

Sandwell MBC

CIPFA FM Model Re-assessment

Final Report

A Report by:

The Chartered Institute of Public Finance and Accountancy

December 2022

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

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1 Summary

1.1 Purpose of the follow-up review

In late 2021, CIPFA were commissioned to review Sandwell Council's financial management performance, using the CIPFA Five Star FM Model. In that review, on which we reported in January 2022, Sandwell achieved a score 1.81 which equates to progressive 2* rating. CIPFA have now been asked to review progress throughout the year in improving the scoring. This report represents our findings.

1.2 Approach adopted

We have conducted a range of interviews, supplementing last year's. These interviews have included staff and senior members, who in some cases have joined the Council since the last review and importantly, a number that were new in to post at the time of the 2021 review. We have also added to our previous document review by examining new material, including crucial reports that were not available previously. Based on this evidence, we have rescored the Council against the model.

1.3 Findings

The previous January 2022 scoring is below.

Sandwell Council – January 2022 Position				
	Management dimensions			
Financial management styles	Leadership	People	Process	Stakeholders
Delivering Accountability	**	**	**	**
Supporting performance	**	*	*	**
Enabling transformation	**	*	*	*****
Overall	**			

As indicated above the individual questions and statements score was 1.81 the threshold for 2* is 1.99 hence the conclusion of a progressive 2* rating.

Following our re-assessment, the summary scoring matrix is below.

Sandwell – December 2022 Position				
	Management Dimensions			
Financial Management Styles	Leadership	People	Processes	Stakeholders
Delivering Accountability	****	****	***	***
Supporting Performance	***	***	**	***
Enabling Transformation	***	***	**	****
Overall	***			

The review and scoring indicate improved statement and question scores from the previous review and therefore a score of 2.36 which represents a progression to a 3* rating (there is a threshold of 2.25 for achieving the 3* rating). Our detailed findings are now more positively within the 2* range. Indeed, few further improvements should take Sandwell Council towards a strong 3* score.

1.4 Updated findings

In the remainder of this report, we have set out the original findings.

These are divided into the CIPFA model topic headings – leadership, people, process, stakeholders – which are then subdivided into three themes – delivering accountability, supporting performance and enabling transformation. We have then provided the revised scoring and commentary.

2 The follow-up review findings

2.1 Leadership

The section below shows a scoring comparison between the 2021 and 2022 reviews along with a commentary on our findings. scoring for leadership was as follows.

Delivering Accountability		2021	2021	2022	2022
L1	Financial capability is regarded as integral to supporting the delivery of the organisation's objectives. The CFO is an active member of the board, is at the heart of corporate strategy/business decision making and leads a highly visible, influential and supportive finance team.	****	2.75	****	3.25
L2	The organisation has an effective framework of financial accountability that is clearly understood and applied throughout, from the board through executive and non-executive directors to front line service managers.	**	2.00	****	2.75
L3	Within an annual budget setting process the organisation's leadership sets income requirements including tax and allocates resources to different activities in order to achieve its objectives. The organisation monitors the organisation's financial and activity performance in delivering planned outcomes.	***	2.00	***	2.50
Overall				****	

Supporting Performance		2021	2021	2022	2022
L4	The organisation has a developed financial strategy to underpin medium- and longer-term financial health. The organisation integrates its business and financial planning so that it aligns resources to meet current and future outcome focussed business objectives and priorities.	**	2.00	***	2.50
L5	The organisation develops and uses financial/leadership expertise in its strategic decision-making and its performance management based on an appraisal of the financial environment and cost drivers.	**	2.00	***	2.50
Overall				***	

Enabling Transformation		2021	2021	2022	2022
L6	The organisation's leadership integrates financial management into its strategies to meet future business needs. Its financial management approach supports the change agenda and a culture of customer focus, innovation, improvement and development.	**	2.00	***	2.50
Overall				***	

Key areas of Improvement since the last review

Our fieldwork findings accord broadly with this year's LGA's peer review follow-up report. This indicates a positive direction and improvement for Sandwell. The Director of Finance is well respected. Messages about the Council's need to get a grip on its finances and achieve savings are increasingly robust and heard. The MTFs is now much stronger. The positive progress we have encountered is extremely welcome, evident, and represents a step change in under a year. It is to be commended.

