

Report To: Policy & Resources Committee

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Report By: Chief Financial Officer

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Subject: IPF Review of Financial Management & Capacity

1.0 PURPOSE

- 1.1 The purpose of this report to Committee is to advise on the main areas for improvement and action identified by the Institute of Public Finance (IPF) arising from the review of Financial Management & Capacity within Inverclyde Council.

2.0 SUMMARY

- 2.1 A comprehensive review of Financial Management & Capacity was approved by the Policy & Resources Committee in November 2008 and carried out in January to March 2009. The evidence based review carried out by IPF involved input from two Councillors, Chief Officers, Budget Holders, Finance Services and employees within Services with a financial remit as well as a comprehensive review of reports, documentation & processes.
- 2.2 The Executive Summary of the report is attached as Appendix 1 and a full copy of the report can be obtained from Members Services.
- 2.3 The CMT have considered the IPF Review Report in detail and believe that it presents a sound assessment of the current position with regard to financial management and capacity across the organisation.
- 2.3 The CMT welcomed the recognition in the Report of the strengths across the organisation with regard to financial management and capacity, the positive progress made over the last few years and accepted in full the areas identified for improvement
- 2.4 The CMT also agreed that the improvement plan developed in response to the Review should be corporate in nature, be phased over an appropriate period of time and firmly embedded within the context of the Organisational Improvement Plan.
- 2.5 There are sensitive employee issues raised within the Report and staff in Finance have been spoken to in general terms about the findings. More detailed discussions will take place as part of the development of the improvement plan.
- 2.6 The next stage will be for a detailed, resourced, timelined improvement plan to be prepared and approved by Committee via the CMT. It intended to bring this back to the CMT in August and get approval from Members in September with any financial impacts factored into the budget process.

3.0 RECOMMENDATIONS

- 3.1 Committee is invited to comment on the recommended broad areas for improvement actions and content of the attached Executive Summary.
- 3.2 The Committee are asked to note that a detailed, resourced and timelined improvement plan will be prepared in time to be put before the Members in September 2009.

Alan Puckrin
Chief Financial Officer

Review of Financial Management and Capacity

REVIEW OF FINANCIAL MANAGEMENT USING THE CIPFA FINANCIAL MANAGEMENT MODEL: *STATEMENTS OF GOOD PRACTICE IN PUBLIC FINANCIAL MANAGEMENT*

BASELINE ANALYSIS AND EVALUATION

April 2009

IPF

ESSENTIAL SERVICES FOR THE
PUBLIC SECTOR



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Executive Summary

1 Introduction

- 1.1 A review of Financial Management and Capacity within Inverclyde Council using the CIPFA Financial Management Model forms a key action by the Council in its desire for and passage to continued improvement. This report is the key deliverable from a review undertaken by the Institute of Public Finance Ltd, the management services arm of the Chartered Institute of Public Finance and Accountancy (CIPFA). The review of Financial Management within Inverclyde Council was commissioned in the late 2008.
- 1.2 The key output from the review of Financial Management using the CIPFA FM Model is a baseline of the status of Financial Management within Inverclyde Council, which enables a number of key recommendations for catalysis which will deliver required improvement to be made, based on the findings.
- 1.3 In order to establish this Financial Management baseline, provide a comparison with other organisations and prioritise financial management improvements, the CIPFA Financial Management Model has been identified as being the most appropriate framework for the review by IPF and we have used such an approach successfully across a vast number of public-sector organisations, including other Scottish Councils. The Model itself was first launched in July 2004 (and subsequently updated and re-launched in June 2007) and has been extensively used successfully as a framework for assessing financial management by a large number of public sector organisations in the UK.
- 1.4 The CIPFA Model sets out the features of best practice Financial Management within a public sector organisation and uses a scoring system to provide an objective measure of financial management, therefore identifying strengths, weaknesses and priority areas for improvement. A more detailed explanation of the CIPFA Financial Management Model is provided in Section 2 of this report.

