

London Borough of Tower Hamlets

Review of financial management using the CIPFA Financial Management Model

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Contents

Section	Title	Page
1	Executive summary and action plan	3
2	Introduction	11
3	Key findings	13
4	Concluding comments	62

Appendices

APPENDIX 1	CIPFA Financial Management Model - summary
APPENDIX 2	Review methodology



1. Executive summary

In October 2016, the London Borough of Tower Hamlets (LBTH) commissioned CIPFA (Chartered Institute of Public Finance and Accountancy) to undertake a review of financial management. The review took place between November 2016 and February 2017.

In order to establish a financial management baseline, provide a comparison with other organisations and prioritise financial management improvements, LBTH decided to use the CIPFA Financial Management Model (herein referred to as the FM Model) as a framework for the review.

LBTH is an inner city borough which shares boundaries with the City of London and the London Boroughs of Newham and Hackney. Over the past five years, Tower Hamlets has seen the most growth in population, employment and new homes in all of East London. This growth has provided opportunities for new homes, new jobs and increased investment in infrastructure and services.

The 2011 census shows that LBTH has the fastest growing population in the country in recent years, growing almost 30% between the 2001 and 2011 Census. The Census also shows that LBTH is the third most densely populated borough in London with a population of 284,000 with a daytime population that increases by about 60%, rising to 428,000. Despite the growth and the prosperity associated with it LBTH has one of the largest health inequality gaps in the country and has one of the highest rates in London of people suffering bad or very bad health.

1.1 The CIPFA Financial Management (FM) Model

The CIPFA FM Model is recognised by HM Treasury (UK) as setting out the fundamentals of best practice financial management within a public sector organisation. It has been chosen by HM Government (HMG UK) Finance Leadership Group (FLG) as the framework to be used for financial management self-assessments. The Model uses a scoring system to provide an objective measure of financial management performance including the identification of strengths, weaknesses and areas for improvement. Importantly the review measures the whole organisation's attitude to financial management not just the performance of the finance team. The assessment is based on a mix of evidence obtained through survey¹, interview² and document review.

The CIPFA FM Model is based on 30 statements of best practice. Each of these statements is supported by a series of questions which both explain the scope of the statement and help evaluate the extent to which the statement applies to the organisation. This assessment is scored on a scale from 0-4 to aid aggregation and comparison.

1.2 Best practice matrix

¹ 179 out of 242 participants (74.0%) completed the electronic survey.

² 35 interviews were conducted.



The matrix overleaf aggregates assessments for individual statements of best practice in the FM Model and summarises CIPFA’s assessment of LBTH’s financial management arrangements. Using the matrix, the key findings of the review can be summarised across the three financial management styles and four management dimensions. Details on relevant financial management styles and dimensions can be found in Section 3.3 below.

Actual scoring – best practice matrix (scored out of 4)

FM Model key findings chart for LBTH

Financial Management Styles	Management Dimensions			
	Leadership	People	Processes	Stakeholders
Delivering Accountability	2.5	1.5	2.5	3.0
Supporting Performance	2.0	1.0	2.0	1.5
Enabling Transformation	2.0	1.0	1.0	3.0

From the best practice matrix the Delivering Accountability style of financial management scores best. This is an area that is heavily regulated and prescribed by HM Treasury and Cabinet Office best practice, and is also most closely related to the traditional role of the finance function. Typically there should be a pattern of progression in scoring with the highest being Delivering Accountability and the lowest being Enabling Transformation with a stepped progression between the financial management styles. This is not the case at LBTH where scoring for Enabling Transformation is marginally higher than Supporting Performance albeit with only 0.5 between the two.

From the best practice matrix the Stakeholder dimension comes out as the strongest management dimension due to LBTH’s strength in consulting with local communities and businesses.

Looking at the management dimensions LBTH scores particularly badly under the people heading. The rest of this report and, in particular the areas highlighted for development, need to be read in this context.

1.3 Strengths and areas for further development



1.3.1 Strengths

The high level strengths we identified include:

- Financial reporting – LBTH’s financial statements are prepared on a timely basis, are well presented and have been given a clean audit opinion (excluding VfM) by appointed external auditors - KPMG
- Finance Function is technically sound - Finance staff have strong technical skills and are able to support the organisation on a range of specialist issues
- Effective assurance arrangements – LBTH has a sound approach to corporate governance through sound structures, good financial regulations and an effective internal audit and risk management function
- Strong stakeholder engagement – the Council carries out extensive consultation with the local community and business groups and external views are incorporated effectively into the Medium Term Financial Strategy
- Aware of the need to change – in the past LBTH has been complacent, largely because of the lack of budget pressures. However, the organisation is aware of the need for transformation and change is underway. Many of our comments in this report reflect the current changing environment

