to rather narrower spans of control. Able deputies and a sound framework for delegation may help to reduce the risk that a director with a very wide remit will have difficulties keeping his/her eye on the finance ball.
Combined chief executive and finance director

66. The combined chief executive/finance director approach has operated successfully in a variety of councils. It is most common in district councils and can be a cost-effective approach in smaller authorities. This model also has the advantage of ensuring that financial strategy is likely to be accorded a high priority and to be integrated into the authority’s wider agenda. Some councils’ experience suggests that the time pressures on an officer playing both roles can encourage greater corporate working within the top management team [CASE STUDY 9].

67. But there are risks in combining the two roles, particularly the concentration of power in one post. Many finance directors and even chief executives believe that combining the roles can lead to a stifling of the chief executive role and the loss of the creative tension that the traditional separation can produce if one is innovative and the other cautious.

68. A combined post is usually taken on when an existing finance director is promoted to chief executive. Appointing an outsider to such a combined role would involve a high risk because of the enormous learning curve he or she would face. Combined postholders also need to have an effective head of finance to whom to delegate operational responsibility. Any council that has adopted the combined model or is planning to do so should consider how to build appropriate checks and balances into its overall management arrangements. Options include:

- setting up an audit committee (Ref. 6); and
- making these checks and balances a focus of external audit work on overall management arrangements.

CASE STUDY 9

Combining the chief executive and finance director roles: Rochdale MBC

The roles have been combined at Rochdale since early 1997 when the previous chief executive left and the then finance director took on the top job as well. Although the arrangement is felt to work well for the council, time pressures make it difficult for a single postholder to carry out all the functions that were previously performed by two people. An important result of this pressure on the chief executive/finance director is greater corporate working by the management board as a whole. Senior officers now chair small teams of colleagues that are charged with tackling corporate developments which previously might have been managed from within the chief executive’s office. These teams report back to the management team, giving the chief executive a clear oversight role. Although the arrangements are in part a pragmatic response to a practical problem, they have helped to improve cross-departmental thinking and have supported the management board’s development as a corporate team. The sharing of power with other chief officers in this way has also helped to counter the inevitable reduction in checks and balancing that has resulted from combining the two posts.
Chief finance officer outside the management board

69. The apparent relegation of chief finance officers who are outside the management board is the development that causes most concern to finance directors. Others in local government have more mixed views, but the model under which service heads report to a small number of executive or strategic directors remains a controversial one. Although arrangements with the chief finance officer outside the management board are controversial and diverge from those recommended in the 1993 CIPFA statement, they can work effectively in some circumstances.

70. There is a crucial difference between councils where a board member is accountable for financial strategy and management but is not the designated chief finance officer and councils where no one on the management board has responsibility for finance. The former arrangement is usually adopted where a resources or central services director has overall responsibility for the finance function but is not an accountant and so cannot be designated chief finance officer. It can work well, although some safeguards are still needed:

- the chief finance officer must have guaranteed access to the chief executive, management board and councillors when necessary;
- the statutory duties of the chief finance officer must be properly recognised;
- the board member responsible for finance and the chief finance officer must have a good working relationship; and
- the effectiveness of the arrangement should be reviewed by the external auditor as part of his/her work on management arrangements.

There is a small number of councils in which the chief finance officer is not a member of the management board but is still the most senior officer in the council with responsibility for finance. The former arrangement is usually adopted where a resources or central services director has overall responsibility for the finance function but is not an accountant and so cannot be designated chief finance officer. It can work well, although some safeguards are still needed:

Conclusion

72. Comparison with the private sector suggests that the position of the finance director is a predominantly public sector concern. Private sector finance directors were unanimously of the view that there could be no question of their companies failing to include them as main board directors. This is not because private sector finance directors have greater formal powers than their local government equivalents; it is simply unthinkable that a sizeable company would operate in any other way because securing financial resources and deploying them effectively are vital tasks in the achievement of business objectives. But although every private sector board includes someone who is responsible for managing the money, that person is not always an accountant. Some large companies - including FTSE companies - have finance directors who hold business rather than finance qualifications.
73. In reviewing their own arrangements, each authority should examine carefully how the achievement of its objectives can best be secured and what checks and balances are needed to safeguard public money. [BOX E] may help councils to decide which functions need to be handled at board level and which require an accountant to take responsibility for them.

