Local government

National report

Improvement through better financial management

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Introduction

The challenge of improvement

1 Financial management is absolutely critical to service improvement. It impacts on how national funding of local government is used to deliver national priorities, on the relationship between national funding and local accountability, on the availability of resources for investment and on the cost-effectiveness of local government services.

2 Current evidence to show how effectively local authorities manage their finances demonstrates mixed performance. Successive national reports by the Audit Commission on issues such as service and financial planning, asset management and corporate governance also highlighted varying performance. Auditor judgements in comprehensive performance assessments (CPA) were broadly positive, although previous local audits and inspections have been more critical.

3 Despite the increasing complexity of the subject in recent years, and key staff shortages in some areas, most of the difficulties experienced by authorities seeking to improve financial management are not new challenges.

Box 1

Why improving financial management is so difficult

Inspections and local audits have uncovered many reasons.

It's the finance department's job!

- Financial management is too often seen as the narrow preserve of the accountants with limited buy-in by elected members and the corporate management team.

Too much annual fire fighting

- Longer-term planning is not done effectively because 'we can't plan against the uncertain backdrop of annual financial settlements from central government'.

Unclear relationships and ground rules

- The respective roles and relationships between corporate and service departments in relation to delivering improvement are often unclear or are not updated regularly.

No link between performance and financial management

- The budget-setting period is sometimes the only time that service managers get involved in financial management issues.

Lack of a culture that believes transformational improvements are possible

- The financial culture of many authorities, and finance departments in particular, isn't sufficiently ambitious and can sometimes encompass a lack self-belief.

Source: Audit Commission

About this report

4 This report relates the findings of a recent project, carried out in partnership by the Audit Commission, the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Improvement and Development Agency (IDeA). The project sought to identify how those local authorities that have achieved excellence in financial management did so. The messages in this report are based on an analysis of previous national and local reports, a dozen site visits and challenge workshops with key stakeholders. It should be read alongside the CIPFA model of financial management, which is a particularly valuable tool for authorities that are taking stock of their current performance.

5 This report is aimed at portfolio holders, scrutiny chairs, chief executives, corporate directors, heads of service, finance directors, other finance officers and service managers.

The ingredients of improvement

6 Organisations that are improving share some common characteristics. They have a clear sense of purpose and effective leaders, who shape and communicate that purpose. They try to deliver basic services consistently well and they challenge people across the organisation to improve. These ingredients are evident in authorities that have achieved sustainable improvement in financial management.

Table 1

The ingredients for improvement and their relevance to better financial management

The wider ingredients for improvement also apply to financial management.

Clarity of purpose and strategic direction	– See financial management as a key enabler of the authority's vision – Understand and balance financial risk – Set clear, context-specific success measures
Effective political and managerial leadership	– Set a challenging tone and hold people to account – Promote corporate leadership of financial management – Develop the wider role of the finance department
Basic building blocks	– Get the basics of financial stewardship right – Build financial management skills – Make the most of systems and technology
Driving and sustaining change through services	– Integrate performance and financial management – Learn from others – Communicate effectively to celebrate success

Source: Audit Commission

Clarity of purpose and strategic direction

7 Improving councils have a clear sense of their purpose. They know what they are seeking to achieve for their users and for the community they serve. This bigger picture provides the context for improving financial management. In turn, good financial management enables a stable framework within which innovation can happen. It also enables more resources to be secured in order to support improvement.

8 Improving authorities also 'set out their stall ' clearly. An improving council's own corporate plan fits closely with its medium-term financial strategy, and with performance management and reporting. The main financial risks to the wider improvement agenda are identified, quantified and updated regularly; the authority's financial strategies can cover that risk.

9 There are clear measures of success to show that better financial management is being achieved. But the sense of purpose goes deeper than the paperwork. Effective and improving councils seem to share common values about financial management. There is usually a strong sense that they are handling the public's money, which, along with a concern for stewardship, brings a commitment to make the money work hard for local people.

Political and managerial leadership

10 At best, members provide clarity of political vision and what this means in terms of what are and are not priorities. There is understanding and engagement with financial issues and the overall financial status of the council. And there are sound, honest, challenging and productive relationships with officers and partners leading to mutual understanding of political realities and financial risk. It is, perhaps, in setting this challenging tone that members can make their most significant contribution.

