Volume 5: 2018

The Four T's of local government performance

CGMA

CIPFA

Transformation

How finance teams are driving local government innovation

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CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public-sector accountants as well as a route to qualification and membership for people already working in senior financial management positions. Courses are taught face-to-face online and by distance learning.

We champion high performance in public services around the world, translating our experience and insight into clear advice and practical services. They include information and guidance, counter fraud tools and qualifications, property and asset management solutions, and advisory and recruitment services for a range of public-sector clients.

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Foreword

Local government faces growing pressure to deliver more services to more people, with less central funding. With the pressures mounting, councils must make every public pound work harder to maintain public services. This requires a significant transformation of local government organisations and the services they deliver. It requires innovation, collaborative working, better decision making and greater understanding of risks.

We know that accountants in local government are going beyond traditional accounting and finance roles to deliver enhanced finance business partner services and lead transformational change. Finance professionals are acting as catalysts to guide organisations and colleagues to timely and controlled transformation initiatives, rather than risk reactive change as a consequence of financial pressures.

As accountancy bodies we have the advantage of a wide perspective, understanding funding, services, public interest and outcomes across the perspective of our two organisations. Our integral role within business and financial planning processes brings a unique understanding of whole life costs, the implications of investment decisions and the quality and volume of outcomes and services.

The impact of simultaneous technological, organisational and funding changes within the public sector brings new challenges for the finance function. The need to focus beyond scorekeeping requires a more commercial edge with strengthened strategic governance. CIMA and CIPFA members are increasingly using their knowledge and skills to analyse data and forecast trends, to carry out detailed investment appraisals which balance risk and return, to set up new trading companies and to build relationships with external partners.

All of this seeks to deliver value for money; securing budgets within fiscal constraints; and determining the right balance of risk in a world where risks are increasing in volume and complexity.

This report is a result of continued close working between CIMA and CIPFA – two organisations delivering value for their members, students and employers, and ultimately for the people, regions and communities in which they work.

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Introduction

Across the world, wide-ranging transformation initiatives are enabling local government organisations to revolutionise their efficiency and performance. To date, the biggest improvements have been focused on the needs and rights of citizens. Ambitious, game-changing projects of this kind demand that finance professionals develop new skills and capabilities.

We launched this series with the 2014 CGMA® report, 'Managing local government performance: Transparency, technology, talent and transformation'. This reported two key facts: firstly, that 70% of the world's local (defined as city, metropolitan, regional and sub-national state) government organisations were undergoing or had recently undergone significant organisational transformation. Secondly, a further 20% were planning to do so within the next 18 months. What's more, 89% of respondents recognised technology adoption as core to their transformation efforts.

Defining transformation

Transformation involves a significant change in approach to an organisation's operating model, technology, process and/or service delivery, in order to deliver better outcomes and improve efficiency. In local government, achieving this may include managing change, building and maintaining relationships with external partners and developing new financial structures. Many are developing or procuring new skills and capabilities more commonly found in the private sector.

Despite (or perhaps because of) ongoing financial challenges, new models of digitally enabled service delivery are changing how we communicate, collaborate and co-exist.

The Four T's

Our original research explored current and future practice among local government organisations across 48 countries as they seek to fulfil the demands of politicians, citizens, businesses and other constituents within increasingly diverse urban communities.

It established that governments must simultaneously address four key aims and meet the ongoing challenge of 'doing more with less'. These four key aims, known as 'the Four T's', are to:

1. actively pursue the **transformation** of public services
2. enable the necessary **technology** to support this objective
3. respond to increasing public demand for government **transparency**
4. contend with the difficulty of recruiting, developing and retaining **talent** in an increasingly competitive market.

In a subsequent series of briefings, we have explored these research themes in greater detail. This guide is one result of these efforts. Co-produced with CIPFA, it focuses on the role of the finance function in supporting and enabling local government transformation, using case studies to illustrate good practice.

Volume 1: Managing local government performance

Volume 2: Transparency

Volume 3: Technology

- Part 1: digitalisation and open data
- Part 2: strategy, communication and cybersecurity

Volume 4: Talent

Volume 5: Transformation

Transforming local government services

Local government transformation covers a wide variety of topics, from change management and new models of service delivery to partnership working and innovative approaches to financing. To support and enable transformation, leaders must ensure that they and their teams collectively have the right skills, capabilities, technology and organisational knowledge to succeed.

Transformation takes many forms. You can see it in all areas of operations, from back-office administration to online service delivery. The catalytic (and often catastrophic) impact of the 2008 global financial crisis was a wake-up call for many. A decade on, local government organisations around the world are finding new ways to use budgets efficiently and deliver services differently.

The all-embracing nature of transformation means finance professionals need in-depth knowledge of operations and outcomes, including those that already exist and their replacements. So 'knowing the business' is a critical success factor in developing and implementing any transformation programme. That means finance professionals must eradicate any siloed thinking, helping them engage with stakeholders across departmental and organisational boundaries.

