

CIPFA Financial Management Model

Sandwell Council

January 2022

CONFIDENTIAL

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1 Executive Summary

1.1 Purpose and scope of the review

CIPFA have been commissioned to undertake a review of the financial management and governance arrangements by Sandwell Metropolitan Borough Council using the Financial Management Model (FM Model).

The review is intended to contribute to the development of the Council's financial management operation and arrangements. It assesses the Council's financial management capability, its internal processes, and operations. It also examines how the Council plans its future financial management. This report summarises the findings from the review, provides analysis of the model's constituent elements, and provides a rating against the CIPFA five-star model.

The report also contains a series of recommendations. These can be developed into an action plan to support an improvement process.

1.2 Approach adopted

The review comprises the financial management model's three constituent elements: a survey, a series of interviews with staff and elected members, and a document review. The findings from each of these are entered into the model's framework. This allows findings to be scored against a standard set of statements and questions representing best practice in financial management and governance.

The statements and questions represent management dimensions and financial management styles. There are over 400 questions in total. The response to each is rated as yes, no, partly or don't know. The collective scores for each statement are then combined to produce the overall rating.

1.3 Findings

The findings from the review are presented as a summary table which gives individual scores against key model headings, and as an overall score.

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

The scoring process generates an overall star rating between one and five, five being the highest. Sandwell achieved an overall rating of two stars and would be considered to be a progressive two star authority. In our experience most local authorities are either two or three stars. Sandwell Council has been under extreme pressure due to the COVID pandemic, however this is only a small contributory factor to other underlying issues.

The review and consequent score reflects a point in time. It is evident from the interviews and evidence base that the Authority is on a journey and recognises areas of weakness and those in need of development. The review has concluded that changes have and are being made which will have a positive impact on financial management and governance arrangements at Sandwell. The direction of travel is encouraging. Recent changes in leadership have been noted positively in interviews. While these are in themselves insufficient to overcome longstanding problems immediately, they demonstrate the right improvement intent. The delivery of that ambition will be critical to improving Sandwell's overall five star rating.

At the time of the review CIPFA felt the Authority had an outdated financial management culture, lacked clear engagement and leadership from members on budgeting, and has some poor processes in place, particularly around contract management. The finance function's culture needs to be addressed, especially in the area of business partnering, and there are a few immediate structural steps that can be taken to improve what is a substantial but underperforming team. During the review it became apparent that this was being addressed and improvements were underway. A new draft finance structure has been prepared, removing layers, and providing a greater focus on business partnering. This is due for consultation in early February.

The table above indicates both areas where the Council's performance is positive and those requiring improvement. The body of the report has a detailed analysis of individual scores and findings from the review.

A review of the Authority's published financial statements and the CIPFA resilience index indicate that the authority at present is financially stable and in recent years has been able to contribute towards reserves through achieving a balanced budget or an underspend. Whilst a theme emerged during the review that the authority has lacked ambition and did not previously seek to invest in major regeneration initiatives, there are now 16 Towns Fund projects in progress with final business cases due for submission by the end of March. 'The Sandwell way' was used numerous times to describe given assumptions which restrain ambition and produce a suboptimal budget process, however there is clear indication of a change in both direction and ambition.

This report highlights opportunities to improve and strengthen financial management and governance across the authority which can be achieved through a planned change programme.

1.4 Next steps and action plan

The report includes recommendations aligned to the findings. This initial set of observations and recommendations will be the subject of discussion leading to the agreement of a final report.

The action plan is intended to stimulate debate, suggesting ways to move Sandwell MBC from a two star rating to three stars and beyond.

2 Introduction and Background

2.1 Objectives of the review

The review has the objective of assessing the Council's capability to effectively manage its current finances, internal process, and operations, as well as how it plans future financial management.

The review is required to contribute to the development of the Council's financial management operation and arrangements.

2.2 The current financial position

Sandwell Metropolitan Borough Council is one of the seven local authorities that make up the West Midlands Combined Authority and alone has a population of around 330k. Sandwell is an area of widespread deprivation with a huge and increasing demand for Council services.