11 Corporate leadership for managing finance is crucial. Financial management in improving authorities is not seen as the preserve of the accountants. Corporate managers enable members to set the tone by providing an accurate picture of the longer-term financial position; and they do this early enough to provide members with the time and space to think through their decisions properly. And financial leadership is demonstrated at all levels of the authority; it is the quid pro quo of devolvement.

12 The finance department has a key role to play. An effective financial director, supported by an effective corporate finance management team, supports the improvement of financial management across the authority. They contribute to the wider improvement agenda, understanding and 'adding value' to the service departments. They help to create a strong belief that effective financial management can make a real contribution to better services.

Basic building blocks

13 A recurring theme is the importance of improving the basics. Improving authorities constantly strive to better core finance functions, such as closing the accounts, restoring balances and managing the budget. Improving an authority's performance in these areas is seen as an essential contribution to the authority's wider improvement agenda, building credibility and confidence.

14 People are vital. People, skills and capacity are the cornerstone of good financial management. There has been a significant and continuing increase in the demand for financial management expertise in recent years and improving authorities invest early and often. Leaders also recognise the importance of managing energy levels across the authority, and of focusing that energy on the things that matter, including financial management.

15 Systems feature less in improvement 'stories' than might be expected. Several authorities had invested in, or were introducing, new management information systems and technology. The finance system has to be seen as important, not least because of its importance to clear accountability. But the system is seen as a tool rather than a driver by most improving authorities. And effective working relationships between service managers and management accountants can often compensate for the limitations of systems and technology.

Driving and sustaining change through services

16 Managing service and financial performance is crucial. The annual corporate planning cycle is regarded as a critical process to get right in order to embed improvement. Service plans are integrated with budgets; and the corporate finance department's plan is usually an impressive document that is underpinned by robust project and programme management arrangements. Regular performance reviews ensure that improvements are made continuously and external challenge from inspectors and auditors is viewed as an essential stimulus.

17 Key players in excellent authorities have a passion to learn from others in a variety of ways. Effective leaders have strong personal loyalties to their own mentors. Functional benchmarking is regarded as an essential tool; challenging best value reviews of financial management are surprisingly common.

18 Communication is seen as central to improving financial management. Improving authorities devote considerable time to internal communications in particular. Senior staff are effective personal communicators and value this skill in others. Staff commitment surveys are common, and effective team meetings and briefings take place. Celebration of success is also seen as important. Recognition from Investors in People, Chartermark and other awards schemes are usually proudly, if discreetly, on display.

The improvement journey

19 Improvement can be thought of as a journey (or series of journeys). You need to know where you are now and where you are trying to get to. You need fuel in your tank and a map to help you find your way. And you need to keep checking that you're going in the right direction. We used the metaphor of the journey to help promote understanding of how some authorities have brought about sustained improvement over time.

Table 2

The key issues for financial management along the journey

Improvement journeys are typically characterised by five phases.

	Taking stock	Setting direction	Getting started	Make it happen	Keeping on track
Clarity of purpose and strategic direction	There's a reason why, for example, either a new key player or a critical external report.	Leaders clarify direction, allocate resources to priorities and set milestones.		An emphasis on creating a culture of strong financial management.	Avoid getting distracted by too many priorities or by annual budget 'fire fighting'.
Political and managerial leadership	Key players assess key challenges, consider responses and engage stakeholders.	Three-year corporate plan developed with risks and resources aligned to it.	A strong corporate centre sends key messages and chalks up early wins.		Leaders are more self-aware, looking outside their organisations to discover how to best direct and manage resources.
Basic building blocks	Key players assess the robustness and efficiency of financial management.	Corporate emphasis on budgetary control, reporting and better decision making.	Get the right balance of loose/tight controls between the centre and departments.	Corporate performance management, procurement and partnerships.	
Driving and sustaining change through services	Key players assess capacity, build critical mass and judge likely pace of improvement.		An early investment in capacity and skills, but with emphasis on building momentum.	A stronger organisation builds infrastructure, systems and processes.	An annual update to help to review, learn and consolidate improvement.