2 CIPFA Financial Management Model

- 2.1 The CIPFA Model is structured around 3 styles of Financial Management:

Securing Stewardship – *an emphasis on control, probity, meeting regulatory requirements and accountability.*

Supporting Performance – *responsive to customers, efficient and effective, and with a commitment to improving performance.*

Enabling Transformation – *strategic and customer-led, future orientated, proactive in managing change and risk, outcome focused and receptive to new ideas*

The styles are intended to be progressive and it is expected that all 3 styles will be present in an organisation exhibiting best practice financial management characteristics.

2.2 The FM Model is also organised by 4 management dimensions – Leadership, People, Processes and Stakeholders.

Leadership - *focuses upon strategic direction and business management, and the impact on financial management of the vision and involvement of the organisation’s Board members and senior managers.*

People - *includes both the competencies and the engagement of staff. This aspect generally faces inward to the organisation.*

Processes – *examines the organisation’s ability to design, manage, control and improve its financial processes to support its policy and strategy.*

Stakeholders – *deals with the relationships between the organisation and those with an interest in its financial health, whether Treasury, inspectors, auditors, taxpayers, suppliers, customers or partners. It also deals with customer relationships within the organisation, between finance services and its internal users.*

2.3 A matrix approach is therefore used in the Model, combining the 3 styles of financial management and 4 management dimensions. The Council’s current financial management position is assessed through comparing its arrangements against 37 statements of best practice, with a set of supporting questions sitting behind each statement.

2.4 Each statement is scored from 0-4 with half point increments, to establish an overall picture of strengths and weaknesses in terms of financial management. Scores are allocated according to the extent to which the best practice statement currently applies within the Council, as shown below:

Score	How Far Does the Best Practice Statement Apply?
0 / 0.5 / 1	Hardly
1.5 / 2	Somewhat
2.5 / 3	Mostly
3.5 / 4	Strongly

3 Summary of Key Headline Evaluation

- 3.1 The matrix below summarises IPF's assessment of Inverclyde Council's Financial Management arrangements against the best practice CIPFA Financial Management Model, with each area being awarded a score from 0-4. It should be noted that this represents IPF's independent view, taking into account the results of the initial meetings with Finance Managers, comprehensive document review / evidence, outcomes of 18 stakeholder interviews and electronic survey results and comments from 72 contributors. IPF would also like to record our sincere gratitude to the many members of Inverclyde Council's staff both within the Finance function and the Council generally who have been of extremely valuable support to us in the course of our work.
- 3.2 The matrix is based upon IPF's scores for each statement, which are summarised in Appendix C. It should be noted that this independent assessment of scores does not always represent a simple average of scores provided by the groups consulted since judgment has been applied to the existence and effectiveness of other factors such as policy documents or financial processes, through the review process and interview discussions.
- 3.3 For example, in a minority of cases, there were disparities in group scores and scores from a certain group were deemed to be more reflective of the 'true' position on the ground or IPF felt that the Council was scoring itself too low or too high, particularly in comparison to other organisations (in particular Scottish Local Authorities) who have used the Model. A key aspect of IPF's involvement therefore related to the validation and moderation process.
- 3.4 A key headline from the review, highly visible from Appendix C is that generally staff within the Finance function are far more pessimistic of the current Financial Management performance of the Council and its inherent strengths and weaknesses. Whilst obviously relative degrees of awareness and knowledge of Financial Management requirements and quality of outcomes will vary between stakeholder groups and between different levels within the Council, this is also symptomatic of a number of issues which are explored in more detail within this report, not least the morale and competencies of Finance staff, the relationships they build and foster with service directorate staff and the degree to which the latter are held responsible and accountable for effective Financial Management.
- 3.5 The main body of this report is highly detailed. Normally, IPF take a much more summary approach to presentation of findings in reviews of this nature. However, after much consideration, IPF feels that it is important that the relative strengths and progress made generally by Inverclyde Council and in specific relation to Financial Management are highlighted. Similarly, there are some key areas of evidenced weakness and again, it is felt critical that these are defined in detail in order to enable full awareness and understanding of what they are, why they exist and what can be done to address them. By their nature, a number of the findings of the review are highly sensitive and therefore Inverclyde Council will require to exercise due care in how it uses these findings and to what degree it appropriately publicises them, both internally and externally. IPF however, again believes that where weaknesses exist, it is important that these are fully identified and therefore a pragmatic, honest and objective approach has been taken and

that whilst some outcomes may indeed require sensitive handling, it is in Inverclyde Council's best interest that such views are communicated openly.

