

Guidance for chief finance officers working across health and local government

February 2019



Contents

Foreword	3
Why we are issuing this statement	4
How this guidance should be used	5
What being a chief finance officer involves	6
What is the same about the roles in each sector	9
What is different about the roles in each sector	11
Appendix 1: Definitions used in this guidance	13
Appendix 2: Key elements of NHS and local authority financial regimes	14

Acknowledgements

This briefing was written by Kerry Ace (independent contractor) under the direction of Emma Knowles (HFMA's director of policy and research). We are grateful to colleagues at CIPFA, Future-Focused Finance and the Skills Development Network for their input to this publication, and the following individuals who contributed to the research:

Nikki Bishop, joint CFO, Trafford Council and Trafford CCG
David Ellcock, programme director, Future-Focused Finance
Mark Knight, chief executive, HFMA
Di Ormandy, head of North West, Skills Development Network
Kathy Roe, joint CFO, Tameside MBC and Tameside and Glossop CCG
Dr Eleanor Roy, policy manager health and social care, CIPFA
Rob Whiteman, chief executive, CIPFA
Steve Wilson, executive lead: finance and investment, Greater Manchester Health and Social Care Partnership

HFMA's Policy and Research Committee
CIPFA's Health and Social Care Faculty Board

Foreword

The chief finance officer (CFO) occupies a critical position in any organisation, holding the financial reins of the business and ensuring that resources are used wisely to secure positive results. In recent years, austerity measures and the resulting budget constraints on both the health and local government sectors have made this role even more challenging, but these factors have also highlighted the fundamental importance of the role.

The drive for integration of health and social care has seen more CFOs operating across both the NHS and local government. Given that these sectors work in different financial, governance and legislative frameworks, this in itself is a challenge. The CFO also needs to think outside the established comforts of organisational control – working across boundaries and taking a whole system approach.

The key is to get the best value for the public pound. CFOs working across health and local government need to be driven by, and support, what is good for the whole health and care system in their local area.

None of that will be straightforward, but the finance role is critical if the opportunities of integration are to materialise into transformed working and ultimately better financial control across the health and care system as a whole.

CIPFA and HFMA are committed to supporting these finance leaders and those aspiring to such roles.

Rob Whiteman, chief executive, CIPFA

Mark Knight, chief executive, HFMA

Why we are issuing this statement

This guidance has been produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Healthcare Financial Management Association (HFMA), with support from Future-Focused Finance (FFF) and the Skills Development Network (SDN), to ensure that chief finance officers (CFOs) appointed to work across the NHS and local government in dual roles have the necessary skills and competencies to perform effectively.

This guidance is applicable whatever the structures and legislation in place, but the focus is on the arrangements developing in England.

It is the aim of the Department of Health and Social Care (DHSC) that everyone using health and social care services experiences integrated care – services that work together to give the best care response to a person's circumstances. To achieve this, local authorities and health and social care organisations must work together to meet people's needs – for example, by making sure care services know what help somebody needs in their home when they leave hospital. Integrated care is at the heart of the *NHS long term plan*, issued in January 2019¹.

In 2016, 44 sustainability and transformation partnerships (STPs) were formed – they are non-statutory 'place-based' partnerships bringing local authorities, NHS bodies and other partners together to plan improvements in health and care. In some areas, the most advanced partnerships are evolving to form an integrated care system (ICS), a new type of even closer collaboration. An ICS means NHS organisations, in partnership with local councils and others, take collective responsibility for managing resources, delivering NHS standards, and improving the health and wellbeing of the population they serve. This new way of working puts emphasis on places, populations and systems.

Devolution fits particularly well with health and social care as it provides more scope, scale and impetus to the collaborative working that is widely seen as key to improving the health outcomes obtainable from the limited resources available. In Greater Manchester, devolution has acted as a catalyst for greater integrated working. The Greater Manchester health and social care devolution deal has provided the opportunity to make decisions on a regional basis with health and social care services working in partnership with local authorities. There are plans to establish further 'single commissioning' functions in the area's boroughs in addition to those that already exist. Such moves help facilitate a single vision

for delivering health and social care improvements and plans to achieve them. They can also assist in delivering efficiencies for the organisations concerned – such as clinical commissioning groups (CCG) and local authorities – where management teams and back-office functions are brought together and overlaps regarding commissioning and care can be removed.

The devolution agenda is also driving opportunities around economic development and for regenerating communities. Greater integration enables the determinants around health to be addressed in a more holistic manner. Quality of housing, education and equal job opportunities all impact on the health of the population. This is where local government and the NHS can work together to promote good health.

There is no single model for collaborating across health and local government boundaries. Areas will develop depending on their local circumstances.

In future, commissioning is likely to be based on longer term contracts that focus on outcomes. Commissioning is likely to become more strategic, concerned with planning and funding new integrated care models. Commissioners will have a significant role in holding providers to account for achieving agreed outcomes. A result of further integration is also that the commissioner/provider divide will become increasingly blurred as providers and commissioners work together to establish ICSs and providers themselves undertake commissioning functions.

A practical consequence of increasing integration is the need for a new type of leadership and decision-making model, which can involve bringing together leadership teams from the health and local government sectors. However, without changes to legislation, NHS bodies remain within the DHSC group and subject to the *NHS Constitution*² and *NHS mandate*³.

Similarly, local authorities retain their statutory functions and accountabilities. This has resulted in some areas having the CFO (and other senior officers) perform a dual role – operating across the local government and health sectors and taking account of the statutory and regulatory requirements of both – for example, where the CFO is CFO of the local authority and CCG. This also means moving away from a focus on individual organisations to system leadership.