Source: *Audit Commission*

Taking stock

20 Improvement needs to happen for a reason . Usually the reason involves the arrival of new people – an incoming chief executive or finance director, or a change of political leadership – that acts to redefine and revitalise an authority's improvement efforts in financial management. Strikingly, nearly all of the authorities we visited defined (without prompting) the milestones on their improvement journey in terms of the arrival or departure of key personalities. Another source of early motivation, particularly where improvement was driven without fresh faces, was external challenge from audit or inspection. Critical reports on any aspect of the authority usually have implications for financial management and can result in major improvement efforts. The other factor commonly cited as prompting improvement in financial management was serious in-year overspending, often in social services or trading areas. However, this can result in crisis management rather than sustained improvement.

21 Key decision makers are involved from an early stage. They analyse and understand the nature of the challenge, occasionally with the support of external advice. They will go out and listen to service managers' (and others) views. They assess the performance of the authority in delivering the basics, appraise the authority's longer-term plans and form a view on the adequacy of the supporting infrastructure. Really effective leaders take particular care to understand the legacy of previous improvement efforts, and are skilled at judging the capacity of the organisation and its likely pace of change. What's more, they do all this quickly, focusing only on the big picture and the really significant detail.

22 In fact, there's very little 'rocket science' involved in assessing financial management. Several authorities used external benchmarking; some places used SWOT and other simple business planning tools. But improvement in financial management seems to rely on few specific tools. Rather, the emphasis is on simplicity and on being able to strike the right balance between process and technical issues. Effective leaders are keen to develop a 'critical mass' at this stage of the journey, and they use away days and conferences to good effect to promote wider ownership. In particular, they seek to understand the legacy of previous change efforts and also to get the finance people 'in tune' with the wider organisation for the challenges ahead. The CIPFA model of financial management, deployed effectively and inclusively, will be particularly helpful in future.

Breakthrough issue 1:
Creating time and space for members to take the lead

Spelthorne Borough Council was marked excellent in the recent district CPA reports. It was particularly commended for its effective financial management. The council has a long track record of involving members (and officers) in business planning and learning events.

Recently, in order to improve their levels of financial reserves, they developed a staged process to support member decision making for the medium-term financial plan. The main stages were:

- realisation: an outline budget showing increasing deficits and unsustainable use of reserves over the next four years (July);
- targets and options: presentations and meetings to consider the council's possible responses (Sep);
- principles: reports and meetings to agree the key principles for the medium term financial strategy and the annual budget (Nov); and
- budget: agreement of the annual budget and council tax in line with the key principles set out earlier in the process (Feb).

The authority plans to repeat this process in future but will bring it forward so that it takes place earlier in the year.

Source: Audit Commission

Setting direction

23 Improving authorities actively seek to put members in the position of being financial managers. Members are provided with information at an early stage of the annual cycle, and corporate support is provided so that they appreciate the key issues and main risks. Members of all parties are helped to develop a good and honest understanding of finance, through participative and transparent decision-making processes. Improving authorities do this every year, and throughout the year, rather than as a one-off.

24 The key document is the three-year corporate plan. Improving authorities tend to develop the plan in a 'messy but managed' way, involving several drafts and widespread feedback. Other key documents include the corporate finance department plan; this often provides more detail to underpin the corporate plan and acts as a change management plan for the improvement of financial management across the authority. Finance directors, with the support of their own corporate finance management team, usually develop the detailed targets for financial management in line with the direction set by members.

25 And the authority's view of its main financial risks is updated regularly. Key players pay attention to understanding the risks rather than the process, and risk registers are reviewed regularly with the same focus. This is a critical issue of trust that depends on people and relationships. There is an acceptance of the need to be open about risks, to review each major risk regularly and to maintain financial stability as a key outcome.

Breakthrough issue 2:
Taking the longer-term view

Chester City Council was also marked excellent in the recent district CPA reports. Their financial position involves an unusually high degree of sensitivity due to their reliance on car parking and other income that is generated from tourism.