A brief review of the finance report to cabinet in March 2021 indicates the forecast level of free balances at the end of 2020/21 is unlikely to reduce from the level of £11.47m which were held at the end of 2019/20. This is equivalent to 4.64% of the Council's net expenditure budget for 2021/22 and is within the prudent parameters set by the Section 151 officer. The estimated General Fund reserve balance as of 31 March 2021 is £74.66m

As indicated earlier a detailed review of the financial position of the authority was outside scope of this review stop. However, given the March 2021 cabinet report, the authority's finances appear to be in a healthy position. This conclusion is supported by conversations during the interview with some commenting that the authority has never struggled to balance budgets and had a 'lazy' approach as 'overspend doesn't matter'.

2.3 Future challenges

Sandwell Council faces numerous future challenges that will have a direct impact on revenue and capital budgets. These include the prospect of further spending cuts, as well as economic uncertainty, the continuing impact of Covid, welfare reform, housing need and an aging population. These will require strategic thinking and innovation.

The general feeling of those interviewed as part of this review was that the authority had, in the recent past, lacked direction and leadership. Its ageing workforce continued to lack appetite for change with some finance officers set in their ways. Significant change had been noticed recently with the introduction of a new s.151 officer and a focus on improvements.

Nearly all interviewees felt the current finance arrangements were not fit for purpose and that the authority would need a new approach, including some structural changes, as well as new personnel to deliver new and innovative finance processes to bring the service up to date. This was being addressed in the preparation of a new structure which is awaiting consultation and should alleviate the feeling that the authority is too reactive and not proactive when it came to financial management and lacked a strategic vision. The reviewers concur with the broad thrust of these comments. They note

however that the structure itself of what is a large finance function is of less immediate concern than certain issues of strategic focus, as well as culture, such as the approach to business partnering.

Member involvement and engagement in budget matters is improving with the recent introduction of budget workshops, designed to build better working relationships, share latest budget positions and to present and discuss savings options. This will help achieve the strategic objectives and vision of portfolio holders in a changing political landscape. Finance must be at the centre of this renewed strategic intent.

3 The Financial management model

3.1 The model purpose

CIPFA's Financial Management Model (FM Model) can be used to support and drive effective performance in financial management and financial governance throughout an authority. It uses an internationally recognised framework and diagnostic tool, enabling authorities to have an independent assessment of their financial management against world class best practices in the public sector to optimise systems, processes, resources, compliance, and reporting.

The FM Model output will identify or substantiate weaknesses (as well as confirm strengths) and then support the development and delivery of a target-driven improvement plan allowing progress to be closely tracked and measured.

The FM Model measures the strengths and weaknesses across the whole of an authority, examining processes, people, leadership, and stakeholders. The model is not just about the finance function. It is about the corporate ownership and accountability for finance.

The model benchmarks the authority's financial management against best practice using a series of statements and principles. It focuses on financial management capability across the whole authority and helps pinpoint priorities for improvement. It can help raise effectiveness and confidence in stewardship, performance, and the ability to implement change.

The framework is fully aligned with today's public sector. It reflects the latest developments and opportunities in business partnering, commercialism, procurement, and governance, and stressed the critical role and prominence of the CFO and the finance team within an authority.

3.2 The model approach

The FM model is based on a series of statements focused on Leadership, Process, People and Stakeholders. Each of these is measured against the pillars of good financial management as follows:

Enabling transformation: the finance team have input into strategic and operational plans taking into account proactive risk management, clear strategic direction, and focus-based outcomes.

Supporting performance: finance teams are actively committed to continuous improvement focused on efficient and effective delivery and authority performance.

Delivering Accountability: financial information is accurate, timely and focusses on controls, probity, compliance, and accountability.

Measurement is based on a series of best practice statements. A score is determined for each statement. Each statement has a number of supporting questions and the response to these is used to assist in the overall scoring process. The process is supported by an Online Diagnostic tool which captures the evidence and is used to undertake the assessment based on the acquired evidence.

Attached at Appendix 3 is a table that indicates the assessment criteria and characteristics of each of the star ratings.

Evidence is collected through three independent methods:

A review of documents. The purpose of considering these is to gain a view on the formal processes, arrangements, reports, and reporting processes in place. They also provide detail on the financial position and on governance in practice. The document review also helps triangulate other evidence, allowing comparison of process and procedure with what happens in practice. The full list of documents reviewed can be found at Appendix 2 of this report.