¹ NHS, *The NHS long term plan*, January 2019

² Department of Health, *NHS Constitution*, 2015

³ Department of Health and Social Care, *NHS mandate 2018/19*, 2018

How this guidance should be used

The purpose of this guidance is to consider the implications for a CFO working in a dual arrangement and to look at the similarities in, and differences between, the role in health and in local government. The guide will be useful for:

- Those in these posts to assess their development needs
- Those considering applying for a joint role
- Chief executive officers (CEOs) when appointing to these roles and assessing performance once their CFO is in post
- Board members, governors, councillors and executive colleagues to gain a deeper understanding of the role of their CFO and the challenges they face and to understand the impact of any integration plans on the role of the CFO.

The roles of the CFO in the NHS and in local government are set out in guidance published by the HFMA and CIPFA respectively.

Guidance for chief finance officers working across health and local government – an HFMA policy statement⁴ focuses on the skills and values that all CFOs working in the NHS should possess and the core activities they carry out. It sets out four essential attributes of the CFO in the NHS. It also establishes five key roles and provides examples of activities that fall under each of the five roles.

The role of the chief financial officer in local government⁵ describes the roles and responsibilities of CFOs in local government. It sets out five principles that define the core activities and behaviours of the CFO and the organisational arrangements needed to support them. It is based on CIPFA's generic guide applicable across the public services.

The key roles of the CFO in the HFMA's guide are broadly consistent with the principles set out in CIPFA's guide.

Table 1 sets out how the headings used in both documents fit together. This guidance does not replicate the HFMA and CIPFA statements as both remain definitive guidance on the role of the CFO in health and local government respectively.

Guidance for finance leaders in the NHS has also been published by Future-Focused Finance. The *Finance staff behavioural skills framework⁶* outlines the behavioural skills they need to carry out their jobs in the best way possible.

Terms used in this guide

The term **chief finance officer** or **chief financial officer** in this guide refers to the organisation's most senior executive role charged with leading and directing financial strategy and operations. Depending on the organisation, this person may have a different title, such as finance director or corporate director of finance.

The **board** or **governing body** of a statutory organisation is the group of people charged with setting the strategic direction for the organisation and responsible for its achievement.

The **management team** is the group of executive staff comprising senior managers charged with executing strategy.

The term **leadership team** comprises the board or governing body and the management team.

Table 1: Comparison of HFMA and CIPFA publications on the role of the CFO

HFMA: <i>Guidance for chief finance officers working across health and local government</i>	CIPFA: <i>The role of the chief financial officer in local government</i>
CFO's key roles	Principles defining the core activities and behaviours that belong to the role of the CFO
<ul style="list-style-type: none"> • Corporate leadership, management and decision-making 	<ul style="list-style-type: none"> • The CFO is a key member of the leadership team, helping to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest • The CFO must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer-term implications, opportunities and risks are fully considered, and alignment with the authority's overall strategy
<ul style="list-style-type: none"> • Stewardship and accountability • Financial management 	<ul style="list-style-type: none"> • The CFO must lead the promotion and delivery of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively
<ul style="list-style-type: none"> • Commercial skills • Professional leadership and management 	<ul style="list-style-type: none"> • The CFO must lead and direct a finance function that is resourced and fit for purpose • The CFO must be professionally qualified and suitably experienced

⁴ HFMA, *Guidance for chief finance officers working across health and local government*, 2017

⁵ CIPFA, *The role of the chief financial officer in local government*, 2016

⁶ Future-Focused Finance, *Finance staff behavioural skills framework*, 2018

What being a chief finance officer involves

The CFO occupies a critical position in any organisation, holding the financial reins of the business and ensuring that resources are used wisely to secure positive results. Achieving value for money and securing stewardship are key components of the CFO's role in all public service organisations.

The relative balance of activities within a particular CFO's role will vary according to the size, type and structure of the organisation they work for, and the skills and experiences of members of the governing body and management team. The CFO often has a wide portfolio taking in areas outside their immediate technical expertise – for example, information technology. Therefore, the range and depth of competencies required will depend on the specific circumstances and job content.

The CFO's key roles are set out below and are drawn from the HFMA's guide. For simplicity, we have used the term 'organisation' to cover the wide range of collaborations that exist.

Corporate leadership, management and decision-making

Members of the leadership team and others in key positions need to understand the financial implications of their strategic and service delivery plans and be aware of financial performance. It is the CFO who is responsible for meeting these needs and for providing support for strategic decision-making, financial leadership and guidance.

To be effective in this role, CFOs must earn the respect of their colleagues on the leadership team by playing a full and constructive part in proceedings; balancing corporate and more 'traditional' finance responsibilities and ensuring that decisions are taken based on sound and thorough analysis. It is important for the CFO to form a view and do their own thinking on all manner of issues in order to share their ideas, knowledge and opinions as needed. The CFO will therefore need to be an active member of the leadership team, with status at least equivalent to its other members.

As they have no statutory basis, integrated structures are based on trust and a willingness of organisations to work together towards shared outcomes. Developing relationships for the purposes of integration takes time and effort to build trust and the CFO will have a major part to play in building effective relationships. The CFO will also play a key role in developing the overall governance framework and in particular the control framework, managing risks associated with

integration and operating across the sectors and in providing assurances to all governing body members. A challenging financial position in one organisation may have an impact on collective responsibility for resources owing to concerns about sharing financial risk.