- 3.6 Given that a high number of the areas of progress and perceived weakness relate to the strategic and Financial Management Leadership and People of Inverclyde Council, focus of the review and in presentation of the findings within this report heavily focuses upon these areas. This is in full accordance with the scope of the review, which was extended beyond Financial Management generally, to specifically emphasise the Council's Financial Management capability and capacity.

Inverclyde Council's Best Practice Matrix

	Management Dimensions			
Financial Management Styles	Leadership	People	Processes	Stakeholders
Securing Stewardship	3.0	2.0	3.0	2.5
Supporting Performance	2.5	1.5	1.5	2.0
Enabling Transformation	2.5	1.5	1.5	-

Using the matrix above, the key findings of the review can be summarised across the 3 Financial Management styles and 4 management dimensions as follows.

4 Styles of Financial Management

- 4.1 The styles of Financial Management are intended to be progressive, with a general expectation that Councils are likely to firstly establish the building blocks of control and adherence to regulations through the 'Securing Stewardship' style. This leads on to Financial Management contributing towards 'Supporting Performance' by assisting decision-making and supporting the delivery of organisational objectives. 'Enabling Transformation' would then be likely to represent the next stage, with Financial Management supporting the change agenda, innovation and re-engineering of systems and processes, where appropriate.
- 4.2 Whilst different degrees of progression are apparently evidenced by the headline scores in the matrix above, in each of the management dimensions above a clear trend is displayed where Securing Stewardship consistently is deemed to be stronger than Supporting Performance, although as can also be seen, generally, this is felt to be on a par with how the Council's Financial Management Enables Transformation.
- 4.3 The headline results from IPF's review of Financial Management within Inverclyde Council are not surprising given that Securing Stewardship is the most fundamental style of Financial Management. Across the management

dimensions which is discussed in 4.3 below, with the exception of People, the headline results are fairly positive, testimony to the progress made by the Council over both recent years and historically and generally indicative that the foundations and key building blocks of good Financial Management are largely in place within the Authority, for example in relation to strategic financial planning and governance.

- 4.4 As also expected there is a progressive aspect as to how evolved Inverclyde Council has become with regard to Financial Management styles. Again, with the exception of People, Supporting Performance demonstrates that the Council has made some good progress with enhancing the role and value of Financial Management within the organisation to where it supports the key business aims of the Council and the outcomes delivered by services. Processes also scores relatively low in this regard. Financial Management processes are generally robust, but specifically, key weaknesses in areas such as demonstrating cost-effectiveness and value for money, Procurement and Asset Management mean that overall, this general robustness is heavily compromised. Similarly, whilst there are areas where Finance, as a function, has added significant value to the Council's transformational processes, it is heavily acknowledged that this has been done to date against a backdrop of single dependency, without necessary cohesion, business partnering and consistent application of a structured and inclusive approach which draws on key required features of assurance and control. Given the limitations outlined in relation to the internal Financial Management stakeholders of Inverclyde Council, both in Finance and within service directorates, the Financial Management culture of the Council, competencies, processes, communication and attitudes, People also scores low, not just in Supporting the Performance of the Council as indicated above but in their role in contributing to the Transformation agenda within the Council.