74. The proper place of the finance director is an important issue. However, it would be a mistake to see it as the only one underlying effective performance. There are innovative and well-respected finance directors operating in a range of organisational contexts. What they have in common is evidence that satisfies them that the model adopted by their authority is a sound one for that particular council, its local circumstances, policy priorities, member preferences and management style. Equally, if not more important elements of effectiveness are the way in which the finance director approaches the job, the calibre of his/her financial support staff and the working relationships that he/she has with councillors, the chief executive and other senior officers. Effective finance directors also need to look forward. The next section examines some future issues that all finance directors will need to tackle.
4. The future

75. As well as maximising effectiveness within their current role, finance directors should look beyond this to new ways in which they can contribute to their council's work. The majority of finance directors see the replacement of CCT with a new duty to achieve best value within increasingly limited resources as the most important issues that they face over the next few years. These duties are undoubtedly important. But if finance directors are to be as strongly valued by their colleagues as they would like, they need to think more widely about the development of their role.

76. There are four specific issues of growing importance:

• strategies to increase the resources available to the council;
• the growth of partnerships;
• anticipating changes in the outside world; and
• building public confidence in local government.

These issues are considered below.

New resources

77. Although the majority of finance directors say that helping councils to manage within limited resources is a major concern, relatively few identify a role for themselves in trying to increase or diversify the council’s resource base. The efforts that many councils already make to get new resources that will enable them to maintain services or to meet anticipated changes in demand tend to come from service chief officers. Examples include setting up trusts to run parks and leisure facilities or transferring social services residential homes to private or non-statutory providers. Most authorities are also actively bidding for special funds that are available from national government or the European Community or for projects under the Private Finance Initiative. Again, finance directors frequently take a reactive part in such developments, building them into main budget plans or advising on their financial and accounting implications rather than leading the search for new opportunities.

Finance directors could add greater value by being more proactive, particularly in co-ordinating council-wide activity. Securing new resources can be difficult and there are risks as well as potential benefits involved. Councils should bid for new resources for a project because the project fits into their strategy not simply because external money is available to fund it. Where external funding is dependent on the council also committing its own resources to the project, this 'match funding' should be identified before any bid for external money is made. But finance directors are ideally placed to develop broadly based strategies to work out the resource implications of likely future service demands and then to try to obtain new resources to help meet these.

Partnerships

78. New approaches to tackling difficult problems, such as crime prevention, will often involve working in partnership with other organisations including the police, health bodies, private companies or non-statutory bodies. Finance directors should see the growing role of partnerships as an opportunity. New ways of working present some problems in accounting for public money; finance directors could work constructively to further the council's objectives while ensuring that public money is properly used and accounted for. And there are opportunities for finance directors to contribute in other ways. Partnerships often involve councils in new types of activity; many Agenda 21 partnerships, for example, have initiated environmental audits of partners' work. Finance directors
could help service managers - for example, those carrying out environmental or crime prevention audits, by using learning and expertise from financial audit. They can also play an important role in the corporate governance of partnerships. Partnerships do not fit easily into mechanisms - such as external value for money audit or regulations about public access to information and meetings - by which councils are held to account. It is often up to the partners to develop their own standards. Finance directors can help partnerships to ensure that they do and are seen to make good use of resources entrusted to them.

**Anticipating changes in the outside world**

79. Many finance directors are struggling to keep on top of day-to-day pressures. Yet the pace of change both within and beyond local government is rapid. If they are to plan effective strategies to respond to change, finance directors must keep abreast of these developments. This means making time not just to track important economic, political and technical issues but to work out their local implications and build these into local plans. One observer characterised this as a 'making time to look out of the window and see what is going on in the world beyond the town hall'. Economic and political issues that finance directors should consider include future public spending plans and trends in relevant markets. In considering how their council might run finance activities in future, they should address the impact of technological developments, particularly in information management, as well as changes in the type and organisation of services offered by the treasury management, superannuation, insurance, banking, and managed financial services industries. Finance directors should also anticipate the implications of legislative and other changes that may affect the financial strategies of partner organisations such as the police or health service.