We would draw attention to the following areas which indicate key improvements since the last review:

- Finance is seen as a key function and priority from a leadership, financial management and financial governance perspective. The development of the finance improvement programme and its progression since the last review is evidence of the positive commitment and its actions are and will make a difference.
- The impact of finance leadership (from the CFO and team) is improving financial planning (including MTFP), improving financial awareness, better quality engagement with budget holders. This will contribute to developing a culture of ownership and accountability, it is still early days, but the signs are positive.
- The budget setting process has developed since the last review with increased rigour. Training has been delivered on budgeting techniques which will improve the quality of budgets in the future.
- The process for reviewing and developing forecasts has also changed in the last year, again this is still developing, but the changed approach will improve the engagement with budget holders, develop the role of finance as advisors and improve ownership. This is a culture change which takes time, which is recognised.

Key development areas of focus for 2023

There are still areas for improvement which have been identified through the review and these are also recognised by the Council, which provides a good foundation for continued development of financial management and governance. The budget process for example, while clearly much improved, will need further work and refinement. There are a few headline issues which require attention to ensure that the improvements in leadership continue. These include:

- **Leadership depth.** It has been argued that whenever the Director of Finance is absent, messages are less resonantly communicated.
- **Top/down reform.** It is perhaps inevitable given the intervention and the emphasis on governance, leadership and central 'grip' in the reviews to which Sandwell has been subject, that its reforms are somewhat top/down in character. It is apparent that the commitment to or understanding of the reform agenda diminishes the further one gets in the organisation from the leadership.
- **Prioritisation, communication and focus.** The Improvement Plan is a portmanteau of many initiatives. As such it could be considered unwieldy. The further towards the frontline we have ventured, the more likely staff have been to suggest that they do not know what initiatives their primary focus should be. We understand that work is in progress to prioritise the Improvement Plan, which will help.

- Sustainability.** The sound narrative in the MTFS should be complemented by strong and robust deliverable savings plans. Some interviewees were concerned that the drive for savings might mean that undeliverable plans would be accepted in the budget process, leading to future overspends and calls on balances. In our earlier review work, we noticed some separation of capital, including the use of assets and the understanding of liabilities, from revenue matters. This time, we have been informed of a more positive and proactive approach to capital and asset management. There are also some genuinely innovative uses of physical or digital assets to personalise services and achieve efficiency. Going forward, we would expect to see a clearer relationship between capital and revenue strategies in Sandwell service planning than has been evident previously.

Nevertheless, the signs on leadership are positive and promising and the matters listed above are comparatively straightforward ones to address.

2.2 People

The section below shows a scoring comparison between the 2021 and 2022 reviews along with a commentary on our findings. Scoring for leadership was as follows.

Delivering Accountability		2021	2021	2022	2022
P1	The organisation identifies its financial competency needs and puts arrangements in place to meet them.	*	1.50	***	2.50
P2	The organisation has access to sufficient financial skills to meet its business needs.	****	2.75	****	3.00
Overall				****	

Supporting Performance		2021	2021	2022	2022
P3	The organisation manages its finance function to ensure efficiency and effectiveness.	*	1.00	**	2.00
P4	Finance staff provide business partner support by interpreting and explaining performance as well as advising and supporting on key business decisions.	*	1.50	***	2.50
P5	Managers understand they are responsible for delivering services cost effectively and are held accountable for doing so. Financial literacy is diffused throughout the organisation so that decision takers understand and manage the financial implications of their decisions.	*	1.00	***	2.25
Overall				***	

Enabling Transformation		2021	2021	2022	2022

P6	The organisation develops and sustains its financial management capacity to help shape and support its transformational programme.	*	1.50	***	2.25
Overall				***	

Key areas of Improvement since the last review

The principal improvement in the people position is the finance restructuring and the emphasis on business partnering. With a few exceptions, which we will touch on below, the changes have been broadly welcomed and indicate a positive response to the issue raised in our previous review. They are plainly part of a coherent agenda and programme of financial reform and are linked to the positive leadership position. Again, this is real progress and to be commended.