A series of interviews with staff and stakeholders. The 36 interviews in total included a range of staff across the Council and elected members. The purpose of each interview was to gain an impression and understanding of the individual's thoughts on the financial management and financial governance arrangements in operation.

An online survey. The survey invited a total of 197 recipients to respond to a series of questions within the model that are based around best practice. The response rate was 59%.

Following completion of these steps the model can be used to score statements and arrive at an overall rating.

The three methods of evidence captured are then used to score the Authority against model and in a triangulated fashion that helps eliminate bias.

3.3 The model output

On completion, the FM Model produces a scoring matrix. This captures the assessment and presents findings back against a series of management dimensions and financial management styles. Scores are based on the three sources of evidence outlined above.

This report findings and conclusions are presented against the management dimensions. The report is a snapshot in time. It is recognised that with any authority there is a process of constant change.

The report includes a headline improvement plan. This responds to key areas identified as requiring attention. The improvement plan, areas, actions, and owners will be agreed as part of finalising the report to ensure there is acceptance of the need to take action.

The scoring matrix also presents a star rating within the range 1* to 5*. This is seen as an indicator of where the authority is against the best practice model. In our experience most authorities we review fall into the range 2* to 3*. Using the review and action plan will help support the authority development and a progression to the next level.

4 The review findings

4.1 Introduction

The overall rating for Sandwell against the FM Model is one star. The matrix below summarises the scoring.

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

Summary ratings in the table are shown for each statement, with an overall final score provided following the use of a conversion and grading metric. For example, 'Leadership / Delivering accountability' shows in summary as **, given the mixed scores against the three underlying headings (set out at the start of section 4.2) while the overall aggregated rating is **.

The sections below will explain in further detail the findings, under the management dimension themes along with conclusions and outline recommendations for improvement.

4.2 Leadership

Delivering accountability

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.	***
L2	The organisation has an effective framework of financial accountability that is clearly understood and applied throughout, from the <i>board</i> through executive and non-executive directors to front line service <i>managers</i> .	**
L3	Within an annual budget setting process the organisation's leadership sets income requirements including tax and allocates resources to different activities <u>in order to</u> achieve its objectives. The organisation monitors the organisation's financial and activity performance in delivering planned outcomes.	**
Overall		**

- This is a relatively low score. It indicates that whilst the role of finance is considered integral to supporting authority objectives and has support from senior staff, the framework for financial accountability and budget setting processes required improvement. The budget process for 22/23 is significantly different to previous years in terms of the approach to identifying and agreeing savings and member engagement and is seen as a positive step in the right direction.
- Consistent feedback suggests the budget setting process has historically lacked member engagement and did not focus on key authority objectives within a good governance framework that included an adequate check and challenge process at a political and operational level, however several Cabinet budget workshops have taken place this year, improving member input.
- Survey responses and interview findings suggest there has previously been poor leadership and clarity around roles and responsibilities of senior officers. However, the recent changes have been recognised with complimentary feedback on the interim CEO and new Section 151 officer.
- The structural review has also suggested that while the finance function overall is large, there is perhaps a lack of strategic capacity. The Head of Finance portfolio is substantial and also contains areas of strategic concern. There may need to be extra capacity introduced here.

Supporting performance

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.	**
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.	**
Overall		**

- Overall, this area has scored two stars. This indicates a significant lack of planning and strategy at the time of the review to support business objectives, however it is noted that the corporate plan is undergoing a refresh and that a new approach to business planning is being adopted moving forward, with plans for earlier budget consultation.
- During interviews there were mainly negative responses across the business about financial decision-making and the degree to which it is adequately informed by a detailed understanding of cost drivers and sensitivities affecting the principal activities. The reliance on information contained within disparate and outdated systems was also noted.
- Interviewees repeatedly highlighted the absence of a defined and iterative process whereby political priorities are translated into spending plans, which in turn are measured as outcomes. Developing members' political mandates into a core set of objectives that are then reflected in resource allocations is the essence of sound budgeting.