System leadership is increasingly important and a CFO will need to understand the priorities of other statutory organisations (outside the integrated structure) as well as their own. Having done so, the CFO will need to recognise the priorities for the system as a whole and support or lead system-wide solutions.

It is essential that the CFO in a dual role understands the whole business of the integrated structure in order to inform decision-making. For example, understanding the health and social care system in organisational terms is important, but equally important is an understanding of how healthcare works in the wider economic, social and environmental systems. If decisions in the local authority context can improve air quality, the health side will benefit from reduced admissions relating to chest and breathing difficulties. The CFO will influence decisions that have the potential for either positive or negative impacts both on the local organisation and the wider economic, social and environmental systems.

Typically, this role involves:

- Contributing to each organisation's overall management and leadership by playing a full, active and constructive part in the leadership teams and being a valued and well respected member.
- Playing a leading role in devising, challenging and implementing each organisation's operational planning processes to ensure that strategic objectives are cascaded down to all levels and that plans are realistic, achievable and sustainable.
- Contributing to the development and maintenance of each organisation's overall governance framework (including the development of effective controls, a robust and integrated approach to risk management and a meaningful assurance framework). For the dual CFO, this will also include assuring the leadership team that statutory duties across health and local government boundaries are being met.
- Ensuring that the impact on the quality of services and patient/service user safety is understood when reaching decisions in general and considering the associated financial implications in particular.
- Contributing to the development and maintenance of good relationships with all partners, internal and external stakeholders. This may include leading system change and requires an exceptional level of political astuteness

alongside a wide perspective and a willingness and capacity to forge effective and durable relationships.

- Providing expertise and advice to the leadership team on finance-related issues to support and facilitate effective strategic thinking and decision-making. This will include getting to the root cause of performance issues; providing advice relating to change management; business and commercial activities; financial strategy, planning and performance and investment appraisal.
- Ensuring that finances are managed wisely and well and effectively deployed. CFOs are 'moral guardians' and must meet professional and ethical standards. This can be particularly challenging for those CFOs fulfilling the role for more than one organisation across sector boundaries. They must manage competing priorities and will require a longer-term view, taking account of risk and acting transparently where there are potential conflicts between intended outcomes and short-term factors, such as the political cycle or financial constraints.

Stewardship and accountability

CFOs play a key role in ensuring that resources are safeguarded, quality services are provided and that probity is demonstrated. The dual role places additional demands on the CFO, not only in relation to the potential for a significant increase in stewardship responsibilities, but also to meet the regulatory and reporting requirements together with the multiple accountabilities that come with it. This can bring additional tensions to the role, where governing body members perceive conflicts between the objectives of the partnership and the responsibilities of their statutory body in respect of the use of resources. For example, in relation to the balance of expenditure between health and local government areas. Ensuring that governing body members receive information appropriate to their needs is a key role for the CFO.

Typically, this role involves:

- Stewardship of public money – knowing the business of each organisation thoroughly and demonstrating probity in the use of resources; ensuring that they are safeguarded at all times (through effective systems of control and scrutiny), that they are used wisely and well and in line with prevailing legislation, rules and regulations; ensuring that there is an effective approach to financial risk assessment and mitigation.
- Being prepared to challenge and raise concerns/report suspected fraudulent behaviour/disclose irregularities in accordance with the *Public Interest Disclosure Act 1998*, the *Bribery Act 2010*⁷ and other relevant guidance.
- Demonstrating accountability for the use of resources/public money through meaningful financial reports that are fit for the audience and also for purpose; an effective

internal audit service that is valued and resourced properly; financial accounting that is rigorous and carried out in line with statutory and regulatory requirements; constructive working relationships with external auditors, regulators, inspection agencies and other stakeholders.

It is important to note that CFOs are responsible for the adequacy of the control environment irrespective of how financial services are provided. For example, CFOs in organisations that use commissioning support units or shared services need to ensure that adequate safeguards exist in contracts to ensure that public funds are being used effectively and appropriately. Similarly, CFOs must ensure that sound financial systems and controls are in place to monitor 'non-direct' spending – for example, through contracts and personal health budgets – and ensure that resources are accounted for and spent properly.

Financial management

CIPFA has defined financial management as 'the system by which financial resources are planned, directed, and controlled to enable and influence the efficient and effective delivery of public service goals'⁸. It has also been described as the 'engine room' of the finance function and the area that has the greatest potential for adding value to an organisation's performance. Effective financial management is therefore of critical importance and, although everyone in an organisation has a role to play in this area, it is the CFO who takes the lead. They must ensure that each organisation's approach suits its circumstances/environment and is capable of supporting (and furthering) its strategic aims. A sound, consistent and transparent approach to financial management inspires confidence among staff and stakeholders and its relevance and importance should therefore be emphasised and championed by the CFO.

The potential increase in resources to manage the different financial systems in place, possibly with the need to bring them together, is a significant source of complexity for the CFO working across sector boundaries. While such integrated structures have the potential, within accounting rules, to make better use of funds through having greater flexibility, the financial regimes surrounding both sectors must be observed. From time to time conflicts will arise and they must be addressed carefully and professionally, taking the requirements of all sectors into account.