**Building public confidence in local government**

80. Following the Nolan report and recent cases of alleged financial impropriety by officers and councillors, finance directors should look to play a central role in building public confidence in the probity of local government. There are only a few councils which have tarnished the image of local government as a whole. But there is concern within local government, reflected in the media, that public confidence in councils is not as high as it should be. Finance directors should respond to this challenge positively rather than defensively. Together with colleagues, they should develop plans to review and strengthen where necessary the key elements of good corporate governance. In addition to sound audit arrangements, these plans should include:

- codes of conduct;
- financial and other regulatory frameworks;
- checks and balances within officer and councillor decision-making mechanisms; and
- whistle blowing arrangements.

81. Although these tasks are not for the finance director alone, he/she should offer leadership in this area. Building public confidence in local government is not just about doing the right things. It is equally important to communicate both to the public and to council staff that good, open corporate governance is a high priority. Doing this as a matter of course, when it is clear that action is not simply being taken in response to a scandal, offers a significant opportunity to build public confidence.

82. This is a challenging agenda and one that requires finance directors to think more broadly than has traditionally been the case. But those who make this kind of contribution while performing the core financial functions to a high standard are unlikely to find anyone who wants to challenge their place at the heart of local government management.
References


The Audit Commission has produced a number of studies covering issues related to finance and management in Local Government. The following may be of interest to readers of this paper:

**A Learning Experience**  
*Service Delivery Planning in Local Government*  
*Occasional Paper, 1997, 26 pages, 1862400088, £10*

**Kiwi Experience**  
*VFM Messages from New Zealand*  
*Occasional Paper, 1997, 36 pages, 186240013X, £8*

**Representing the People**  
*The Role of Councillors*  
*Management Paper, 1997, 40 pages, 1862400113, £7*

**Form Follows Function**  
*Changing Management Structures in the NHS and Local Government*  
*Management Paper, 1996, 40 pages, 1862400008, £6.50*

**Called to Account**  
*The Role of Audit Committees in Local Government*  
*Management Paper, 1996, 28 pages, 0118864505, £6*

**Counting Down to Competition**  
*A Management Handbook on Financial Support Services*  

**From Administration to Management**  
*The Management of the Finance Function in Local Government*  
*Executive Briefing, 1995, 24 pages, 0118864106, £6*

**Improving Value for Money in Local Government**  
*A Compendium of Good Practice from Audit Commission Reports*  
*Compendium, 1995, 62 pages, 0118864114, £8*

**Fraud and Corruption Audit Manual**  
*Ringbinder, 1994, 178 pages, 1862400261, £95*

**Passing the Bucks**  
*The Impact of Standard Spending Assessments on Economy, Efficiency and Effectiveness: Volume 1*  
*National Report, 1993, 50 pages, 0118860798, £8.50*

**Passing the Bucks: Volume II**  
*Appendices, 1993, 90 pages, 0118860801, £8.50*

**Regular as Clockwork**  
*Raising the Standard of Local Government Financial Accounting*  
*Management Paper, 1993, 20 pages, 0118861190, £6*

**Protecting the Public Purse - Probity in the Public Sector**  
*Combating Fraud and Corruption in Local Government*  
*National Report, 1993, 40 pages, 0118861782, £9*

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*Ensuring Probity in Local Government Update Papers*  
*Bulletin, 1997, 24 pages, 1862400571, £10*  
*Bulletin, 1996, 20 pages, 1862400032, £6*  
*Bulletin, 1995, 26 pages, 0118864289, £6*  
*Bulletin, 1994, 46 pages, 0118861271, £5*

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Finance directors play a pivotal role in local government, making sure that councils use resources properly and get the best possible value for money. The role contains inherent tensions: finance directors must aim to help councillors and other colleagues to achieve policy objectives, but they must also say 'no' to illegal or improper proposals.

This paper discusses the way finance directors' roles are changing and examines their place in council structures. It is essential reading for finance directors, chief executives and councillors and all those with an interest in the financial health of local government.