5 Management Dimensions

- 5.1 As the best practice matrix clearly indicates, Leadership is the strongest performing management dimension of the Council's Financial Management. This reflects the drive from the Council's Members and Corporate Management Team for improvement within the Council and better Financial Planning, Management and Reporting, which has resulted in changes in the corporate and Financial Management leadership, pressure to improve financial processes such as statutory reporting requirements and the Budget process and strategic financial planning generally, evidence of the acknowledged progress along its direction of travel to date.
- 5.2 Whilst there is visible acceptance of, engagement into and ownership over Financial Management by the leadership of the Council, it is important to ensure that these qualities permeate down through the Authority. In this regard, the Council has some way to develop, hence the relatively lower scores across People and Processes. Evidenced strengths found to be in place in relation to the Financial Management Leadership of the Council include:
- Consistently communicated commitment to improvement and performance (including Financial Management) by Members and the Council's strategic management

- Effective current Financial Management arrangements evidenced by the Council's progress on its improvement direction of travel so far
- Robust and fit for purpose corporate Financial Management information
- Robust governance and internal financial control
- Progress made towards an inclusive, owned and delivered Financial Plan which will support delivery of the Council's strategic outcomes
- The Council's Financial Management track-record in recent years
- The development and production of a Financial Strategy by the Council
- The positive comments made in relation to Financial Management, in a Best Value context, by Audit Scotland
- General development of a performance management framework within the Council

Within the Council, a clear commitment to Financial Management by the Chief Executive and the Corporate Management Team was found to be apparent. This represents marked development over the last few years, led by an informed and supportive Chief Executive and strongly enabled by the size of the Council generally and the drive for improvement which has been palpable in recent years. Referred to also in the main body of the report is the reliance at a strategic level on the Chief Financial Officer personally. Whilst Finance does appear to have an appropriate level of influence and gravitas within the Council, this may be as a direct result the individuals and in particular the Chief Financial Officer performing exceptional financial and strategic management roles as opposed to being enabled by the Council's corporate management structure. What must not in both these cases, be underestimated however, is the effectiveness of the Chief Executive, his CMT and the Chief Financial Officer, evidenced by the expedient development and improvement within the Council which has not only been recovery based, but particularly in relation to strategic Financial Management. This has, in the view of IPF (through our experience of working with other Councils in a similar vein), put practices in place which reflect best practice and which many other Local Authorities at present, still only aspire to.

5.3 However, whilst there are a number of strengths, particularly at a stewardship level, the Council requires to address a number of further issues, if it is to effectively progress through the styles of Financial Management to where it is robustly Supporting Performance and Enabling Transformation including:

- Reducing the reliance on its Chief Financial Officer to support such strategic processes
- Improving challenge of existing Revenue provision and a move to more explicit policy-driven budgeting
- Improving existence, clarity and communication of Financial Management processes to support Council priorities
- Visibly increasing robust accountability for effective Financial Management
- Demonstrating clearly, through its presentation, how its medium-term Revenue and Capital Budgets links to organisational priorities
- The variability in existence and evolution of other key Council strategies such as Asset Management, Procurement and Workforce Management

- Linkage and integration between Financial Management and overall Performance Management

5.4 Slightly behind Leadership are the Processes and Stakeholders dimensions. In relation to Processes, the Financial Management bedrock is again largely in place. This is largely to be expected as both these areas have generally been appropriately robust within the Council for some time. In particular however, a number of strengths have been acknowledged including:

- Consolidation of long-standing effective internal control within the Council
- A visible transition beyond control to more effective wider governance, including quickly accelerating Risk Management fit for purpose Risk Management arrangements
- Generally clear and effective transactional Financial Management processes
- A general un-concerning level of understanding and compliance with operational Financial Management policies
- Robust corporate Financial Management systems
- A quickly improving track record in meeting the Council's statutory reporting and disclosure requirements and developing supporting infrastructure
- Developing arrangements for managing the Council's assets

5.5 However, beyond stewardship, there are a number of areas where again the Council will require to give due consideration in order to more fully demonstrate its commitment to a style of Financial Management which strongly performs well in delivering solutions which meet the needs of the Authority:

- Non or inappropriate use of Financial Management systems and information by key Financial Management stakeholders and in particular, Budget Managers
- A lack of mutual understanding and communication between stakeholders and their needs and Finance and their skills and resources, including FMS and reporting capability
- A number of perceived improvements are required within the Budget Monitoring process in order to improve the quality of Financial Management information, confidence in the monitoring outcomes and efficiency of demarcation of roles and responsibilities.
- How the Council consistently approaches its governance over its partnership arrangements, measures, monitors and reports performance and puts in place and exercises a clear framework of accountability within this.
- No clear framework is in place for measurement of full Financial Management performance beyond the monitoring process with little mechanisms for promoting and exercising accountability
- No consistent or visible media through which the Council can confidently demonstrate it delivers value for money
- An inadequate and ineffective strategic and operational approach to Procurement within the Council

- The embryonic level at which organisational processes have been developed and consistently applied to ensure that the information on which investment decisions are made are completely reliable (through the consistent and robust application of best practice techniques such as business cases, option appraisal, benefits realisation and post-implementation review to ensure that expected outcomes meet the needs of Inverclyde Council and its community)

Worthy of particular highlighting is the 'Supporting Performance' style of Financial Management in relation to Processes. Medium-term Financial Planning is particularly sound, but due to the lack of demonstration of Value for Money, embryonic Asset Management and relatively weak strategic Procurement, overall performance is heavily compromised.

- 5.6 Less focus was put over the Stakeholders dimension during the review in comparison to the others. However, what is clear is that the Council has improved considerably in recent years, as a Council in general direction, planning and performance and also in overall Financial Management terms. As a result, there is an undoubted improvement in the increase in confidence in the integrity and robustness of the Council's Financial Management, not only locally across Inverclyde, but within the Scottish public-sector as a whole. Such a view is a key theme running through the Best Value and Community Planning Progress Report which was published on 28th January 2009 which in addition to identifying areas where further development is required, strongly recognises the commendable improvement within the Council to date.
- 5.7 Whilst assurance of Financial Management quality may be more visibly increasing, there are a number of areas of weakness or where the Council is not demonstrating that it is clearly delivering effective Financial Management where, how and when it is required.
- A key issue in this respect is the level of quality and consistency of Financial Management services across the Council
 - Improving but still inadequate Financial Management support by Finance to its customers, particularly in relation to roles, responsibilities, professional value, business knowledge and awareness, a lack of empowerment and ineffective communication
 - A clear lack of formal service definition and process delineation results in a lack of measurement and accountability for effective Financial Management performance
 - No clear demonstration by the Council to its stakeholders that it is measuring and demonstrating Value for Money
- 5.8 The weakest management dimension of the Council's Financial Management has therefore been identified as its People. This is not as pejorative a statement as it could perhaps be construed and there are many strengths amongst Council's manpower resources and how they are harnessed in Financial Management terms including:

- A readily improving level of Financial Management competency amongst Council Members, driven by a corporate commitment to ensuring that this becomes strong
- A high-degree of respect and appreciation for the leadership and support which has been provided by the Chief Financial Officer in recent years and high esteem for the quality of skills applied and value added to the transformation of the Council over this time
- A fully operating delivery model for Finance is now almost in place for the first time under the newly transformed Council which places the function with a firm foothold from where it can now start to develop its people and their roles within the Council
- IPF consider that relative to other similar-sized Scottish Local Authorities, there is insufficient capacity of qualified and unqualified Finance staff within the Council to meet its increasing statutory obligations and it is believed that an increase of around 2-3 posts is required on the service support side in order that it can more readily fulfil its professional and organisational obligations, particularly in relation to increasing its more enhanced, value-adding capabilities in areas such as cost and management accounting, value for money and support to the performance and transformation agendas of the Council. This will require additional resources, but through the ongoing re-definition of business processes and eliminating the visible areas of duplication inherent at present, freeing up such significant resources and reinvesting them on a targeted basis should be achievable.
- A greatly boosted level of professional and in particular technical finance skills within the Finance function
- A generally strong skill-set amongst unqualified Finance staff
- The consistent deployment of external expertise by the Council to boost its general internal Financial Management competency and to deliver key Financial Management improvements in specialist areas
- A general level of respect and appreciation for the officers and professionals within the Finance function
- The partial success of the newly implemented 'Account Manager' role of Accountancy staff