Typically, this role involves:

- Championing financial management – ensuring that the importance of good financial management, and what it means in practice, is recognised and understood throughout the organisation

⁷ The *Bribery Act 2010* makes it an offence to accept gifts or hospitality as an inducement or reward for doing something in a public role. It applies to both organisations and individuals and means that organisations must ensure that they have in place adequate systems to prevent bribery

⁸ CIPFA, *The role of the chief financial officer in public service organisations*, 2011

- Using financial management skills to deliver financial insight to partners, patients/service users and colleagues.
- Challenging and supporting decision-makers on the affordability and value for money of strategies and decisions taken
- Ensuring that an organisation's approach to financial management suits its circumstances, structures and aims
- Ensuring that the financial management regime is comprehensive, disciplined and supports innovation, improvement and delivery of high-quality services – for example, putting in place funding models needed to support integrated care
- Actively promoting financial literacy throughout the organisation, ensuring that budget holders have the skills and information they need to carry out their roles
- Formulating, implementing and monitoring the organisation's financial strategies/ plans
- Ensuring compliance with statutory requirements, national and local guidelines, duties and targets
- Reviewing the performance of, and seeking continuous improvement in, the finance function of the organisation.

Commercial skills

In health, new ways of partnership working at scale are accompanied by a shift towards outcome/quality-based contracting requiring the delivery of defined patient outcomes in relation to payments made. Novel and complex contract structures are expected to become more common. They are likely to be of high risk and of interest to auditors. The CFO must balance commercial skills with doing what is right for the patient and wider care system.

In local government, authorities face competition for limited public funds and have to balance expenditure needs against the burden of local taxation. Many will have allocated cash limits, while others will have tax-raising powers. All will be concerned to examine opportunities, with suitable assessment of legal powers and risk, for building income streams, whether through attracting external grants, charging for services, or commercial activity.

Typically, this role involves:

- Making the case for change – understanding current priorities and drivers for economic and service transformation, including the creation of best value by segmenting and differentiating services to ensure delivery of the desired outcomes for service users and the wider health economy
- Maximising funding sources
- Demonstrating business-like thinking
- Developing partnerships with other organisations, including negotiating contracts
- Responding to tenders and developing proposals for new business, often over the medium to long term

- Implementing sustainable techniques for improving efficiency, effectiveness and the utilisation of resources
- Demonstrating the value of policy and operational changes, focusing on outcomes
- Ensuring that money spent through contracts is managed to the standards expected for public funds and delivers value for money.

Professional leadership and management

Although it is important that all leaders (executive and non-executive) are financially literate, the CFO plays a key role in establishing the overall financial tone and culture. It is therefore important that the CFO has the right qualifications, experience and skills; that they command respect across the organisation and is a role model for finance staff, inspiring their loyalty and commitment.

Professional personal conduct – achieving and expecting the highest possible professional standards – is essential. This is within the organisation and across organisational boundaries. As CFOs depend on others to deliver a professional service, it is also important to create an atmosphere in which staff can thrive and professional values can prosper – individual members of staff need to feel valued and be given the opportunity to develop. They also need to feel able to raise any genuine issues or concerns without fear of criticism or reprisal.

The right supporting structure is essential for a dual finance function. The CFO may need to consider carefully the skills required for working across boundaries, where the gaps are and how they may be filled. The CFO may also consider it useful to encourage finance staff with a background in local government finance to gain experience in health and vice versa.

Typically, this role involves:

- Ensuring that there are high professional standards throughout the finance function and that it operates effectively
- Leading and managing the finance function effectively
- Ensuring that finance staff are well trained and have opportunities to develop and grow and that the organisation has sufficient, appropriately skilled staff
- Ensuring that the functioning of the finance department is reviewed regularly with a view to maintaining high standards, looking for opportunities to improve and future-proofing it as far as is possible
- Demonstrating (to a wide audience) well-considered thought leadership and being exceptional ambassadors for the professionalism of the function as a whole.

Status of the CFO

For the CFO in a dual role to be able to perform effectively, their status must be aligned in relation to the statutory bodies. In recognition of the centrality of financial issues to organisational success, it is UK government policy that all government departments should have a professional CFO reporting directly to the permanent secretary with a seat on the departmental board, with a status equivalent to other board members. HM Treasury recommends: 'It is good practice for all other public sector organisations to do the same, and to operate the same standards'.⁹

In all NHS organisations, the CFO must be a member of the governing body. As all members of the governing body are equally responsible for all aspects of performance, CFOs are also responsible for the quality of health care provided. The CFO reports to the organisation's accountable officer.

Local authorities operate a number of different democratic models, therefore the concept of the leadership team will include executive committees, elected mayors, portfolio holders with delegated powers and other key committees of the authority.

CIPFA's *Statement on the role of the CFO in local government*⁶ notes that the CFO should play a key role within these leadership teams while balancing their responsibility to advise all members.

The statement also notes that the CFO should report directly to the chief executive and be a member of the leadership team, with a status at least equivalent to other members. The statement requires that if different organisational arrangements are adopted, the reasons should be explained publicly in the authority's annual governance report, together with how these deliver the same impact.

What is the same about the roles in each sector?

Many of the characteristics of the CFO role are similar across the NHS and local government sector. This is reflected in the similarities between the HFMA's and CIPFA's guidance. Key similarities are set out below.

Professional and ethical standards

CFOs must be aware of (and adhere to) a number of codes and standards. These include:

- *Code of ethics for professional accountants*¹⁰ published by the International Ethics Standards Board for Accountants and adopted in full by CIPFA in November 2018¹¹. Codes of ethics have also been produced by CIMA¹², ICAEW¹³ and ACCA¹⁴.

- Professional standards and disciplinary procedures set by the CFO's own professional accountancy body
- International standards set by the International Federation of Accountants (IFAC) on:
 - Continuing professional development
 - IT literacy.