Enabling transformation

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.	**
Overall		**

- This section of the model seeks to understand the arrangements in place to meet future business requirements and how the authority adapts and transforms to respond. Sandwell scored two stars in this area, suggesting the authority is unclear on how its operating mode should adapt and evolve.
- The board and senior managers have not used performance and cost measure information, including benchmarking data in the past to identify areas of the business where radical rethinking of delivery is needed. Benchmarking data on unit costs and fees and charges has been used in the 22/23 budget process for the first time and the leadership team now receive monthly budget monitoring information which is seen as a marked improvement.
- The authority provided information on proactive approaches to change management for delivering planned outcomes within budget and realising required service benefits. These included a large upgrade to Oracle Fusion, a system used for HR and Finance that has been under review for approximately two years. The project experienced a number of implementation issues leading to the existing contract to be terminated and a new provider procured. This project included revisiting governance arrangement and reviewing resources of the project board.
- The leadership team has agreed a transformational programme with cross cutting savings projects. Each product has a dedicated leadership team sponsor and embeds cost cutting targets. Business analysts and additional resources have been identified to support each project.

Conclusions

- This section indicates that Sandwell Council has previously had poor financial leadership and accountability, but that recent activity is delivering improvements.
- There is a need to review the current finance culture and make some strategic adjustments. Greater definition around certain roles and responsibilities in strategic and operational finance will be needed to meet future business needs.
- In budgeting, finance's early involvement, especially for new change projects and programmes, will always be critical. Further, there is great value to be derived from using benchmarking and comparative analysis in developing strategies and business cases

Areas for development

- The role of finance and those responsible for strategic leadership should be clearly defined within a new budget culture and arrangements, as well as in the deployment of an Interim Operating Model for finance (see structural review). This will help the authority develop a robust financial strategy to underpin medium and longer term financial health.
- The authority should develop the use of comparative data, benchmarking, and demand management techniques in an increased number of service areas to support building the medium term financial plan.

4.3 People

Delivering accountability

P1	The organisation identifies its financial competency needs and puts arrangements in place to meet them.	*
P2	The organisation has access to sufficient financial skills to meet its business needs.	***
Overall		**

- This section has delivered a two-star rating overall. This indicates the authority has a reasonable understanding of the financial competence required by finance staff and that overall managers consider that finance have a reasonable level of skill.
- Some of those interviewed felt there was too much reliance placed on experienced staff within the core finance function and insufficient manager self-service, to support sustainability and allow finance to assume a properly strategic partnering/challenging role. There is an opportunity in the design of the new finance arrangements to define the respective responsibilities of finance officers – business partners in particular – and relate them to a revised competency framework.
- An authority should indeed have a financial management competency framework; however, respondents were largely unaware of a competency framework and didn't know whether it applied across finance solely or included budget holders. There may be an opportunity to improve the way that financial management skills are assessed against the framework, within finance and corporately, through appraisal and staff development programmes.

Supporting performance

P3	The organisation manages its finance function to ensure efficiency and effectiveness.	*
P4	Finance staff provide business partner support by interpreting and explaining performance as well as advising and supporting on key business decisions.	*
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.	*
Overall		*

- The authority achieved an overall score of one star for supporting performance. A key area within this section is the relationship with service directorates. There is an opportunity to consider the use of service level agreements and standards to ensure finance is suitably performance managed and that there is clarity about the mutual obligation of the finance service areas.
- Most respondents were unaware of the existence of a finance function development plan for the authority or believed there wasn't one.
- Business partnering arrangements could be developed and improved. In some areas it is evident that business partners need to provide a stronger advisory challenge and support around budget setting, monitoring, and achieving value for money. This is

being addressed as part of a structure review that is due for consultation at the end of January. The adoption of a consistent definition of the business partner role and function can facilitate staff rotation and the spread of good practice across the authority.

- Survey respondents suggested this area would benefit from a more structured approach. They indicated that finance SLAs only existed with external partners and not for internal clients. This meant that the approach to partnering was ad hoc, rather than consistent across directorates.
- Whilst many respondents suggested that managers have an awareness of their budgetary responsibilities and expected performance, and most take them seriously, this was not universally accepted. Interviewees were unclear about the consequences for managers who did not take their financial management responsibilities seriously or performed poorly.