CIMA-funded research into local authority resilience[1] before and after the 2008 crisis identified the following approaches to re-thinking services:

- Adopting priority-based approaches, with a focus on expected outcomes. This required organisations to:
  - Systematically review the affordability of non-statutory services
  - Stop providing some non-statutory services
  - Challenge the quality of remaining services
- Partnering solutions, in which third-sector and private organisations are encouraged to take on responsibility for providing some services
- Joined-up-services, through collaboration with other public-sector entities and an increasing emphasis on pooled budgets and strategic alignment
- Co-production, where citizens are involved in developing and/or delivering public policies and services.

i. Transformation challenges

Transforming services in the public sector can often highlight and expose tension around issues including risk appetite, fear of the unknown and stakeholder acceptance. Limited commercial ability and a lack of partnership working within organisations can also create barriers to successful transformation initiatives.

Our research (Figure 1) reflects this situation. While 'getting our people to adapt to change' was the most-reported challenge to transformation, the second and third-ranked challenges have more direct implications for finance, a profession that's no stranger to transformation.

These were:

- Securing the necessary budget to support transformation initiatives
- Analysing the financial impact of transformation by determining return on investment, cost-benefit and value for money.

Building skills and capabilities

Skills shortages, such as the lack of in-house commercial ability that we've already mentioned, may increase cost and complexity, cause delays and impact on effective project delivery. So leaders need to recognise the importance of building skills and capabilities across the finance function. For further detail on talent-management strategies and best-practice case studies, see the CGMA report 'Talent: Improving government performance through effective talent management'.[2]

Finance professionals also have an important role to play in supporting decision making, particularly when resources are scarce. We've traditionally focused on providing evidence such as financial reports, management information and analysis. But this has little value unless it is reviewed or put into practice – going forward, we must also consider how best to communicate and implement insights.

> "Insights gained must be communicated in a compelling manner if they are to be considered before an actual decision is taken. This is not the end of the accountant's role in decision making. Effective decisions achieve impact so they must be articulated in terms that allow them to be implemented. Progress has to be measured and performance managed through to the intended outcome."
>
> CGMA Finance Business Partnering[3]

Figure 1 – Top 5 challenges of organisational transformation for local government

CGMA report: Managing local government performance: Transparency, technology, talent and transformation

ii. Financial challenges

As fiscal constraints continue to impact the availability of funding, 'doing more with less' has become the new normal. This means the role of the finance function has never been more important in supporting alternative delivery models as well as improving current approaches.

The weaknesses of early private finance models such as the private finance initiative (PFI), which enabled the creation of public–private partnerships (PPPs), have been well documented: slow, expensive procurement processes; inflexible contracts; lack of transparency regarding future liabilities and investor returns; high risk premiums; inappropriate incentives; and a widespread perception of unfair windfalls for equity investors.

Are outsourcing models fit for purpose?

Private-sector outsourcing companies have long taken an interest in lucrative government IT, construction, school and prison contracts, but recent high-profile failures such as the collapse of Carillion in the UK suggest that traditional outsourcing models may no longer be fit for purpose.

A 2018 report[4] by public policy think-tank The Smith Institute on government contracting finds that outsourcing has all too often been a good deal for business. It can be a different story for the taxpayer, service users and employees, who are often paid low wages in order to maximise profit. What's more, when contracts have collapsed, the public sector is usually left to pick up the pieces.

The report recommends that public-sector and government bodies should review their outsourcing and PFI contracts as a matter of urgency. This will involve asking:

- How long before the contract expires?
- How well is the contract being met?
- Can it be renegotiated?
- What are the financial liabilities on termination?
- What is the cost-benefit calculation and public value for termination?
- How would you manage the transfer of staff back?

The answers to these questions inform decisions about whether contracts should be renegotiated, terminated or left to run their course.

Despite its negative connotations, outsourcing should still be considered as a valid option, particularly in cases where organisations lack expertise, cannot maintain critical mass or are unable to invest fully in appropriate systems.

An increasingly important role

Local government organisations around the world are finding new and different ways to invest and build – for an example, see the case study on Aberdeen City Council on page 18 of this report. The finance function also has an increasingly important role to play in measuring, tracking, demonstrating and communicating the long-term value of proposed investments associated with transformation. Local government leaders must recognise and support the evolving role of the finance function.

iii. Critical success factors

CIPFA identifies six critical success factors that organisations must address if their transformation initiatives are to achieve their stated objectives.

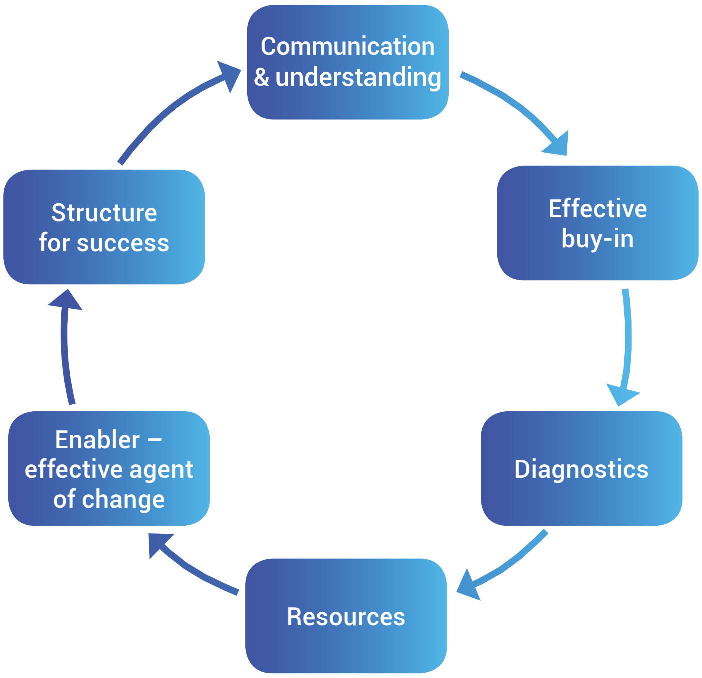

Figure 2 – Critical success factors

[Transforming Services: Approaches, Examples, Lessons, CIPFA, 2015]