The HFMA has produced an ethics e-learning module¹⁵, which is available free for HFMA members. CIPFA has produced *Ethics and you: an introduction to the CIPFA standard of professional practice on ethics* and *Stories that matter*, a series of ethical case studies to assist members in the practical application of the requirements of the ethical standard.¹⁶

⁹ HM Treasury, *Managing public money*, 2017

¹⁰ International Ethics Standards Board for Accountants (IESBA), *The code of ethics for professional accountants*, 2016

¹¹ CIPFA, *Standard of Professional Practice on Ethics*, 2018

¹² CIMA, *Code of ethics*, 2015

¹³ ICAEW, *Code of ethics*, 2010

¹⁴ ACCA, *Code of ethics and conduct*, 2011

¹⁵ HFMA, *Ethics: an e-learning module for finance staff*, 2018

¹⁶ CIPFA, *Conduct and ethics*, 2018

CFOs will also need to comply with any sector specific requirements – for example the *Code of conduct for NHS managers*¹⁷ and the ‘fit and proper persons test’¹⁸.

Public sector values

A strong commitment to ethical values is a key principle of good governance for public sector entities¹⁹. A public sector organisation’s decision-making processes are underpinned by shared values that have an impact across its operations.

CFOs in the health and local government sectors must adhere to public sector principles and values and be able to reflect them in their leadership and the way in which they operate within the leadership team. They should have regard to the seven general principles of conduct defined by the Committee on Standards in Public Life²⁰:

- Selflessness
- Integrity
- Objectivity
- Honesty
- Accountability
- Openness
- Honesty
- Leadership.

Local government organisations are expected to establish specific values for the organisation and its staff, building on these principles, and to draw up codes of conduct accordingly.

Personal characteristics

Both the HFMA and CIPFA guides set out key personal characteristics that the CFO should possess. These characteristics are summarised below. CFOs should be:

- Effective leaders – playing a full, active and constructive part as a member of the leadership team and commanding respect across the organisation and the wider sector
- Resilient and clear-headed – being ready and able to propose and implement tough actions that may be unpopular within some parts of an organisation
- Adaptable – able to anticipate and handle changes in circumstances and in the demands placed on them and assume other responsibilities as needed
- Far-sighted and able to think strategically – able to think long term and plan within and across organisational boundaries
- Innovative – able to identify new and better ways of doing things for the benefit of the service user and being willing to

take controlled and quantifiable risks without compromising quality

- Outward looking – receptive to new ways of working and able to develop good relationships with new and existing organisations
- Team players – able to see others’ perspectives and work with them in the public interest
- Good role models – able to inspire loyalty and commitment among finance staff and others and establish an environment in which staff can develop and achieve their full potential
- Highly motivated and passionate - even when delivering consistently difficult messages. The CFO in a dual role may be robustly challenged by the wider interests represented in an integrated structure.

Qualifications, experience and practical skills

CFOs must be qualified accountants who are members of an accountancy body in the UK recognised by the International Federation of Accountants (IFAC):

- Association of Chartered Certified Accountants (ACCA)
- Chartered Institute of Management Accountants (CIMA)
- Chartered Institute of Public Finance and Accountancy (CIPFA)
- Institute of Chartered Accountants in England and Wales (ICAEW)
- Institute of Chartered Accountants of Ireland (ICAI)
- Institute of Chartered Accountants of Scotland (ICAS).

They should also have key experience and practical skills identified by the HFMA and CIPFA in their guidance. These are summarised below:

- Have relevant prior experience across a wide range of finance function responsibilities
- Have the ability to challenge effectively and to give and receive constructive feedback
- Have excellent communication skills and be able to employ effective facilitation and meeting skills
- Be able to influence and negotiate effectively
- Have technical competence – recognising the importance of maintaining and developing financial skills and competencies
- Have effective skills for analysing information and problem-solving.

¹⁷ For example: Department of Health, *Code of conduct for NHS managers*, 2002

¹⁸ Care Quality Commission, *Regulation 5: fit and proper persons: directors*, 2018

¹⁹ CIPFA/IFAC, *International framework: good governance in the public sector*, 2014

²⁰ Committee on Standards in Public Life, *Standards matter*, 2013. This report updates the descriptions of the seven principles of public life, also known as the Nolan principles

What is different about the roles in each sector?

The health and local government sectors are underpinned by different legislative arrangements, requirements, regimes and cultures, which the CFO will need to take into account. Those relevant to England are briefly explored below.

Legislative requirements

The role of the chief financial officer in local government

Section 151 of the *Local Government Act 1972* requires every local authority to 'make arrangements for the proper administration of their financial affairs' and to 'secure that one of their officers has responsibility for the administration of those affairs'. The Section 151 officer is usually the local authority's treasurer and must be a qualified accountant.

'Proper administration' requires a wider consideration of local authority financial management and should include:

- Compliance with the statutory requirements for accounting and internal audit
- Ensuring the authority's responsibility for securing proper administration of its financial affairs
- Proper exercise of a wide range of delegated powers, both formal and informal
- Responsibility for managing the financial affairs of the local authority in all its dealings.
- Recognition of the fiduciary responsibility to local taxpayers.

This view is strengthened by Section 113 of the *Local Government Finance Act 1988*, which requires the responsible officer under Section 151 of the 1972 Act to be a member of a specified accountancy body.

Section 114 of the *Local Government Act 1988* requires a report to all members to be made by the CFO in consultation with the monitoring officer (usually director of legal services) and head of paid service (chief executive) if there is/is likely to be unlawful expenditure or an unbalanced budget. Serious consequences could follow such a report. Sound procedures and consultation are recommended before doing so.²¹

The CFO also has:

- A statutory duty to report on the adequacy of the authority's reserves when the budget is set and the robustness of the underlying estimates made

- A key role to play in the fulfilling the statutory requirement to keep the authority's finances under review during the year and to take action as appropriate
- A responsibility (with other key officers) to ensure all relevant matters are properly considered when developing policy (the Wednesbury²² principle).