They have a clear financial strategy that has been developed over several years. The strategy includes a set of agreed principles and an A4 summary of the medium-term forecasts. The principles include:

- three- to five-year planning framework;
- no reliance on one-off savings to balance the next year's budget;
- making resources available in future budgets to facilitate change; and
- best value reviews must present options that reduce revenue costs.

Because the format is so clear and simple, and has changed only slightly over the years, there is a high level of understanding and ownership across the authority.

Source: Audit Commission

Getting started

26 Improving authorities focus early on their key financial management priorities and risks. They often bolster departmental management teams with senior finance officers. They set up cross-functional project teams, with clear terms of reference and reporting arrangements, to tackle weak financial performance. They are keen to chalk up some 'early wins' in order to send positive messages to the rest of the organisation. One way that improving authorities do this is to stop doing the wrong things that get in the way of creating a stable framework; for example, budget reviews where successful managers see their budgets 'stopped' in order to prop up poorly performing managers.

27 Getting the right balance of 'loose/tight' controls between the corporate centre and individual departments is seen as very important. Financial regulations, and the level of devolvement, are often revisited at an early stage, with greater involvement of service departments. Most of the improving authorities we visited had already devolved financial management but took the view that a 'horses for courses' approach is necessary, depending on local context.

28 Improving authorities also invest early in capacity in a number of ways. They seek to free up time and skills to invest in their change programme by stopping peripheral projects and activities. They provide member and officer training and development and they sometimes use external advisers or interim managers where they lack in-house expertise. What improving authorities don't appear to do at this stage is to invest significant time, money and energy in new systems and technology for fear of stalling their momentum.

Making it happen

29 Corporate performance management is central to effective implementation. An improving authority's efforts to improve financial management need to happen in tandem with developments to performance management. But improving authorities seem to strike a balance between the formal processes of performance review, programme management and project management – all of which are important – and staying alert, agile and responsive in order to deal with important issues as they arise. Consequently, few improving authorities have deployed formal systems of project management, such as PRINCE 2, except for major capital projects. Many authorities have developed a form of 'light-touch' project management for use in smaller projects.

30 Capacity and skills are still seen as critical. Procurement and partnership initiatives are sometimes introduced into financial business services and processes (such as council tax collection or benefits) and this can free up more senior management time, which can be devoted to the wider improvement agenda. Financial management training for service managers is often developed and delivered in-house; some authorities have also developed a financial management guide to provide further support. But few authorities appear to deploy incentives explicitly, other than by providing the promise of further training and investment, to promote better financial management.

31 Improving authorities now start to rebuild their infrastructure, systems and processes. In smaller authorities, partnerships are sometimes developed to share the costs of investing in new technology; indeed, value for money is a recurring theme across the authority. And more formal organisational development processes for leadership, communication and learning are developed.

Breakthrough issue 3:
Bringing together performance and financial management

Hampshire is an excellent authority. One of the characteristics of excellent authorities is that they continue to strive to improve and, in Hampshire's case, integrating and rationalising their 'service planning' processes with budget and workforce planning are continuing challenges.

At first, working with the auditor, they compared a sample of existing service plans across the authority against a specially adapted version of the CPA framework. This highlighted some good practice but also uncovered some inconsistencies. A steering group, chaired by the chief executive with representatives drawn from the various service departments, co-ordinated efforts to upgrade and integrate the various plans. But the legacy of previous business plans wasn't fully understood and implementation stalled.

The authority then tried something different. The steering group nominated a small cross-functional project board. Additional capacity was added to the centre, a recruit from the private sector with extensive business planning experience. She surveyed existing approaches cross the authority. IPF Training Consultants facilitated a service and financial planning workshop for 'key influencers'. The project board developed a change management approach to the project and, assisted by Hampshire Learning Centre, cascaded this approach through a series of departmental workshops. The corporate performance team, and the finance department, continued to track progress and assess impact.

The authority has now integrated much more closely its service planning, budgeting and workforce planning process. The self-awareness and self-confidence of local managers in delivering improvement has also been enhanced.