1) Communication and understanding

You need to make the rationale for transformational change clear to all stakeholders. If communication is poor, non-existent or undertaken after any decisions have been made, individuals may feel undervalued and resentful. They may even misinterpret the key messages. All this can create misunderstanding, negativity and resistance to any proposed changes.

Communication needs to be timely, so that areas of concern, confusion and objections can be dealt with satisfactorily and in good time, before any decisions are made. Local government organisations also need to consider the legal structure of any proposed changes.

2) Effective buy-in

Support and buy-in at all levels is essential for a transformation proposal to have any chance of success. People are the most important influencers, both positive and negative. So always consider the views of supporters and enablers, together with the anxieties of critics and doubters.

It is important to ensure you communicate with all relevant stakeholders, i.e.:

- council members
- all employees (not just those directly affected by the proposal)
- senior leadership team/managers
- users of the service
- unions (they must have time to assess the proposal)
- other services affected by your proposal
- citizens (if it may affect them).

The operational implications of the proposal must be clear. Employees need to be aware of how it will affect their roles and responsibilities.

3) Diagnostics

A clear route map detailing where you are now, where you would like to be and how you're going to get there is essential for the credibility of any transformation project. Your business case and business plan should:

- provide the economic justification and overall rationale for change
- describe the recommended future state and high-level implementation plan.

This has two important purposes:

- achieving buy-in from senior managers and members, and sign-off on the proposal
- acting as a control mechanism and compass to evaluate success.

It is essential that any data assumptions in the plan are credible if transformation is to be successful:

- Ensure that costings are robust, challenged and validated
- Encourage the use of financialmodelling, using tools such as sensitivity analysis and optimism bias
- Ensure any cost–benefit analysis examines both the financial and the non-financial aspects of the proposal
- Understand the market appetite for any services you are looking to sell – market trends using historical data alone may not be an indicator of future trends
- Examine the impact of changes taking place in the internal and external environments, enabling you to assess their potential impact on the proposed project
- Apply analysis tools where appropriate, such as SWOT (strengths, weaknesses, opportunities, threats) and PESTLE (which focuses on external political, economic, social, technological, legal and environmental forces)
- Use credible data and robust analysis to help you alleviate any concerns around risk.

It is important not to focus solely upon sustainability during this process. You need to ensure the plan addresses a range of factors, including sustainability, governance, reputation and non-financial performance.

4) Resources

Many people underestimate the level of resources, such as time, money and skills, that it can take to prepare, approve and implement a transformation programme. Common causes of resource issues include:

- Time delays due to human resources complexities, particularly relating to a change of employer or new terms and conditions:
  - Reaching agreement on the transfer arrangements for assets and liabilities
  - Negative reactions to proposals, resulting in changes to plans and/or communications
- Changes to the market, either due to economic factors such as economic slowdown, which may reduce market appetite, or because of increased competition
- Key staff moving on or retiring, potentially leaving a vacuum in the management of the transformation project and/or the knowledge and skills required to deliver the service. If one person is currently responsible for producing business plans, particularly key data, you need to ensure this knowledge is shared. That way, it can be validated in the future should that individual leave
- Lack of funding and investment that is critical to the proposal. Changes in interest rates and/or borrowing approvals can impact on plans
- Lack of commercial skills. Understanding what skills you currently have within teams is the first step to take. A large transformational change programme may require specialist expertise to be brought in. A smaller project may simply require certain individuals to be trained in certain areas
- Excessive focus on the project process rather than the delivery of desired outcomes.

5) Enabler – effective agent of change

Transformation projects need a champion for the cause, to inspire people with a passion for change.

Just as importantly, they need an enabler. There is no point in paying lip service to the idea of transformation if you don't have the will or the authority to enable change. Any transformation project is likely to include people who to varying degrees block or slow down progress. You need someone who can manage that and minimise disruption, while properly addressing any issues raised.

An effective enabler will provide strong change management and communication, enabling the relevant teams to get on with the transformation and detailed work. Without this role, some stakeholders may put up barriers, disengage, and cause problems for the team. Additionally, the team might lack drive, potentially giving rise to ad hoc, ill-considered decision making that is not evidence-based.

6) Structure for success

Transformation allows you to create a brave new world, including the structure of the new proposed service. This gives you a clean start and ensures you are not weighed down with any existing structural issues.

Having the right skills in the new structure is essential, including:

- technical and professional skills (i.e. finance, procurement, tax, governance)
- strategic skills, including commercial awareness
- soft or smart skills, including communication and behavioural skills.

Service systems and process design are also essential. Unnecessary bureaucracy in the current service can be eliminated and replaced by a design that is fit for purpose.