Guidance for chief finance officers working across health and local government

In NHS organisations, the CFO must be a member of the governing body and suitably qualified. For example, the *National Health Service (Clinical Commissioning Groups) Regulations 2012* provide that the governing body must include an employee of the CCG who has a professional accountancy qualification and the expertise and experience to lead the financial management of the CCG.

The guidance *Towards establishment: Creating responsive and accountable clinical commissioning groups*²³ states that the CFO will be a key leader within the organisation. All governing body members are equally responsible for all aspects of performance. CFOs are therefore also responsible for the quality of care provided. The CFO on an NHS board has a vote; this does not apply to CFOs in local government and therefore may have an impact on decision-making procedures for a dual role. The CCG's accountable officer (AO) is responsible for ensuring that their organisation operates effectively, economically and with probity; makes good use of resources; and keeps proper accounts.

For NHS trusts, the accountable officer is the chief executive, who is accountable to Parliament via the Department of Health and Social Care's accounting officer (permanent secretary). In foundation trusts, the chief executive is the accounting officer directly responsible to Parliament. For CCGs, either the chief officer or chief clinical officer is accountable to Parliament via NHS England's accounting officer (chief executive).

Although ultimate statutory responsibility and accountability for financial duties rests with the AO, the CFO is integral to discharging those responsibilities and is often the next most senior manager on the governing body. Where the CFO is concerned that their advice has been ignored and the issue is highly significant, the last resort would be to disclose the issue to a higher authority as appropriate such as NHS England or NHS Improvement.

²¹ For further information see Appendix A of CIPFA, *The role of the chief financial officer in local government*, 2016

²² *Associated Provincial Picture Houses Ltd. v Wednesbury Corporation 1948* is an English law case that sets out the standard of unreasonableness of public-body decisions that would make them liable to be quashed on judicial review, known as Wednesbury principle.

²³ NHS England, *Towards establishment: Creating responsive and accountable clinical commissioning groups*, 2012

Democracy

Local authorities have local political leadership and the governing body is the full council. This means elected councillors agree the overall strategy and policy framework, agree the budget and spending plans, approve the statement of accounts, elect the leader and make constitutional decisions. The CFO must support elected representatives by providing unfettered advice to them to inform decision-making and must work with political awareness and sensitivity.

For NHS bodies, board membership is made up of executive and non-executive directors. The CFO is a member of the board. The political cycle at a national, rather than local, level has traditionally had an impact on overall policy. However, greater integration leading to single leadership increases political leadership at a local level.

The influence of political leadership can bring additional pressures to the role of the CFO, including the potential for significant policy changes as a result of a change in political administration. The CFO must ensure that they work in the wider public interest in considering competing priorities and balancing the demands of more active stakeholder groups to make the best use of resources. The experience of local authorities in consulting the public and local stakeholders, can assist collaborative structures in making decisions drawing on public engagement.

Governance, accountability and decision-making

Getting the governance right is key for collaborations to operate successfully. Essentially, local NHS organisations are accountable to Parliament via NHS regulatory bodies and the DHSC. Local government is directly accountable to the public. Currently, for the purposes of integration, organisations are working together through memoranda of understanding and joint committees, committees in common or partnership boards. Local authorities and NHS organisations are statutory organisations so, although committees between the bodies may make decisions, they must be formalised through statutory procedures, contributing to public accountability. Other aspects of public accountability will need to be adhered to – for example, the role of the audit committee, which is mandatory in the NHS but not in local government, although it is encouraged and regarded as best practice. The challenge of aligning governance with health and wellbeing boards and overview and scrutiny committees also exists.

The lack of statutory backing has the potential to make integrated structures unstable – for example, what would happen if one party were to decide to withdraw from the arrangement? Bringing organisations together requires considerable assurance to convince parties in health and in local government that risks are being recognised and managed accordingly, and this is an area where the CFO should play a key role.

Financial regimes

Public service organisations face a variety of regulatory requirements and standards for external financial reporting, performance and operational purposes, while measures of value are expressed both as financial and as non-financial performance targets. The role of the CFO in external reporting is to meet the reporting requirements relevant to the organisation and to apply professional good practice, being conscious of the needs of users. A CFO in a dual function will need to prepare statutory accounts for health and for local government organisations. Different funding regimes also exist in health and local government. Key elements of the financial regimes in the local government and health sectors are briefly set out in **Appendix 2**.

Culture

CFOs working across local authority and health sector boundaries will need to understand the reasons behind the different cultures in the NHS and local government, to accommodate them and to assist in bringing them together – for example, the NHS being free at the point of care versus means testing in social care.

The NHS is a ‘national’ service, hierarchical in nature, with targets, requirements and approval procedures that are quite different to local government. NHS bodies have also been subject to greater reorganisation. Behaviours in health have been influenced by the operation of the internal market and partnership working is not straightforward within the context of the *Health and Social Care Act 2012*, which encourages competition.

Local authorities operate a number of different democratic models. In local authorities, therefore, the concept of the leadership team may include executive committees, elected mayors, portfolio holders with delegated powers and other key committees of the authority.

Health issues retain a high public profile in a way that local authority services may not, and relationships will require careful management to ensure that there is not a perceived bias towards health within any collaborative structure.