Source: Audit Commission

Keeping on track

32 Improving authorities are good at stopping 'fire fighting' from getting in the way of delivering their priorities. They try to ensure that they don't lose too much energy dealing with in-year financial difficulties. But if a problem does arise, they devote significant senior staff time to solving it at an early stage and do not let it drag on. Progress with their improvement agenda is also constantly reviewed for resource bottlenecks; swift action is taken to address any obstacles and blockages.

33 Continuing member involvement is actively encouraged. The annual cycle is refreshed and improved every year to enable earlier and better decision making. Other member initiatives help to maintain the tone and instil the right core values into the organisation. An annual stocktake is often used to update the picture of strengths and weaknesses. This is done as part of an improving authority's overall corporate and service planning process.

34 But staying on track requires, above all, honesty, resilience and greater self-awareness among the key players. There is a continued emphasis on leadership development, both formal and informal. Several places have conducted best value reviews of financial management and used these to refresh their agenda. Chartermark and other award schemes help authorities to keep up-to-date. And effective links with auditors and inspectors are deployed to keep key players in touch with technical developments and emerging good practice.

Breakthrough issue 4:
Building a culture of continuous improvement

Gateshead was widely commended for achieving an excellent CPA score without drama or crisis. They manage their finances effectively and have used this stability as a platform for broader improvement. They keep on track by:

- discussing their culture, values and vision in an open and inclusive way;
- having a single improvement plan that incorporates resources and risks;
- keeping communications about resources simple and clear;
- raising funds energetically to provide for investment in the council's vision;
- having a development pool for investment (with payback);
- continuing to take mid-year overspends very seriously; and
- seeking to ensure that resources are always available to address key local issues.

Source: Audit Commission

Appendix 1: Authorities that have taken the improvement journey

Case study 1: Sheffield City Council

Context

After a decade of high profile, but expensive projects, Sheffield City Council's financial position was particularly tight. A new chief executive with a strong background in financial management was appointed to support better decision making by members.

In a large city like Sheffield, financial management will always be challenging and historical pressures remain. However, Sheffield was the only authority in the first round of CPA to score two for its services and four for its corporate assessment. The way it has gone about improving its financial management in recent years played a large part in achieving this high corporate score and has equipped it with the tools to manage its finances in the medium to long term.

Taking stock

- The planning timetables were (and continually are) brought forward to provide more time for decision making.
- Real efforts were made to create space for members to become much more actively involved in the strategic management of the authority's finances.
- The authority's key risks were (and continue to be) systematically identified and their financial implications assessed.

Setting direction

- The role of finance was seen by key players as (1) providing stability and (2) enabling improvement across the authority.
- The council's three-year plan identified better financial management as a key corporate objective with clear priorities for its improvement.
- The authority's 'risk envelope' was clarified and understood, with financial strategies put in place to cover risk over the timescales associated with the risk profile.

Getting started

- Real efforts were made to stop doing the wrong things for example,moving money from successful budget holders to cover for weaknesses elsewhere; the system of the 'Treasurer's back pocket').

- The budget was developed within the framework and constraints of the medium-term financial plan (which is increasingly the focus of members' involvement in financial management). The council recognised that a three-year medium term financial strategy was too 'short term' and changed its financial planning relating to corporate risk to cover the longer term.
- Corporate risk management was made a real focus for medium-term planning with clear links to the medium-term financial strategy. Better links were established between capital and revenue planning and the impact of corporate risk was articulated in relation to the reserves required for the longer term.
- Clear corporate/department accountabilities and delegations were drawn up, and quantified risks were assigned to either service departments or the corporate centre.

Making it happen

- Close working arrangements between the finance department and the service departments was established; for example, the Director of Finance sat on the Social Service Management Team.
- Improvements in financial systems were viewed as important for the organisation's culture, as well as for their direct business benefits.
- The authority continued to be very proactive about operational as well as corporate risk, with regular updating of the medium-term financial plan as risks changed.

Keeping on track

- The authority will place greater emphasis on value for money through partnership working and other major developments.
- Integration of financial management will be a recurring theme with service planning, performance reviews, people development and risk management.
- Honesty and greater self-awareness among key players will be an essential feature of continuing improvement.
- The risk-based reserves will be further developed in order to integrate the impact of the Prudential Code and treasury management.