Enabling transformation

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

- The final element of the people aspect of the model concentrates on financial managements capacity to help shape change and transformation. The score here again reflects the historic lack of a finance function development plan and consistency of training and development. The service has recently identified training needs on financial reporting and external training has been commissioned to take place during February to improve the accuracy of the 21/22 accounts.
- There is an indication that some finance staff do not have the status and influence to have a transformational impact on the authority as it develops. Consistency is needed in how finance is involved in and challenge strategic planning, policy development and change.
- It is important that Sandwell Council attracts, develops, and retains high quality financial management skills if it is to transform in the future. Again, indications are that the approach is inconsistent. There is an opportunity to consider the knowledge skills and capacity that are required in financial management to support change and transformation, with the finance function tailoring and developing its plans accordingly.
- There were mixed perspectives from interviewees and survey respondents on how the authority learns from best practice, transfers skills and knowledge within the authority and understands learning points. This needs to be improved so the whole authority benefit as it transforms and changes in the future.
- Also related to change and transformation is whether Sandwell Council corporately recognises success in financial management, innovation, and best practice. This doesn't seem to be the case and may be something the Council should consider.

Conclusions

- The people statements within the model seek to assess the finance function and finance environment's skills, capability, and competency, as well as those in the broader authority, particularly among budget holders. It seeks to make sure that there are sufficient skills to meet business needs and support efficient and effective delivery. It also seeks to ensure that there are mutually supportive conditions, in which business

partners support managers and budget holders, while the latter understand their financial management roles and responsibilities clearly. We have suggested that a more unified and comprehensive approach to financial management competency, training and development would be useful in pursuit of this goal. This should be linked to best practice and tested through rigorous performance management, with incentives and sanctions for good and suboptimal financial management achievements.

- Business partnering appears to be ineffective or inconsistent. Finance is seen as a proactive partner in some areas but not in others, where it is considered more transactional. More consistent approaches are needed, related to the mutual responsibility principles set out above and potentially underpinned by SLAs.

Areas for development

- Review, assess, and revise the competency framework, considering the skills and capability necessary for the authority now and in the future.
- Examine arrangements in place to attract and retain high calibre staff. The use of interim staff is always going to be necessary, but this should be limited as far as possible, as it undermines a strong finance environment over time.
- Continue to review and revise the structure and arrangements for business partnering across the authority. This approach should deliver a consistent, standard service in line with business needs. Finance should provide an advisory and challenge function, not, as far as possible, undertake transactional services for directorates. To that end, the responsibilities of budget holders for financial management, including self-management, should be spelt out.

4.4 Process

Delivering accountability

PR1	Budgets are accrual-based and robustly calculated	**
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.	**
PR3	The organisation operates and maintains accurate, timely and efficient transactional financial services (e.g., creditor payments, income collection, payroll, and pensions' administration).	*
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.	****
PR5	The organisation actively manages budgets, with effective budget monitoring arrangements that ensure 'no surprises' and trigger responsive action.	***
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.	*
PR7	Management understands and addresses its risk management and internal control governance responsibilities.	**
PR8	Management is supported by effective assurance arrangements, including internal audit, and audit and risk committee(s).	***
PR9	The organisation's financial accounting and reporting are accrual based and comply with international standards and meet relevant professional and regulatory standards.	*
Overall		**

- This area of the review produced a two-star rating. There are areas where the Council has scored three or even four stars, however the overall score is brought down by significant weaknesses where only one star was achieved.
- The delivering accountability section seeks to assess some of the basic requirements of good financial management.
- One key area under PR1 that could be developed further is the varying degree to which managers are fully involved with finance in setting their budgets, to ensure ownership and accountability. There is value in considering the budget setting process from an outcome based perspective, and Sandwell have begun to take a zero based budgeting approach to some services in 2022/23. The survey and interviews indicated uneven awareness and use of these budget techniques. Their adoption would help improve the quality and reliability of budgets and forecasting.
- Interviewees reported issues with the financial information system, including the basic accounting and reporting information provided. Members and senior officers commented on a lack of regular reporting for budget monitoring processes, although this has already been addressed. Many officers considered the system out of date, highlighting that the new Oracle implementation project has overrun. This has now been moved forward and a cabinet decision was reached in December 2021 to procure a new delivery partner.
- The systems issue is plainly linked to a question of self-management and budgetary autonomy for budget holders mentioned earlier.