We would draw attention to the following areas which indicate key improvements since the last review:

- Developing the people aspect of finance across the organisation is a key objective of the improvement plan, this a positive step and a driver for change.
- The restructuring of the finance team with a concentration on alignment of function to service requirements (demonstrated through the business partnering drive) will help strengthen the role of finance and the overall finance environment.
- Recruitment has been underway during 2022 to strengthen the finance team and also reduce the reliance on interim staff. This will continue into 2023, though the market for skilled and qualified accountants is a challenge. The interim staff in place are seen as adding value, transferring learning and adding wider local government experience.
- Training has been delivered and more is planned for both finance and budget holders. This was a weakness in the previous review and now being addressed. In addition continued training and development is seen as an element of the overall improvement plan.

Key development areas of focus for 2023

Our review has highlighted some issues requiring further work so that this progress can be maintained and built upon. They include:

- **Implications of the pace of change.** The restructure, with associated re-alignment of responsibility, staff departures, and the slimming down of the finance function, have been received in varying ways across the Council. At least one senior officer on the business side has spoken of losing a skilled principal accountant who (in their opinion) exhibited the behaviours of a business partner, and their replacement by a new and interim appointment therefore losing some service-related knowledge. Though the same interviewee expressed a broadly positive assessment of the quality of finance staff and the information they provide, the experience has been unsettling in a mission critical area of the business. It will be worth assessing whether pockets of crucial service activity needs targeted support as the restructure progresses.

- **Sustainability.** While the business partnering shift has been welcomed, it has been widely observed that new business partners are frequently interims. How sustainable that will be, what challenges it will mean for consistency, continuity, corporate memory over time, are matters the reform programme should address.
- **Uneven financial management acumen across the wider business.** This has cultural implications, which we will touch on in the next section. As indicated above a programme starting with a budget holder survey has now developed into a programme of training for budget holders. More immediately, non-finance officers who lack good understanding of finance matters are ill-equipped to make the most of new business partnering arrangements. Even supported by strong systems, they will struggle to move towards self-service. Instead, they will continue in some cases to be excessively dependent on the finance function. There has been some initial training, setting out the responsibilities of budget-holders in the context of the business partnering approach. This should be supplemented by a comprehensive development and training programmes across the Council, and we are aware that this is part of the improvement plan.

Nevertheless, these caveats aside, we are happy to report strong intent and good progress on people matters.

2.3 Process

The section below shows a scoring comparison between the 2021 and 2022 reviews along with a commentary on our findings. Scoring for leadership was as follows.

Delivering Accountability		2021	2021	2022	2022
PR1	Budgets are accrual-based and robustly calculated	**	2.00	**	2.00
PR2	The organisation operates financial information systems that enable the consistent production of comprehensive, accrual based, accurate and up to date data that fully meets users' needs.	**	2.00	**	2.00
PR3	The organisation operates and maintains accurate, timely and efficient transactional financial services (e.g., creditor payments, income collection, payroll, and pensions' administration).	*	1.50	***	2.25
PR4	The organisation's treasury management is risk based. It manages its investments and cash flows, its banking, money market and capital market transactions, balancing risk and financial performance.	****	3.00	****	3.00
PR5	The organisation actively manages budgets, with effective budget monitoring arrangements that ensure 'no surprises' and trigger responsive action.	***	2.50	***	2.50
PR6	The organisation maintains processes to ensure that information about key assets and liabilities in its balance sheet is a sound and current platform for management action.	*	1.00	**	2.00
PR7	Management understands and addresses its risk management and internal control governance responsibilities.	***	2.25	***	2.25

PR8	Management is supported by effective assurance arrangements, including internal audit, and audit and risk committee(s).	****	2.75	****	2.75
PR9	The organisation's financial accounting and reporting are accrual based and comply with international standards and meet relevant professional and regulatory standards.	*	1.25	**	2.00
Overall				***	

Supporting Performance		2021	2021	2022	2022
PR10	The organisation's medium-term financial planning process underpins fiscal discipline, is focussed upon the achievement of strategic priorities and delivers a dynamic and effective business plan.	**	2.00	**	2.00
PR11	Forecasting processes and reporting are well developed and supported by accountable operational management. Forecasting is insightful and leads to optimal decision making.	**	2.00	**	2.00
PR12	The organisation systematically pursues opportunities to reduce costs and improve value for money in its operations.	*	1.00	**	2.00
PR13	The organisation systematically pursues opportunities for improved value for money and cost savings through its procurement, commissioning and contract management.	*	1.00	**	2.00
Overall				**	