Case study 2: Wokingham District Council

Context

Financial management arrangements at Wokingham (a unitary authority) have improved significantly over a relatively short period of time. Its CPA use of resources score improved from a 3 in 2002 to a 4 in 2003. Problems with financial management occurred in 2001/02 when the council overspent for the first time as a unitary. Following years of under-spending financial management had not received the same level of attention as frontline services.

Political and managerial support for the change from the top of the organisation, and the commitment and quality of finance staff contributed to Wokingham getting started on the improvement journey and helped them to achieve financial health and better budget management arrangements.

Taking stock

- Wokingham commissioned an independent review of financial management arrangements by external consultants. This helped to highlight and reinforce the improvements necessary and the outcome was an action plan spanning all aspects of financial management.
- As well as the independent review, Wokingham undertook an internal review that looked at its capacity to deliver change.
- Both member and officer support for change from the top of the organisation was critical to driving progress forward.

Setting direction

- Processes were put in place to deliver on and monitor the action plan.
- An officer/member finance working group was established with a strong remit for financial management.
- The need for new financial systems and additional staffing was identified and the necessary investment secured.
- The council worked to ensure that clear lines of accountability existed for officers and members. For example, the development of a budget management protocol helped to clarify the roles and responsibilities of officers and members involved in budget management.

Getting started

- Progress on the achievement of the IPF action plan has been monitored regularly by progress reports to committee.
- A finance service plan including a set of targets covering all finance areas has been developed with target dates and responsible officers clearly identified.
- Investment and support in training for both staff and members was undertaken – compulsory training for budget managers was developed including both training sessions and e-training.

Making it happen

- A clear financial framework has been established, which is communicated throughout the council – systems are in place for training new starters or those taking on new financial responsibilities.
- A service questionnaire covering finance is issued annually to customers – concerns are followed up.
- Weekly finance meetings are held to challenge budget monitoring, budget setting and unavoidable 'costs.'

Keeping on track

- Appropriate political and managerial support for the service from the top of the organisation will continue.
- There is a desire for change and continual improvement. Good quality staff are committed to change.
- The council has established a robust budget-setting process with effective long-term financial planning.

Case study 3: South Derbyshire District Council

Context

South Derbyshire District Council is a small council with a strong track record of economic development and a history of prudent financial management. But, in October 1999, the council experienced a significant financial crisis as a rapid increase in spending coincided with the serious illness of the Treasurer.

The immediate crisis was dealt with by a combination of the Acting Chief Executive and an Interim Finance Manager working with service managers to reduce costs wherever possible. A new organisational structure was implemented and the budget was balanced.

But, while the experience was traumatic, members recognised that they had to demand greater simplicity and involvement in the way that finances were managed. There was also political and corporate acceptance of the need to manage resources for the longer term.

Taking stock

- The use of an Interim Finance Manager helped to increase analytical and managerial capacity, and build the confidence of key players at a difficult time.
- The incoming Director of Finance used his first month in post to diagnose and report on the underlying financial issues across the authority.
- In the Director of Finance's analysis, there was a strong emphasis on the basic building blocks of financial management and on early wins, such as accounts closure and budgetary control.

Setting direction

- A draft strategy Towards Strong Financial Management was presented to the political leadership and to the service and financial planning cross-party group.
- The focus of the strategy was to put effective building blocks in place for sound financial management (for example, earlier closure of accounts, improved monitoring arrangements).
- The strategy also recognised the need to achieve a higher level of balances in three years time, identifying a range of actions necessary to deliver this outcome.
- Members gave strong support to the strategy and set a high council tax in the first year in order to start to replenish reserves and invest in management capacity.

Getting started

- A new structure was introduced in the finance department. A new Director of Finance was appointed who placed emphasis on starting to change the culture within the finance team.
- The overall framework of financial control remained largely centralised, although the management team were also committed to managing through people.
- Some tough decisions were taken, including that to discontinue a major lottery bid because of the likely revenue implications.

Making it happen

- The focus on getting the building blocks right was maintained, with real progress on the early wins identified and secured.
- There was increased emphasis on the finance department meeting the needs of internal and external users.