All employees must be aware of the need to redesign systems along with the benefits it can bring. Otherwise, inappropriate and wasteful practices may be carried over from the previous approach.

This can also help to mitigate 'silo' working, where teams work solely on their piece of the puzzle without understanding the bigger picture. Systems and process design that eliminates or reduces a silo culture can bring about positive change, delivering greater efficiency and effectiveness to a service.

Case studies

i. Alternative service delivery models

The challenges and critical success factors identified in the previous chapter highlight two key resources which are often in very short supply: people and money. The following case studies demonstrate how local government organisations are re-engineering services and structures to eliminate waste, maximise efficiency, improve the lives of citizens and ensure the effective, sustainable use of their assets, both financial and human.

Lean services – The British Library

Driving productivity improvements throughout the year

The British Library (BL) is the national library of the UK, established in 1972 to bring together the British Museum and the National Lending and National Science libraries. The collection includes well over 150 million items, and over 16,000 people use the collections each day, either on site or online. The BL operates one of the world's largest library document delivery services, providing thousands of items a year to customers all over the world.

Rising customer expectations

With the delivery of world-class services becoming increasingly challenging as budgets reduce, customer expectations increase and technology develops, library management decided to adopt Toyota's 'Lean' management principles. The transformation project focused on the BL's document supply service, applying the lessons of Lean to improve systems, remove wasteful practices, empower staff, make savings and raise performance.

Lean in the library context was distilled into three basic ground rules:

- Focus on the needs of the customer, listen to them and tailor services to suit
- Have a passion for eliminating waste and non-added-value activities
- Give everyone a voice and the opportunity to make change happen.

The BL adopted Customer Service Excellence ®, the UK national standard for excellence in public sector customer service, to define and so improve front-line interactions.

Matching resource with demand

The library's Document Supply Service, one of the world's largest library document delivery services, was selected for an elimination of waste trial. Reflecting the factory origins of Lean, KPIs were redefined to focus on quality, cost, delivery, safety and morale at every level of the organisation. These were prominently displayed, alongside improvement activity boards. Having redefined the metrics and set achievable targets, a resource-planning model was developed so that the BL could match staff numbers with predicted demand. It became apparent that the difference between a trough and a peak amounted to 40 staff. As a public-sector body, excessive overtime could not be used and orders could not be turned away. So, with staff and trade union involvement, flexible working was introduced.

As demand varied area by area, the principle was adopted that staff could move to where the actual work was, requiring:

- standard operating procedures, to ensure that all areas worked in exactly the same way
- training in multi-skilling so that staff could undertake various jobs
- redesigning the various store layouts so that the optimum template was applied in every area.

As a result, the BL can balance capacity with demand by area and remain productive throughout the year.

Other changes included continuous improvement (team-based kaizen) and the adoption of '5S' principles (sort, straighten, shine and sweep, standardise, sustain) to support optimal resource usage. The consolidated effect of these initiatives delivered a 25% productivity improvement for the Document Supply Service. This formed the foundation of a business process re-engineering exercise, preparing the ground for making the service viable and fit for the future.

As a result of this exercise, the Document Supply Service reported a record-breaking out-turn in 2016/17, delivering £1.3 million gross margin. The principles of continuous improvement are now becoming embedded as business as usual across the majority of the Library's wider operations.

Limited company – Transport Service Solutions, Cheshire East

Transforming transport in Cheshire East

Cheshire East Council's travel and transport service had delivered significant cost reductions, following a traditional local authority model in which costs were recharged to service departments. However, this approach had drawbacks, including a lack of accountability for cost reductions; limited understanding of changing demographics, dynamics and demand affecting transport; and a poor awareness of the supply chain.

A customer-focused delivery model

A new, customer-focused approach was needed, which could adapt to changing priorities from the council and the public. A key driver was to allow greater flexibility in order to improve customer satisfaction. Service failure (e.g. home-to-school transport arriving late or not at all) is a constant risk, and if it does occur it is noticed by service recipients immediately.

Recognising that the existing approach was unsustainable, and being unwilling to reduce service provision through abandonment of routes, the council set up an alternative, customer-focused service delivery model in January 2015.

This was to deliver all transport relating to home-to-school, community and local bus services via a limited company, Transport Service Solutions (TSS), which now plans, procures and manages all transport relating to these services. It supports around 35,000 people each day, allowing Cheshire East to maintain service provision to citizens.

The process of setting up the limited company was not straightforward. As the business case evolved, it became clear that the financial pressures on the council meant that available budget would be much less than originally anticipated.

Clarity for both parties

A shared approach to cost savings was negotiated, in which partial responsibility for savings targets was transferred to the new company. A detailed contract gave both sides clarity on services and responsibilities.

To meet the required savings, the company took a number of steps in its first few months of trading including:

- Restructuring the organisation and bringing on board new staff with private and commercial sector skills
- Zero-based budgeting to aid the identification of pressure points and areas of possible savings
- Development of simplified and streamlined procurement procedures
- Reissuing 350 service contracts, simplifying terms and conditions
- Replacing the ageing council bus fleet with contract hire vehicles
- Developing a marketing strategy to generate extra business from schools, the council and other agencies.