Enabling Transformation		2021	2021	2022	2022
PR14	The organisation continually re-engineers its financial processes to ensure delivery of agreed outcomes is optimised.	*	0.25	*	2.00
PR15	The organisation's financial management processes support organisational change.	*	0.50	*	2.00
Overall				**	

Key areas of Improvement since the last review

In both the initial review and in this follow-up, the quality of financial information and the nature of financial processes were a major theme. Many officers in service areas were complimentary about the willingness and ability of the finance function to provide usable financial information. The recent exercise of providing comparatively unstructured raw data to the business and anticipating that forecasts could be derived from it does is work in progress and a positive step in both increasing ownership by budget holders and the engagement with business partners. It prompts better quality

discussions with budget holders and will, in time reduce the reliance on finance and increase adoption of the self-serve approach.

Again, however, there are positive developments to note. Our previous report reflected some extremely critical material on procurement and contract management. We note that there is now a vigorous and committed reform agenda here. Moreover, some of the scoring in this section has improved where we have been able to identify clearer evidence of strategic and operational awareness of issues and the intent to action them.

Overall, Sandwell's ability to deliver improved financial process will be a function of an improved culture. Staff at all levels should understand the relationship between the Council's priorities, the delivery of effective services, and prudent financial management.

We would draw attention to the following areas which indicate key improvements since the last review:

- The Council and the finance team have responded to the weaknesses in transactional activities with the commencement of a review of transactional finance, debt recovery and business support. This redesign work has started to have an impact and responds to a risk area highlighted in the previous review.
- The budgetary process has improved during 2022. There is greater challenge, and this has strengthened the overall process. As a consequence, the approach to identifying and including savings within the agreed budget has also improved where challenge seeks not only to confirm suggestions but seeks alternative or additional areas to deliver value for money.
- The Council, as part of budget setting process for 2023/24 has also carried out a review of their Statutory and Discretionary spending which led to discussions with the Cabinet about priorities and corporate plan priority gaps. This shows a maturing relationship between both officers and members and the relationship between funding and demand.
- The Council has undertaken work to improve procurement and its contribution. This has included simplifying the approval process, along with authorisation and approval levels. Process have been reviewed and the procurement training introduced, all of which will have a positive impact on the service contribution, operation and effectiveness.
- A weak area under process was enabling transformation. As indicated above the use of external reviews and advisors to assess and develop processes is a positive step. As part of the improvement programme additional resource was brought in to develop and change the budgeting and forecasting process which will help transform the role and value of finance as well as the quality and reliability of budget.
- The operation of the finance system was an issue reported under the last review. There is still work to be done to improve the system, referred to below as an area for 2023. What is evident though is the change in thinking and re-setting the approach to developing the implementation and operation of the Oracle Fusion system. There has been a move away from the adapt culture to one of adopt which will reduce the impact of customisation (which can be problematic and costly) and hopefully once introduced will deliver the improvement necessary.

Key development areas of focus for 2023

New to this review was the delayed interim external audit for 2020-21. This was critical of Sandwell's governance arrangements. Had it been available to the previous CIPFA review, it is likely that the scoring on the relevant sections of the Five Star model would have been lower. However, we have also taken into consideration the seriousness with which the Authority is engaging with this matter, noted in the peer review follow-up and as such the score reflect the Councils approach. To improve processes further, we would suggest that Sandwell should focus on the following issues:

- **Oracle Fusion:** only part of the answer. The widespread expectation is that the much-delayed Oracle Fusion implementation will improve budgeting, financial information and facilitate financial self-help. It might. But ERP projects are littered with failures. To succeed, the Oracle Fusion initiative will require a comprehensive training and development programme. It should also be accompanied by redoubled efforts to streamline unwieldy processes. It is a misconception that new ERP systems remove defective processes. It is noted above that the Council's approach is now to adopt (using the system as it is designed) as opposed to adapting (which is customising) and will help improve the operation and value of the system. This will help eliminate the need for numerous over engineered processes, especially in transactions.
- **Cross-authority alignment on risk.** Weak or ineffective financial management can create an entirely understandable culture of being risk averse and control culture in central finance. This can however reinforce service dependency on finance, potentially stifling innovation and adoption of self service and ownership. It can also generate cumbersome processes, filled with restrictions and permissions, which create as many problems as they solve. As the reforms continue – for example in procurement – the relationship between the finance function's risk tolerance and the risk appetite needed to achieve reform across the business will need to be examined and balanced.
- **Culture.** We mentioned earlier that additional training would be needed to ensure that budget-holders were equipped to respond to Sandwell's financial management reforms. We believe this training should be extended to service-delivery level. It should be accompanied by robust engagement and two-way communication with all Sandwell staff on reform priorities and the relationship between financial prudence and service delivery. In CIPFA's experience, many of the best innovations in service and efficiency come from staff at the frontline. But equally, a relentless focus on efficiency is only achieved when all staff understand the relationship between financial management and service delivery. It is perhaps unsurprising that the overarching priority for the Council now is 'customer journey'. Some interviewees have spoken of a tendency at the Sandwell frontline to respond to service demands, even from councillors or the community, with the excuse that there is no money. It is important that the initiative mentioned above (about discussion on priorities with the Cabinet) on how things can be done differently to free resources, how joining up between similar service areas might extend the competence individual service units, or what might be achieved through pragmatic timetabling should continue to develop. The Council can benefit from the thinking from its excellent frontline staff. To secure it will require extensive engagement, development and training.

2.4 Stakeholders

The section below shows a scoring comparison between the 2021 and 2022 reviews along with a commentary on our findings. Scoring for leadership was as follows.

Delivering Accountability		2021	2021	2022	2022
S1	The organisation provides external stakeholders with evidence of the integrity of its financial conduct and performance and demonstrates fiscal discipline including compliance with statutory/legal/regulatory obligations.	**	2.00	***	2.25
Overall		**		***	

Supporting Performance		2021	2021	2022	2022
S2	The organisation demonstrates that it achieves value for money in the use of its resources.	***	2.25	***	2.25
Overall		***		***	

Enabling Transformation		2021	2021	2022	2022
S3	The organisation is responsive to its operating environment, seeking and responding to customer and stakeholder service and spending priorities that impact on its financial management.	****	3.00	****	3.00
Overall		****		****	

Key areas of Improvement since the last review

We have ended up with an identical set of scores here. We received some new evidence in our fieldwork this time concerning historical issues in community engagement processes, which might have adversely affected the previous score in S3. However, these were comfortably outweighed by the positive intent we encountered, such as the Council's emphasis on customer journey, as well as new innovations, such as the budget consultation.


Key development areas of focus for 2023

There are a few areas for Sandwell to focus on to improve the service it achieves for stakeholders. They include:

- **Satisfying external reviewers.** The Council's ability to provide information in a timely and satisfactory manner to external auditors is clearly a work in progress and one that will develop as part of the improvement plan.
- **Real-time information.** CIPFA reviewers have often found it a useful thought experiment to ask officers how swiftly they could answer detailed thematic

questions similar to those that are routine for government departments accountable to parliament: for example, 'how much money do we spend per day on measures to help eradicate anti-social behaviour in ward X' etc. Imagining service spend in such thematic and micro terms is a very useful guide to considering the effectiveness of systems, processes and the budgetary culture. While we have no doubt that Sandwell officers could find such information – which would be hugely beneficial to service planning – it would take some effort and as such would be subject to priorities and susceptible to human error. As a consequence, developing both access and presentation of data and information will support challenge, scrutiny and therefore planning and decision.

- **Budget survey.** This is a sensible and positive initiative. To maximise its impact, Sandwell Council should provide a detailed, honest and thoughtful response. Survey findings should be cross-referenced with political priorities and budget assumptions. They should also be compared on the one hand to the perspectives of community groups and activists, who can often exert significant influence on services without always being fully representative, and on the other to actual patterns of complaints and casework, which sometimes give a contrasting picture of residents' day-to-day priorities to that found in a survey.
- **Customer journey.** The achievement of efficiency is linked to transparency about service process. A single complaint about a defective streetlamp, sent to officers, the CEO's office, ward councillors, portfolio holders, MPs, even to the Ombudsman, can create a nightmare of repetitive, nugatory work. If the complainant knows however from searching service information on the Council's website that the lamp is scheduled to be fixed in a week's time, they are likely to withhold their complaints until at least after that point. Sandwell is moving in the right direction on community engagement and transparency. But there are real benefits to be derived from going further.



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