- Finance training was provided to service heads to emphasise their individual responsibilities for controlling their own budgets. This was backed up by regular monthly meetings between accountancy staff and service managers.
- Best value reviews of finance were used to introduce a more cohesive approach to service and financial planning and to develop a partnership with another district council to share the cost of investment in new financial systems.

Keeping on track

- The authority recognises that more effort is required to shift resources to priorities, to integrate service and financial planning and to manage risk.
- The chief executive intends to maintain the authority's largely centralised approach to financial management while defusing consequent tensions with service managers.
- The authority is considering more joint working with other councils on specialist financial issues, such as income generation.

Case study 4: Sunderland Council

Context

Since the early 1990s, the city of Sunderland has been regenerated to a remarkable extent. In response to the decline of traditional industries, the city council and its partners embarked on an ambitious agenda of rebuilding the local economy and local communities.

But in the late 1990s, problems with the direct service organisation (DSO) reinforced the authority's commitment to improve its overall financial management. (The story of Sunderland's DSO was featured as a case study in the Audit Commission report, *Getting the Groundwork Right*.)

Taking stock

- The immediate challenge of sorting out the finances of the DSO was tackled by drafting in a handful of senior managers with strong political and corporate support from other areas of the authority.
- A key consequence of this uncomfortable experience was that the authority learned that the finance function needed to be much more challenging in future.
- Additional financial management capacity was introduced to both the corporate finance department and department management teams.

Setting direction

- Senior officers made a commitment to members to improve everyone's performance in managing finance by at least 5 per cent, sending a clear message across the authority.
- The corporate finance department prepared a short vision and mission statement that set out clearly what was going to be achieved over the next few years.
- The authority's medium-term financial plan and its corporate finance business plan were upgraded, and the processes for reviewing them were strengthened.

Getting started

- The revenue and capital budget monitoring processes were strengthened using a 'loose/tight' fit between corporate requirements and departmental flexibilities.
- There was particular emphasis on 'getting the basics' right and the authority made great strides in areas like accounts closure.
- An explicit management infrastructure was introduced, including service planning, communications, development, delegation and team meetings.

Making it happen

- Great emphasis was placed on maximising the capability of individuals and teams, and 'energy levels' across the authority were tracked and boosted where necessary.
- Benchmarking and performance measurement were used at all levels to secure improvements in processes and culture.
- Key officers had a passion to learn from others through relevant professional literature, benchmarking clubs and informal networking.

Keeping on track

- Sunderland secured a number of external awards in recognition and celebration of its progress.
- Much more attention was paid to anticipating and preparing for future developments; for example, Sunderland was fast to implement risk management and corporate governance.
- Further improvements are planned to the arrangements for training and developing staff, primarily through mentoring and coaching.

Case study 5: Liverpool City Council

Context

In recent years one of Liverpool's key aims has been achieving best value while keeping the level of council tax as low as possible. The council has been successful in managing its overall financial position and did effectively freeze council tax levels for four years. It is committed to improving financial management and one of its current priorities, arising from CPA, was to develop financial planning and publish a medium-term financial strategy, together with improving its level of working balances.

Liverpool City Council's history has been turbulent, with difficult financial decisions and choices being made to achieve the changes necessary, and to regain credibility among the people of Liverpool.

Taking stock

- A critical external report by the IDeA helped to highlight the scale of financial management improvement needed.
- A change of political and managerial leadership with a strong sense of vision and commitment to improvement was critical to setting the tone and future direction.
- The appointment of a new and motivated senior management team provided the energy to drive through strategic change for Liverpool.

Setting direction

- The new administration exercised strong leadership with a clear sense of purpose and direction.
- The operation of a 'command and control' environment was the best way to take control of Liverpool's finances at an early stage.
- Performance management was strengthened and linked to financial targets.
- Tough decisions were made and communicated, such as 'keeping council taxes as low as possible' and the rationalisation of staff.
- Financial management strategic decisions were taken by a core group with some responsibilities delegated to service heads, for example, clear financial targets to keep within budget (the model is centralised with a limited scheme of delegation).