Outperforming the financial plan

Ambitious savings targets were built into the initial management fee paid by the council to TSS Ltd. Since its formation, the company has consistently outperformed its financial plan, with savings over the first 15 months exceeding £809,000. Replacing the fleet with high-quality liveried vehicles has given TSS the ability to utilise service downtime to generate new income streams, such as private hire contracts.

The company's most significant achievement was its swift response to the liquidation of one of the larger providers of supported bus services in the area. Solid contingency planning meant that TSS could respond with speed to replace contracts the same day and transport all school pupils without break of service. Three-quarters of bus routes lost had been tendered for and awarded within 48 hours, with the remainder commissioned within another 72 hours.

ii. Public service mutuals

Employee ownership can bring long-term performance gains

In the UK, successive governments have taken interest in new forms of public service delivery. In recent years we have seen an increase in experimentation with new mutual forms of organisation.

> These 'public service mutuals' are described as organisations that have "left the public sector… but continue to deliver public services … and in which employee control plays a significant role in their operation" **Cabinet Office, 2011**

The extent to which employees identify with and participate in the running of the mutual is an important feature which, to varying degrees, differentiates mutuals from other forms of private, public and third sector organisations

The government's fairly broad definition of public service mutuals has led to a wide range of ownership, governance and management models. Some councils have adopted a similarly open approach reinterpreting mutuality and testing a variety of local approaches to co-operative and mutual service delivery.

Broadening mutual values

An emerging array of organisations that identify as 'mutual' are therefore working outside the traditional definition. While this can be seen as diluting the traditional sectors, it can also be viewed as broadening the reach of mutual values and principles.

The mutual model is seen as offering a way to increase employee engagement in shaping the design and day-to-day running of services, allowing greater innovation and improvement. Improved staff engagement also translates into reduced absenteeism and lower staff turnover, enabling better retention of experience, knowledge and skills. This can drive gains in performance over the long term.

Public service mutuals carry out a wide range of activities in the UK including:

- adult and community learning services
- children and youth services
- community safety and criminal justice
- culture and libraries
- education
- environment
- fire and rescue authorities
- health
- housing
- leisure
- social care
- social work.

Co-operative homecare service delivery – Co-operative Home Care, New South Wales

Harnessing the entrepreneurial spirit to enhance care quality

In Australia, Co-operative and Mutual Enterprises (CMEs) deliver an estimated 8.3% of GDP across all sectors. The emphasis of the model upon social value as well as economic return offers opportunities for an alternative way for delivering public services.

The employee-owned co-operative Co-operative Home Care (CHC)[5] is an example of how the entrepreneurial spirit of a small group of like-minded people can disrupt the existing model and establish a new way of providing individualised, affordable and quality care in a supportive and empowering work environment.

A mission to improve lives

CHC began operating in 2013 with a mission to improve the lives of aged, disabled and chronically ill people by providing consumer-focused, high quality and consistent homecare.[6]

In an industry prone to low pay, poor working conditions and high staff turnover, CHC aims to provide a unique working environment where worker members are directly involved as owners in the business. They co-operatively make decisions on issues that affect them, such as salary, work schedules, client care programmes and training. The profits are reinvested in the business to improve systems, conditions, or to save for future needs.

Increasing satisfaction and retention

By creating an empowering and autonomous work environment, CHC aims to increase worker members' job satisfaction and retention. As a result, the quality and consistency of care provided to clients improves, as well as their health, wellbeing and loyalty to CHC.

CHC offers three key lessons for others seeking to establish an employee-owned public service mutual:

- Seek out technical expertise in financial management and governance as well as industry expertise in feasibility and business planning
- Seek out diverse sources of capital instead of relying on government funding which tends to favour larger, more established businesses
- Build trust with your members and work with them to help build their understanding of the benefits of being a co-operative.

iii. New approaches to financing

Investment mindset – Peterborough Social Impact Bond

Social impact bonds: a better way to tackle social problems?

Social impact bonds (SIBs) allow governments to try out new social services on a no-win, no-fee basis, bringing in non-government investors to provide funding and transfer risk.

They were first developed in 2010 by Social Finance, a UK-based not-for-profit organisation that partners with the government, the social sector and the financial community to find better ways of tackling social problems in the UK and beyond.

The concept has captured widespread global interest. Around 100 SIBs in 19 countries are mobilising more than £300 million of investment into tackling complex social issues. These include refugee employment support, loneliness among the elderly, rehousing and reskilling homeless young people and preventing diabetes.

What is a social impact bond?

A social impact bond (SIB) is a financial mechanism in which investors pay for a set of interventions to improve a social outcome that is of financial interest to a public service commissioner, such as improved health or public safety. If the social outcome improves, the commissioner repays the investors their initial investment plus a return for the financial risks they took. If the social outcomes do not improve above an agreed threshold, the investors stand to lose their investment.

The SIB aligns social and financial outcomes by establishing a three-way partnership between commissioners, funders and delivery organisations.

Reducing reoffending

The first SIB was launched in 2010 as a seven-year pilot to help rehabilitate short-sentenced prisoners at Peterborough prison. Repeat offending by short-sentenced prisoners has been a recurring problem in the UK justice system. If the SIB delivered a reduction in the number of reconvictions from Peterborough prisoners, then social investors, who invested a total of £5 million in the SIB, would receive return on their investment from the UK government and the Big Lottery Fund.