Supporting performance

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.	**
PR11	Forecasting processes and reporting are well developed and supported by accountable operational management. Forecasting is insightful and leads to optimal decision making.	**
PR12	The organisation systematically pursues opportunities to reduce costs and improve value for money in its operations.	*
PR13	The organisation systematically pursues opportunities for improved value for money and cost savings through its procurement, commissioning, and contract management.	*
Overall		*

- The medium term financial plan and the process it follows should underpin the delivery of strategic objectives and priorities. It should be dynamic and supported by service delivery plans. It is important to ensure that the medium term financial plan therefore has a direct link to other authority strategies such as technology, capital, workforce, assets, and the corporate plan.
- Although the council was able to set the 2020/21 budget without the need for savings by individual directorates or the use of reserves, the Medium-Term Financial Strategy did include some existing planned savings and budget pressures that were due to be addressed during 2020/21. Some of those interviewed felt this did not support service delivery enough and that it was merely 'bottom line budgeting' with 'top slice' savings targets, however this approach has now been changed for 2022/23.
- Forecasting is a fundamental element of building both the annual budget and medium term financial plan. Some survey respondents and interviewees felt the forecasting and reporting process needed developing and that not enough time is available to deal with data quality issues to support the process, mainly due to high workloads.

Enabling transformation

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

- Enabling transformation focuses on an authority's use of regular end to end reviews of processes to ensure that they are as efficient as possible and provide value for money. It is evident from the review that many of Sandwell Council's processes are out of date. Financial management systems also require radical review. They do not yet promote the self-service environment that would reduce budget manager reliance on finance staff for transactional purposes and allow finance to operate more strategically.

Conclusions

- The review has indicated that some financial management processes are weak, but this has already been recognised. Some issues stem from an historic lack of leadership that is being addressed with significant improvements already being made. Further opportunities to improve and develop the delivery of finance through new financial processes and technology are readily available.
- The Authority should schedule end to end process reviews as part of service transformation programme and zero-basing exercises. These would also improve the control structure and define the role of finance more clearly.
- Finance should always take a prominent role in supporting the authority change and develop. To that end, finance should be versed in the latest methodologies and systems for improvement, such as agile.

Areas for development

- Continued review of finance systems to ensure they are fit for purpose and working as intended.
- Implement a programme of end to end process reviews in key business areas, linked to transformation plans, similar to the recent ZBB work to understand cost drivers and areas of persistent overspend.

4.5 Stakeholders

Delivering accountability

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.	**
Overall		**

- This statement concerns Sandwell Council's relationship with external stakeholders and the confidence it can provide them on financial conduct and performance.
- There are some questions within this statement that reduce the score, in particular relating to the statement of accounts being free from material criticism by external auditors.

Supporting performance

S2	The organisation demonstrates that it achieves value for money in the use of its resources.	**
Overall		**

- As highlighted earlier in the report Sandwell has recently introduced the use of benchmarking for 2022/23, helping finance focus savings targets such as a reduced savings target in Children's services because it is a low spend service compared to

nearest neighbours. The use of further benchmarking techniques and available data should be explored

- Interviewees regularly responded that they have had limited opportunity in the past to highlight better ways of working or to discuss innovative ideas for service improvement with senior staff.

Enabling transformation

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.	****
Overall		****

- This statement seeks to understand how Sandwell Council works with stakeholders in the community to develop priorities and then feeds back to them on its plans.
- It is good practice to seek the views of customers and stakeholders' such as funding authorities or partner delivery bodies about priorities. This insight should be gained in an accessible way through market research, opinion polls, web based surveys or workshops/focus groups for example. The review found evidence that the Council does this to considerable degree. However, this could be enhanced further. On communications, the Council could do more to engage 'hard-to-reach' groups. It could use some lessons from Covid to improve its own communications, in particular the pandemic's transformational impact on technology and on how communities and interest groups interact. Sandwell should also seek further opportunities for co-creation with partners. Recent peer review work has suggested that the Council needs to clarify both its 'offer' to partners and its 'ask' of them to be more effective. Better prioritisation and a member-led and accountable approach to budget management would promote this complementarity in partnering.

Conclusions

- There has been limited engagement with stakeholders in the past, but this has improved recently with the introduction of new senior finance staff.
- The Council actively seeks stakeholder views, but there are opportunities for improvement.

Areas for development

- There is an opportunity to review how an improved budget process can incorporate stakeholder engagement, partnering and co-creation. Sandwell needs to address the offer/ask issue urgently.
- Sandwell should a review of external engagement with stakeholders and its communications strategy in the light of the lessons of Covid.