Getting started

- Clear lines of communication were established with financial management responsibility organised as above.
- Investment and support was provided, for example, training programmes for members and officers (although Liverpool recognises that this is an area that can be developed further).

- The management team focused on service areas of weak financial performance.
- Opportunities to work in partnerships with private and public bodies were identified to help provide the additional resources to deliver improved services for Liverpool.

Making it happen

- Four years keeping the council tax as low as possible (a small rise of 3 per cent is planned for 2005).
- Revenue spending maintained within budgets.
- Successful implementation of partnership schemes, which have resulted in significant investment in new services, for example, computerised services for benefits.
- Realisation of the value of local partnerships working to regenerate Liverpool, culminating in it reaching its milestone of Capital City of Culture for 2008.
- A proactive approach to income generation through joint working, sponsorship and obtaining specific grants.

Keeping on track

- There is a clear corporate financial framework that is understood throughout the authority.
- A cycle of learning from financial management experience is being introduced, for example, moving towards three-year financial planning, recognition of more financial management skills training with frontline staff, financial plan to improve revenue working balances.

Case study 6: Torfaen Council

Context

The new Torfaen authority was created as part of Welsh local government reorganisation in the mid 1990s. The creation of the new authority triggered a sustained period of improvement across many aspects of the authority's business. For example, Torfaen's successful turnaround of its social services featured as a case study in the Audit Commission's publication, *Change Here*, in 2001.

Taking stock

- The new authority inherited a strong financial discipline where people were not allowed to go into deficit and generally did not lose money.
- But the performance of key activities such as housing, social services and the DSO was comparatively weak.

- Transitional arrangements and shadow working helped key players to enhance their understanding of the challenges they faced.

Setting direction

- A formal improvement plan was not prepared; there was ‘cherry picking’ of key problem areas across the authority, which was both opportunistic and driven.
- The role of financial management was clearly seen as helping to create freedom of action for these wider changes, using resources to tackle blockages.
- The finance function focused both on the basic building blocks of financial management, and on the bigger picture of Torfaen’s improvement.

Getting started

- Getting the right people in the right places to sort out the priority issues was seen as critical. As a consequence of this, some people in key posts that were acting as ‘brakes on change’ were either dismissed, demoted or redeployed.
- Early messages were sent through the annual budget process: improve service performance and productivity and put away the ‘bleeding stumps’.
- Some early setbacks with the closure of the final accounts, and the breakdown of negotiations for a proposed external consultancy contract, helped to increase key players’ self-awareness and change management skills.

Making it happen

- Political and corporate resilience was demonstrated for the DSO turnaround, which saw substantial early losses and took three years to complete successfully.
- The performance management system was used to reinforce the importance of improvement and sound financial management.
- Strong emphasis was placed on building financial management skills across the authority, including the development of a financial management manual.

Keeping on track

- There is an emphasis on leadership development and continued commitment to the professional and personal development of key players.
- External assessment of the finance function by EFQM quality auditors is used to highlight areas for further improvement.
- The authority is involved in active benchmarking and networking with other leading authorities across the country.

Appendix 2: Case studies from earlier Audit Commission reports

	Taking stock	Setting direction	Getting started	Make it happen	Keeping on track
Learning from CPA		Bexley's integrated way to shift 1-2% of its budget		Northumberland's member training	
Change Here	Torfaen's response to the AC/SSI joint review	National Literacy Strategy's focused investment	Oxford Radcliffe review of ophthalmology bottlenecks	Police national property database Liverpool's strategic partnership with BT King's Mill project management	Newcastle City's balanced scorecard
Planning to Succeed	Strategic Review of Stoke Social Services Christchurch (NZ) community consultation	City of Westminster's Star Chamber process Gateshead's policy and service planning cycle	Manchester's service planning documentation		Tilburg's activity-based budgeting process Stadt Passau's output-oriented budgeting model
Worth the Risk	Liverpool's strategic risk framework		Kingston HT controls assurance programme		East Sussex's review of risk management processes
Getting the Groundwork Right					Derwentside financial and operational information
Money Matters		The Chase School budget and development plan		Southampton LEA's risk-based resource management	

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