A multi-agency offering

The first group of prisoners was released between September 2010 and May 2012. During this period, Social Finance set up a new service, known as the One Service, which included delivery organisations providing housing, family, health, employment and training support. Flexible funding from investors also allowed One Service partners to create a multi-agency offering to respond to the needs identified as most important: accommodation, low-level mental health support, and training and employment opportunities.

As offenders recognised that the Peterborough project was stable and long term, engagement levels rose from 74% in cohort 1 to 86% in cohort 2 while in prison, and from 37% in cohort 1 to 71% in cohort 2 after release. Engagement levels continued to rise over the course of the first four years, and the team's understanding and ability to meet the needs of offenders improved. This is reflected in the reoffending rates for the first six months of cohort 2, which are 8% below those for the first six months of cohort 1.

The momentum in the project reflects the advantages of the model – that long-term funding provides the scope to build a deep understanding of the complex needs of offenders and the flexibility to invest in meeting them.

In July 2017, the Ministry of Justice confirmed that, following an independent measurement of performance, the SIB was successful, reducing reoffending by 9%. The trusts and foundations that invested the initial capital got their money back and made a modest return on their investment.

Property investment - Sevenoaks District Council (CIPFA innovation award winner)

Innovative council transforms to achieve financial self-sufficiency

A new property investment strategy, launched in 2015, is part of an innovative transformation programme that helped Sevenoaks District Council become the UK's first district council to achieve financial self-sufficiency.

The move was part of the council's wider approach to financial planning, launched in 2010 in response to the then-dawning era of austerity, which is based around a 10-year balanced budget. This has allowed the council to prepare for predicted cuts in central-government funding and plan how it could continue to meet need over the longer term. During its first year, this delivered savings of £4 million on a budget of just £16 million.

The property strategy was developed to provide a new stream of revenue for the council, while avoiding the impact of borrowing costs. Approval was initially given for an £8 million fund, which has subsequently been increased to £18 million. The council achieved self-sufficiency during the 2016-17 financial year.

A local focus

While the property strategy allows the council to make investments outside the district, it has chosen to concentrate locally with the aim of generating income to deliver high-quality services while regenerating the district. For example, it has bought land and property for development in strategic sites in Swanley, which is inside Sevenoaks' boundaries. It has also locked in office space to protect local employment, and is aiming to cater better for tourists and business visitors through a partnership with Premier Inn to build an 80-bedroom hotel.

Investment governance is robust – there are strict criteria around what can be invested in while expected returns and risks are spread across assets. Recognising the need for agility when bidding for properties, however, the council has adjusted its governance structures to allow the council leader and finance portfolio holder to approve individual investments.

Innovator of the year

The finance transformation programme, which earned Sevenoaks recognition as innovator of the year and the overall Grand Prix at CIPFA's 2017 Public Finance Innovation Awards, is mirrored by a cultural transformation at the council in which employees are empowered to operate with high degrees of autonomy, to take risks and push beyond their comfort zones. In addition, the council outsources no services.

> "Our view is that if you take risks you'll be innovative, and if you're innovative there's more chance of us delivering some outstanding outcomes for our residents."
>
> **Pav Ramewal, CEO, Sevenoaks District Council**

Managed care capital investment to improve community health – UnitedHealthcare and Chicanos Por La Causa, Phoenix, Arizona

Pioneering an integrated approach to health, social and financial challenges

UnitedHealthcare (UHC), one of the largest managed-care organisations in the US, has joined forces with community development corporation (CDC) Chicanos Por La Causa (CPLC) to deliver a series of community initiatives. These are based on their shared view of the positive impact that social health determinants like housing and other economic factors can have on the lives of local residents.

After a number of shared initiatives dating from 2011, in 2015 the two organisations developed the concept of a central hub (or 'community connect centre') to take an integrated approach to the health, social and financial challenges faced by people and help them move from dependence to self-sufficiency.

Individualised service planning

This saw the light of day in the shape of the Maryvale Community Service Center in Phoenix, Arizona, where community health workers and housing specialists develop and deliver an individualised service plan for each client.

UHC also provided CPLC with $22 million as a low-interest loan to buy and renovate close to 500 rental apartments, also in the Maryvale district of Phoenix. By enabling the purchase without recourse to traditional tools for financing affordable housing, this approach allowed flexibility in targeting 20% of the units at vulnerable individuals for low-cost rental. Both parties are working with newly housed residents on job training and other services to ensure these units can turnover and eventually serve more people.

CPLC intends to refinance the property at the end of the loan term and return UHC's investment. It hopes then to take advantage of a high property value at that time, driven by physical improvements and increased rental revenues.

Both organisations agree on the three key lessons to be drawn from this exercise in social innovation:

- The collaboration was based on years of building trust and a shared view of the goals necessary to improve the health of a community
- The partnership's ability to communicate and collaborate was enhanced by the fact that both parties had experience of the housing and healthcare sectors
- By not being reliant on traditional finance tools, they could progress faster and with less cost while being able to prioritise limited housing resources to serve vulnerable people.

County Investment in Housing within a Health System, Los Angeles Department of Health Services

Driving down service costs by housing the homeless

The Los Angeles County Department of Health Services (DHS) is undertaking one of the largest investments in permanent supportive housing in the US. The initiative, targeting the development of 10,000 units by the end of 2018, is the responsibility of the DHS Housing for Health (HFH) programme[7], which aims to maximise the efficient use of federal and local housing funds and philanthropic investment in implementing the priorities of the health department.