Clearly, at a strategic level, the Chief Financial Officer plays a hugely pivotal role. This is not in doubt and is evidenced by the influence exercised within the Corporate Management Team of the Council, in spite of his not being a full member. What is also evident however, is the high degree of corporate reliance placed to date upon the Chief Financial Officer by the Council, its senior officers and Members and indeed the degree of responsibility and ownership taken on by him personally. This, as the main body of the report explores under People, brings with it a degree of inherent risk, but again, what must be fully appreciated, is the high degree of success, strong effective performance and speed of targeted and appropriate development within the Council's Financial Planning and Management culture and processes which is largely attributable to the Chief Financial Officer through his personal efforts and support to the Corporate agenda. This includes the infrastructure arrangements he has put in place within Finance in order to support him (and the Council) in future.

5.9 What the review has found however, is that there are a number of barriers to the Council improving its Financial Management in relation to its culture, its staff, their roles and responsibilities and its general capacity. This will not come as a surprise to the Council, given the initial perceptions which component drivers for the need for this review, to be undertaken, but IPF have examined and evaluated many areas of evidence which clearly indicate that this is the key area where the Council's energy and resources will require to be dedicated on its road to improvement over the medium term. Key areas include:

- A lack of clear communication of Financial Management responsibility, including the need to deliver services cost effectively
- A lack of engagement into Financial Management by service managers
- Insufficient accountability for poor Financial Management performance
- A lack of a consistently applied, robustly used and effectively actioned performance appraisal and development framework across the Council
- Little attempt to date by the Council to identify and meet the professional management competencies of its staff and in particular, Financial Management
- An inconsistent approach to identifying competency requirements of posts across the Council
- Manifestation of a historic cultural stewardship and policing role by professional Finance staff in current processes
- A propensity for professional Finance staff and in particular Accountants to think and work only 'within the box', fulfilling more junior transactional processing and information extraction and production roles at the opportunity cost of interpretation, advising and fulfilling more support and solution-orientated responsibilities
- A perceived lack of competency, desire and ownership amongst a number of staff and again, in particular Accountants, to enable development of roles and responsibilities to achieve the above
- Trust and confidence by the Chief Financial Officer in his senior Finance management staff and empowerment by him to their providing required levels and quality of support to strategic planning and performance processes within the Council and its transformation agenda remains a key area for development. At the time of the review, the new Finance delivery model is not yet fully in place, with key posts only currently being filled. Similarly, the Finance Management Team has only been in place for just over 6 months and therefore some bedding-in time will be required, with ongoing, steady development going forward over the medium term.
- A lack of clearly documented and consistently applied Financial Management processes within the Council
- Large inherent inefficiencies in key processes and in particular, Budget Monitoring since directorate staff are clearly performing similar, if not the exact same roles as their colleagues in Finance (with neither adding the full professional expertise required).
- A lack of robust development and performance review and appraisal for Finance staff

- A visible lack of fulfillment of more enhanced value-adding and performance supporting Financial Management roles beyond budget monitoring

5.10 These issues and others have been evidenced and further explored within Sections 5-8 of this report using the CIPFA Financial Management Model Best Practice Statements as a framework through which they have been identified and evaluated. Accompanying this report is a high-level Action Plan report. Within the report each identified issue is taken in turn and one or a number of recommendations have been made for consideration by the Council, through which IPF believe that tangible improvement and evolution of overall Financial Management style and performance can be achieved. For some of these actions, supplementary appendices include structured proposals made through which these desired outcomes can be delivered.

Appendix 2

Summary Areas for Improvement

- Financial Skills
- Accountability & Performance
- Financial Performance Information
- Governance

Finance Services
20/5/09