4.6 Finance function operation

During interviews with council officers a pattern of negative views on the way finance has operated in the past, and to an extent continues to do so came to light. However, it has been widely acknowledged that the authority now has some strong leadership in place in the form of an interim CEO and new section 151 officer that has a vision on how

finance as a function should operate and what is needed to improve the position of the authority.

The Authority is developing its budgeting process and increasing the use of outcome based reviews, outcome budget setting, zero based budgeting and comparative statistics which will improve financial management and performance monitoring. A zero based budget approach and a focus on outcomes will improve the overall budget process, leading to a more strategic and member-led budget.

We have suggested in the structural review some steps that need to be taken towards an interim operating model, while stressing the more urgent issues of budget process, culture, and clarity around the business partnering role and the role of budget managers. Finance should be a strategic service, providing early, active support and challenge to budget holders, working alongside them and not remotely. Finance should be involved routinely in the development of business cases, change projects and transformation planning. It should not, as far as possible, be a transactional service. It should accordingly develop its service knowledge and understanding of modern business processes and associated financial modelling (for instance for agile).

Budget holders should be sufficiently financially literate to benefit from the finance challenge and to ask the right questions of their finance partners. They should be held accountable for their budget management. Wherever possible in budget monitoring and transactions, they should also self-serve. This may entail the provision of better financial system.

Sandwell Council should develop a financial management culture in which success is rewarded and suitable sanctions are applied to poor performance.

These changes should be led corporately, with clear corporate sponsorship and leadership, with the section 151 officer as the SRO.

5 Action plan and next steps

5.1 Introduction

As part of the financial management model review, we have identified a number of potential areas where action could be taken to improve financial management and governance in general.

This section of the report collates these recommendations This can be used to form the basis of a discussion with the authority on the next steps. In developing a plan there may be other areas highlighted as part of the model that would or should be included and some others that are specific to ongoing activity already underway.

This is the authorities plan and is intended to support ongoing improvement.

5.2 Outline plan

This section will be discussed and agreed with the Authority setting out the key recommendations to improve the financial arrangements:

Recommendation description	Planned Activity	Proposed owner	Timescale
Develop a clear consistent role for finance.			
Develop the use of comparative data, benchmarking and demand management techniques.			
Review, assess, and revise where appropriate the competency framework principle considering the skills and capability necessary for the authority now and in the future.			
Review arrangements and practices that can ensure that it attracts high calibre staff and that these are retained.			
Review and revise the structure and arrangements where appropriate for the delivery of business partnering across the authority.			
Develop the skills and capabilities within services around varying budgetary techniques such as outcomes and base budget reviews.			
Establish what skills gaps there are in finance team and the broader finance environments across the authority. Following this produce and deliver a plan of awareness and training for both staff and elected members.			

Recommendation description	Planned Activity	Proposed owner	Timescale
Ensure that any new asset management system delivers the required information on control to manage assets from both a service perspective and a financial reporting strands.			
Consider a programme of end to end process reviews in key business areas.			
Develop and use benchmarking and statistical data comparison to support the development of budgets and their in year monitoring.			
Resolve issues relating to the completion and sign off of final accounts.			
Consider a review of external engagement with stakeholders and the process to feedback			
That the finance function undertakes a change programme, led by the section 151 officer that looks at the issues raised through the review, best practice principles and considers designing a target operating model that responds to current and future challenges.			
That financial governance and decision making arrangements are reviewed and strengthened from both a political and officer perspective.			

Appendix 1 – List of interviewees

Peter Farrow	Chief Internal Auditor & Risk
Kim Bromley Derry	Chief Executive
Cllr Singh	Councillor – Leader
Cllr Crompton	Councillor – Deputy Leader/Finance Portfolio
Cllr Gill	Councillor – Chair of Audit
Cllr Giles	Councillor – Chair of Finance scrutiny
Surjit Tour	Director of Governance and Monitoring Officer
Neil Cox	Director of Business Strategy & Change
Nick Austin	Director of Borough Economy
Mark Stocks	External Auditor
Charlie Davey	Service Finance Manager
Tony McGovern	Head of Economy & Regeneration
Gillian Douglas	Director of Housing
	Head of Procurement
Chris Hilton	Head of Property Services
Simone Hines	CFO (Section 151 Officer)
Rebecca Maher	Head of Finance
Colin Marsh	Service Manager - Adults
Nigel Collumbell	Service Manager - Housing
Sue Moore	Service Manager - Education
Kate Ashley	Strategic Lead - Service Improvement
Tammy Stokes	Services Manager - Regen