Clarity of definitions and terms used by all parties is key to ensuring a shared understanding of what is being discussed and what needs to be achieved. The language used can be substantially different in the local government and health sectors but there is potential for same term to be interpreted differently. The HFMA and CIPFA have therefore published the *Glossary for NHS and local government finance and governance*²⁴, which provides a glossary of terms used frequently in relation to finance and governance in the NHS and local government.

²⁴ HFMA/CIPFA, *Glossary for NHS and local government finance and governance*, 2017

Appendix 1: Definitions used in this guidance

Annual governance report The mechanism by which an entity publicly reports on its governance arrangements each year.

Audit committee The governance group independent from the executive, consisting solely of non-executive directors charged with providing oversight of the adequacy of the risk management framework, the internal control environment, and integrity of financial reporting.

Chief executive The most senior executive role in the organisation; the 'head of paid service' in local government, and the accountable/accounting officer in NHS bodies.

Code of conduct Principles, values, standards or rules of behaviour that guide the decisions, procedures, and systems of an organisation in a way that contributes to the welfare of its key stakeholders and respects the rights of all constituents affected by its operations.

Commissioning Commissioning considers how best to use allocated resources to improve outcomes based on a deep understanding of citizens and communities, and ensuring services are designed and delivered according to their needs, aspirations and experiences.

Constitution/standing orders The constitution or standing orders translate an organisation's statutory powers into a series of practical rules designed to protect the interests of the organisation, its staff and 'service users'. They specify how the organisation will conduct its business.

Control total A financial control set by one organisation for another. These are used by NHS England and NHS Improvement to set limits on expenditure and targets for year-end surpluses/deficits for commissioners, providers and STP areas. In local government, this term is variously used, most often to describe the amount of the overall public spending envelope the government decides should be spent by local government.

Council tax Tax collected from households by local authorities based on the estimated value of a property and the number of people living in it.

Finance function The staff with a prime responsibility for financial matters, located either in a central department or within business/service areas. Some functions may be outsourced.

Head of profession The leading professionally qualified accountant charged with promoting professional standards within the organisation.

Health and well-being board (HWB) Introduced by the *Health and Social Care Act 2012*, HWBs are forums of key leaders from the health and care system. Every upper tier local authority – for example, county councils – has an HWB to join up commissioning across the NHS, social care, public health and other services directly related to health and wellbeing in the local area.

Internal audit An assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives.

Mandate The agreement between NHS England and the Department for Health that sets out the expenditure limits for NHS England and what is expected to be delivered with the funding provided.

National tariff The system of financial flows to move funds around the health service. It enables healthcare providers in England to be reimbursed for the costs of providing treatment.

Non-executive director (NED) An independent member of a trust/ foundation trust board. They are appointed based on their individual skills and what they will bring to the overall composition of the governing body. They are expected to challenge decisions and strategies.

Overview and scrutiny committee (OSC) A committee of councillors providing overview and scrutiny of local NHS organisations by powers set out in chapter 38 of the *Local Government Act 2000*. The aim is to secure health improvement for local communities. This is achieved by giving democratically elected representatives the right to scrutinise how local health services are provided and developed.

Public interest The net benefits derived for, and procedural rigour employed on behalf of, all society in relation to any action, decision or policy.

Public service organisation One or more legal bodies managed as a coherent operational entity with the primary objective of providing goods or services that deliver social benefits for civic society, are not privately owned, and receive public and/or charitable funding.

Senior officer Led by the chief executive and chief officers, senior officers are responsible for advising the cabinet and scrutiny committees on policy and implementing councillors' decisions.

Appendix 2: Key elements of NHS and local authority financial regimes

	Local authority ²⁵	NHS ²⁶
Central government oversight	<p>The Ministry of Housing, Communities and Local Government (MHCLG) supports the secretary of state for housing, communities and local government and ministers in carrying out their responsibilities for supporting local government by setting national standards, policy and priorities.</p> <p>Local authorities receive funding for the services they provide from local residents and businesses through council tax and business rates, and from central government through grants for specific purposes and general revenue support grant. Central government also sets out the rules and regulations that local authorities have to comply with, which includes controls over how they raise and spend money and over the services they provide.</p>	<p>The Department for Health and Social Care (DHSC) is responsible for strategic leadership and funding for both health and social care in England. It is responsible for ensuring the provision of a comprehensive health service in England through the NHS.</p> <p>The DHSC sponsors different types of arm's-length bodies to fund, regulate and commission health care – for example, NHS England, which must stay within its allocated resources and deliver a wide range of improvements in healthcare.</p> <p>NHS England is responsible for some commissioning activities, such as primary care services and national and regional specialised services and other prescribed services. NHS Improvement is responsible for overseeing NHS trusts, NHS foundation trusts and independent providers.</p> <p>NHS England and NHS Improvement are increasingly working together to achieve joint aims and provide consistent advice and support.</p>
Financial reporting	<p>The government makes specific rules – statutory requirements – that local authorities must follow when they prepare their financial statements, limiting the amount that can be charged to council tax payers and avoiding significant changes in expenditure from one year to the next. The <i>Accounts and audit regulations</i> require local authorities to follow proper practice in relation to the statement of accounts and to prepare them in accordance with the <i>Code of practice on local authority accounting in the United Kingdom</i> (CIPFA/LASAAC)²⁷.</p>	<p>NHS bodies must to comply with accounts directions, which requires them to comply with the appropriate manual for accounts. Annual accounts must be produced in the format, and to timetables, specified by NHS England/NHS Improvement/Department of Health and Social Care as appropriate. The accounts must be audited, appropriately approved and presented to the annual general meeting/Parliament in line with prescribed timetables.</p>