HFH strives to end homelessness in Los Angeles County, reduce inappropriate use of expensive healthcare resources and improve health outcomes for vulnerable populations. It does this by providing permanent supportive housing, recuperative care and specialised primary care to homeless people with complex physical and behavioural health conditions.

Improving health and reducing spending

The story begins in 2011, when Dr Mitch Katz moved from his role as Director of Health for San Francisco to become LA County Director of DHS. In his previous role, he had seen first-hand how the provision of housing can lead to improving health and reduced health spending. He therefore made the case to the LA County Board of Supervisors that the overall quality of healthcare for Los Angelinos could be improved by providing housing for homeless adults.

As a result of this proposal, an initial budget of $18 million was made available to set up the HFH programme, whose cornerstone is the flexible housing subsidy pool (FHSP). This coordinates local and philanthropic funding and Housing Choice Vouchers (HCVs) from Housing and Urban Development (HUD), enabling HFH to provide rental support through either HCVs or FSHP-funded vouchers.

It also enables HFH to address other barriers, such as first and last month deposits, furniture costs, and the costs of housing necessary to stabilise an individual before a permanent unit becomes available.

Great care is taken to identify the individuals in most need for whom support will create the greatest positive impact for themselves and the county as a whole. All tenants must be established DHS clients before referral, and must be both homeless and certified by their social worker as being disabled either from medical or behavioural health causes.

Dramatic financial impact

The financial impact of the programme could be dramatic, according to a 2017 report from RAND Corporation[8], which analysed the experiences of 890 participants. The cost of services provided to those in the programme fell by 60% in the year after they found permanent housing (from an average of $38,146 in the year before to $15,358 the next year).

That drop is partially offset by the cost of operating the programme (participants receive $825 per month housing vouchers and case management services worth about $450 per month). But, even with those costs factored in, the study found a 20% decrease in county expenses related to those residents, not to mention the improvement to their living conditions.

Treasury and asset management – Aberdeen City Council (CIPFA innovation award winner)

Using the bond market to raise capital for infrastructure investment

Aberdeen City Council has an ambitious capital-investment programme, designed to deliver and enhance the economic diversity of the region. It will do so through an infrastructure plan incorporating the new Aberdeen Exhibition and Conference Centre, the Aberdeen Western Peripheral Route, the Lochside Academy, new housing, redevelopment of the art gallery and city centre regeneration.

The total capital investment required was £1 billion over five years, of which £500 million needed to be sourced from borrowing. Having considered the options, the council opted to issue a public bond on the London Stock Exchange.

Gaining a credit rating

Aberdeen became the first Scottish local authority to receive a public credit rating when it was awarded Aa2 status by Moody's, only one notch below the UK sovereign rating of Aa1.

The credit rating was part of an exercise to gain access to the debt capital markets, which enable lower-cost borrowing to fund the council's capital programmes.

The bond issuance was successful and ended up over-subscribed on launch-day, with the book being closed at £370 million. As the bond issue was priced 'above-par', the council received around £415 million on settlement day.

To facilitate the process of obtaining a credit rating, the council had to examine the traditional treasury management policy that councils operate under. This involved considering its policy on liquidity, counter party list, long-term prudential indicators and its short to medium-term investment and borrowing strategy.

Managing risk over the long term

One of the most important risks that the council now faces is around maintaining its credit rating. This is because one of the bond's conditions is that investors have the option of requesting the bond be repaid in full in the event of a significant downgrading. The council will now need to monitor the key financial metrics on which it has been assessed and build much greater transparency around its balance sheet.

The final remaining risk associated with the bond is the indexation on the principal repayments. To mitigate this risk, the council will use the premium received from the bond as a hedging instrument against future inflation.

The whole process took around six months to plan and execute. It involved the establishment of trustees and a specialist team including financial and legal advisers, all of whom helped the council chart hitherto unexplored waters in the history of Scottish local government.

Broward County Housing Authority redevelopment of public housing using Low-Income Housing Tax Credits (LIHTC)

The authority, through its affiliates, has utilised its real estate assets by leveraging these, making deals with partners and private developers to create new and fully renovated multifamily apartments to serve the housing needs of the county. Since 2003, the authority has embarked on an ambitious development programme where it has undertaken the replacement of older public housing that is becoming or has become physically and functionally obsolete. This programme so far has replaced 302 public housing units at sites located in two neighbourhoods in Broward County with affordable housing units and added another 88 units to these sites for a total of 390 affordable housing units.

Additionally, the authority, through its affiliates, created 100 units of affordable housing on surplus land adjoining a public housing site providing housing for senior households. In addition to the replacement of existing obsolete public housing and the creation of additional housing units, the authority has also received Housing Choice Vouchers (HCVs) to assist households as replacement for the public housing units demolished and disposed of. The success of this effort is evidenced by the development of 801 housing units under the LIHTC programme and the addition, since 2003, of 302 HCVs. Each of the development projects generated fees which were used by the authority to improve its financial condition as well as assist in successfully financing newly created housing units.