Appendix 2- Document review list


Background documents		
	Annual Report	1
	Annual Financial Statements	2
	Finance/business systems	3
Structures		
	Board/Committee structures	4
	Organogram – outline for the whole authority	5
	Organogram – for the finance function	6
Governance		
	Corporate Governance Framework	7
	Annual Governance Statement	8
	Management level governance statements	9
	Policy on fraud and corruption	10
	Policy on whistle-blowing	11
Plans and strategies		
	Corporate Plan	12
	Medium-term Financial Plan	13
	Capital Strategy	14
	Asset Management Strategy	15
	Information Strategy	16
	Procurement Strategy including any savings targets	17
	Business Case Protocols	18
Financial management framework		
	Financial Standards and Regulations	19
	Internal Control Procedures	20
	Scheme of Delegation including authorisation levels for transactions	21

	Service Level Agreements for financial management related services	22
	Asset Register	23
In year management		
	Board/Committee/SMT level reporting	24
	Management level reporting	25
	Key Performance Indicators (KPIs) and related reporting	26
	Finance Performance Indicators	27
	Financial key performance indicators – Benchmarking	28
	Quarterly Data Set returns	29
	Procurement Performance Report	30
External Audit and Inspection		
	External Audit interim/final accounts audit letter	31
	External Audit Management Letter/Report	32
	External Audit Value for Money	33
	External Reports or Assessments	34
Audit and Risk Management		
	Audit and Risk Committee	35
	Internal Audit Plans	36
	Internal Audit Report	37
	Risk Management Policy and Reporting Regime	38
	Risk Registers	39
Human Resources		
	Financial Competency framework	40
	Financial Management Training strategy	41
	Staff Survey	42
	Sample Job Descriptions - Budget Holders	43

Working with other authoritys		
	Financial Memorandum	44
	Financial Memorandum - funding arrangements - outside authority	45
	Framework for establishing relationships with other bodies	46
Stakeholders		
	Customer/stakeholder surveys	47
	Complaint's policy/procedure	48

Appendix 3 – Star rating key criteria and characteristics

Rating	Assessment
*****	The organisation has in place leading edge financial management capability that allows it to anticipate both challenges and key opportunities, driving transformational change in order to optimise its performance and deliver optimal outcomes. Financial strategy is robust and covers medium to longer term and the organisation is fully agile in adapting to unforeseen events without impacting key outcomes. Investment programme management including commercial capabilities are fully integrated with operational requirements and highly effective with significant returns being achieved on improved service delivery. Financial management capability meets global best practice standards.
****	The organisation has in place strong financial management capability which enables it to deliver effective outcomes in challenging times, provides stability through to the medium term, is agile in adapting to unforeseen events, continually identifies opportunities to improve its performance and contributes to organisational transformational change. Most investment programmes are delivered to time and cost. The organisation has strong insight into cost drivers and commercial capabilities are highly evident with strategic and operational planning.
***	The organisation has sound financial management capability and has arrangements in place that are adequate in supporting the organisation under stable conditions and enables it to incrementally develop but is not sufficient for challenging times or driving transformational change. There is a medium term financial strategy and competent investment programme management that ensures that most programmes are implemented although invariably not all projects will come within budget and timescales. Commercial capabilities exist but are only partially developed.
**	The organisation has basic financial management capability. Financial management arrangements are in place that allows the organisation to meet the minimum of practice standards and provides functional capability in the short term, a minimum level of support in the delivery organisational outcomes but does not support organisational transformational change. Financial management style is predominantly stewardship in nature rather than supporting effective decision support. Investment Programme management is rudimentary and there is a disconnect between operational and financial strategies.
*	The organisation has some financial management arrangement in place, but they are inadequate and provide only minimal financial management capability with reactive short term solutions. Basic accountability obligations are minimally covered, and financial management does not meaningfully support effective organisational outcomes of transformational change. Basic stewardship responsibilities are a challenge and financial management capability is not fully embedded within basic decision support.



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