²⁵ More detail can be found in: CIPFA, *The guide to local government finance*, 2019

²⁶ More detail can be found in: HFMA, *Introductory guide to NHS finance*, 2016

²⁷ CIPFA, *Code of practice on local authority accounting in the UK*, updated annually

	Local authority	NHS
Capital finance	<p>Authorities are required by statute to have regard to the <i>Prudential code for capital finance in local authorities</i>²⁸. The code provides a framework within which councils can judge for themselves whether capital investment is affordable, prudent and sustainable in the year in question and in future years.</p>	<p>The DHSC has a statutory duty to remain within the capital departmental expenditure limit (CDEL) determined by Parliament.</p> <p>NHS trusts and CCGs have a statutory duty to remain within the capital resource limit (CRL) each year.</p> <p>Foundation trusts in financial distress and all NHS trusts are required to seek approval for all capital transactions over £15m. All other foundation trusts are restricted only by the amount of financing they can generate from internal resources or borrow.</p>
Treasury management	<p>In making arrangements for treasury management, local authorities are required to follow CIPFA's <i>Treasury management code</i>²⁹. The code aims to help ensure that councils manage the significant risks associated with the function while also ensuring the council receives value for money.</p>	<p>Effectively, NHS bodies are required to hold cash balances with the Government Banking Service (GBS).</p> <p>Foundation trusts have statutory powers for treasury management but the calculation of the dividend that they pay to the DHSC is based on their net relevant assets which include all cash balances other than those in the GBS. Therefore, it is rare for foundation trusts to achieve value for money by investing elsewhere.</p>
Budget-setting and monitoring	<p>Local authorities are required by statute to set a budget that is sustainable and balanced and to deliver a break-even position at year-end.</p> <p>The responsibility for budgetary control usually lies with service chief officers, and through them with their line managers. These line managers should monitor actual expenditure and income against the budget provisions regularly, usually monthly. Elected members will consider budget monitoring reports regularly throughout the year.</p>	<p>NHS trusts have a statutory duty to break even taking one year for another. CCGs are statutorily required to stay within their resource limits.</p> <p>Financial control totals are agreed for all NHS bodies. These are used by NHS England and NHS Improvement to set limits on expenditure and targets for year-end surpluses/deficits for all commissioners, providers and STP areas.</p> <p>The CFO will need to provide information for the organisation's governing body and to provide regular monitoring reports for example, to NHS England or NHS Improvement which are consistent, produced on time and in the format required.</p>
Internal control	<p>An authority must put in place effective arrangements for the internal audit of the control environment and systems of internal control as required by professional standards and in line with CIPFA's <i>Code of practice on local authority accounting in the United Kingdom</i>³⁰.</p>	<p>NHS organisations must maintain a sound system of internal control that supports the achievement of the organisation's policies, aims and objectives, while safeguarding public funds.³¹</p>
Pensions	<p>Local government pension schemes are the only public service schemes which have investment funds. Therefore the CFO will also be the CFO of a defined benefit pension scheme.</p>	<p>The NHS pension scheme is unfunded. Members' contributions are used to pay existing pensions with any shortfall being underwritten by government.</p>

²⁸ CIPFA, *Prudential code for capital finance in local authorities*, 2017

²⁹ CIPFA, *Treasury management in the public services: code of practice and cross-sectoral guidance notes*, 2017

³⁰ CIPFA, *Code of practice on local authority accounting in the UK*, updated annually

³¹ More details on internal control and corporate governance can be found in the HFMA's *NHS corporate governance map*



About CIPFA

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. We champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

About Future-Focused Finance

Future-Focused Finance is about improving NHS finance for everyone; recognising the need for strong financial skills and understanding across all professional groups to deliver the good patient care and value for tax payers.

In 2018 the Future Leadership Council refreshed their strategic aim and objectives. This means with the support of the Finance Development Foundation and Finance Staff Development we're working to develop a diverse, appropriately skilled, adaptable and resilient finance function and workforce to ensure value for money and quality services for patients.

About the NHS Skills Development Network

The NHS Skills Development Network operates across NHS organisations in England. Its remit is to provide the infrastructure for improving leadership and professional development skills, raising standards and sharing best practice through economy-wide learning. The Skills Development Network uses a dedicated website, www.skillsdevelopmentnetwork.com, to publicise and support its work. The website is the primary source of information for all staff in providing resources for personal and organisational development.

About the HFMA

The Healthcare Financial Management Association (HFMA) is the professional body for finance staff in healthcare. For more than 60 years, it has provided independent and objective advice to its members and the wider healthcare community. It is a charitable organisation that promotes best practice and innovation in financial management and governance across the UK health economy through its local and national networks.

The association also analyses and responds to national policy and aims to exert influence in shaping the wider healthcare agenda. It has a particular interest in promoting the highest professional standards in financial management and governance and is keen to work with other organisations to promote approaches that really are 'fit for purpose' and effective.

© Healthcare Financial Management Association 2019. All rights reserved.

HFMA

1 Temple Way, Bristol BS2 0BU

T 0117 929 4789

F 0117 929 4844

E info@hfma.org.uk

Healthcare Financial Management Association (HFMA) is a registered charity in England and Wales, no 1114463 and Scotland, no SCO41994. HFMA is also a limited company registered in England and Wales, no 5787972. Registered office: 110 Rochester Row, Victoria, London SW1P 1JP

HEA.FIN.067 03/17

www.hfma.org.uk