The authority has undertaken a responsible and well-executed business model for its development programme which limits risk and exposure for the public, generates development and related fee income, and results in public control of affordable housing real estate assets following the completion of the project's development obligation period. Under this business model, a skilled development partner assumes the major guarantees required to finance and construct the housing. Once the project is completed, the developer co-general partner passes control and managing general partner responsibilities over to the authority's affiliate management/ownership entity, subject to the approval of all private and public investors.

Once the authority, through an affiliate non-profit or for-profit corporation instrumentality, assumes control as managing general partner of the management ownership entity, it receives the benefit of all cash flow and related proceeds permitted under the financing arrangements with the investors. This business model has resulted in the ongoing provision of cash proceeds to the authority's instrumentalities, which are then available for other development activities and related purposes consistent with the overall mission of the authority.

Conclusion

Within this report, we have shown how local government organisations around the world are transforming themselves: finding and supporting new models of service delivery, financing and organisational structure.

Finance teams have a crucial role to play in supporting and appraising transformation initiatives. Adopting a business partner mindset to complement their technical skills, finance professionals are:

- exploring and appraising new funding options within a specific organisational context, identifying inefficiencies and solutions
- developing an enhanced understanding of costs and how they are driven by activities
- providing solid management information to support and sustain better decision making
- deriving insights and influencing change through collaborative conversations
- working with colleagues across and outside the organisation to target available resources towards activities that deliver high-quality, sustainable and affordable outcomes for citizens.

By developing a broad knowledge of operations, the roles of our colleagues and expectations of citizens, as finance professionals we can 'translate' numbers into relevant, understandable and actionable business stories.

None of this is possible without a sustainable long-term talent strategy, evolving alongside and in response to the organisation and its people. Investment in people brings many rewards: increased motivation, stronger performance and greater organisational resilience. Leaders have a crucial role to play in finding, retaining and sustaining finance talent.

A professional accounting qualification that builds relevant skills and competencies can play a vital role in sustaining a robust talent-management programme at all levels. Employers have the additional assurance that, as members of a professional institute, accountants are bound by a code of ethics and a commitment to lifelong learning. This ensures that our skills remain relevant throughout our working lives.

In today's fast moving, increasingly digital world, a proactive approach to continuing professional development (CPD) and continuing professional education (CPE) will be crucial to building and sustaining our contribution to and impact upon the organisations for which we work. A 2017 survey[7] indicated that when it comes to CPD, the interests of CIMA members in the public sector were slanted towards strategy, change management, negotiation, decision-making and project management. In other words, towards areas that reflect the current needs of the sector.

Local government finance teams around the world have evolved from record-keeping support functions to embrace a finance-business partnering approach in which they work closely with business colleagues and stakeholders across and beyond the organisations.

Increasingly, impactful and insightful finance professionals whose strategic focus, technical knowledge and practical expertise extends across business operations will be key players in the sustainable, affordable delivery of public services.

The CGMA government research programme explores the transformation of public services and examines the supporting technology required to support transformation. As part of this, it considers the effectiveness of responses to public demand for greater transparency and investigates the difficulties involved in recruiting, developing and retaining talent in an increasingly competitive market.

Visit **cgma.org/government** to learn more about the programme.

CIPFA works to support public finance professionals in all areas of the public sector, considers initiatives to manage change and encourages new ways of thinking about and delivering services. Finance teams are key to the success of such innovative work, and our guidance, advice and support helps to drive public services into the future on a stable financial footing.

cipfa.org/cipfa-thinks

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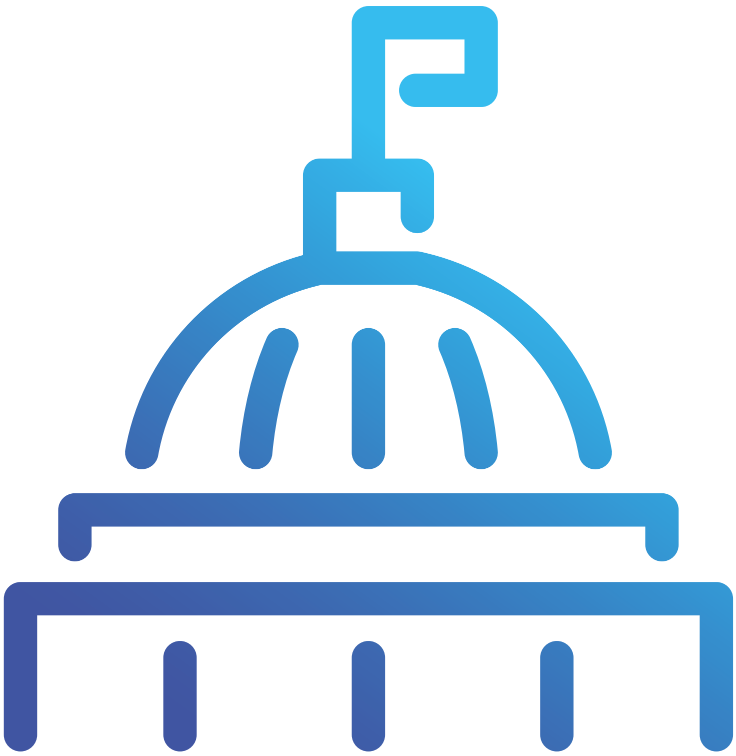

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