1.3.2 Development areas

From our assessment, we have identified areas within the LBTH that could benefit from further development. Eleven areas were identified as follows:

- Ownership and accountability for financial performance: absence of ownership and accountability for budgets – concealment of overspends through the use of reserves
- Strategic structure: need for strong, visible strategic leadership – finance staff in operational directorates need more leadership and direction from both the corporate finance team and from service directors
- Financial Strategy: lack of synergy between MTFS and supporting strategies – absence of links/integration with workforce strategy and performance measures - reluctance for budgets, outcomes, activities and performance to be aligned to corporate objectives – messages from CMT not translated through the organisation
- Financial Management Information Systems: self-service systems do not work well for budget managers - data needs manual manipulation - managers require handholding by finance restricting latter’s ability to add value – information not trusted – resource inefficient -need clarity on future user needs – significant investment required
- Financial Transaction Systems: major problems with systems around coding errors, incorrect journals and maintenance of the workflow – requires manual intervention and leads to a waste of finance staff time
- FM Competency Framework and performance framework: no cohesive framework in place - variable financial management and system skills of managers – accountability not well understood – finance challenge requires greater depth
- Business Partnering: lacks effectiveness; accountants not universally perceived as up to this role – commercial skills gap – soft skills require honing – need to build understanding of expectations of managers and demonstrate delivery of service – need for more individual agility to drive transformation

- Value for Money approach: not well understood or consistently applied – there is a tendency to proceed with projects before finance staff have had a real input to the decision making process
- Finance Function positioning and service planning: needs greater visibility – need for a clear finance function service plan including service agreed performance targets - perceived absence of energy/drive for efficiency – viewed as bureaucratic - divided and not structured to drive transformational change – not a lot of resilience
- Lack of diffused FM literacy: absence of understanding of detailed activity costs – lack of involvement of managers in submission of benchmarking data
- Risk Management: the Council has a Risk Management Policy Statement and a Risk Register. However, the organisation has been risk averse in the past, and the current process are 'tick box' in nature and not dynamic

The aim of this review is to help improve financial management within the organisation as a consequence this review the organisation will plan to develop and implement an action plan to respond to the development areas identified above. To facilitate this we attach at the end of this Executive Summary a framework action plan for discussion.

1.4 Direction of Travel

Our assessment of the London Borough of Tower Hamlets' scores against the best practice statements in the CIPFA Financial Management Model, places it in the fourth quartile of all organisations we have worked with. Whilst this assessment is based on a snapshot of the current position, it is clear that LBTH is already taking steps to make improvements in a number of areas. Finance are currently adapting to the new structure with the result that roles and responsibilities are not widely understood. There is an insufficient level of resilience in the team to meet the challenges of transformational change. In practice LBTH has yet to fully embrace the more advanced styles of financial management. Such a move will enable it to become more effective in successfully meeting the financial challenge set by the budget gap and future funding changes.

Notwithstanding these findings and development needs, LBTH has the foundations and plans in place for the development of strong financial management capability.

1.5 Overall conclusions

LBTH is able to demonstrate a sound level of financial management capability with corporate accountability and stewardship being secured through a competent finance function and supporting governance and assurance functions. Such strengths are typically associated with the more traditional stewardship aspects of financial management. There is some evidence of good practice across the organisation, particularly in the areas of financial accounting, internal control and strong customer focus. The organisation runs a finance function that has been subject to a recent restructuring with an evolving Business Partnering role, however fundamental re-shaping of the function has yet to take place.

Finance is not currently well placed to 'add value' in a way that would help drive the business towards transformational change. Whilst we would regard the Chief Finance Officer (CFO) as being highly effective, the CFO role is not supported across the wider organisation. There is a need for clarification of the role of the Business Partners as there is a lack of clarity



about their relationships with operational managers and also with the corporate finance function. The ability to focus on finance is important, not only in the pure sense of financial reporting issues, but also in considering future strategic sustainability. The structure of the Finance function lacks balance between devolved finance units and core central functions. Within the core finance function itself resourcing of business as usual, financial strategy and transformational change activities appears to have evolved rather than mapped to required resourcing requirements taking account of staffing numbers, complexity and skillsets.

A lack of ownership and accountability over financial performance by budget holders represents the most significant financial management challenge for LBTH. Financial challenge is not sufficiently robust, as a consequence of the competing demands and pressures on finance decision support. Performance management is not effectively discharged in the absence of an agreed performance framework.

LBTH has launched a major transformation programme which is intended to make the workforce more agile and to change the way the authority is funded and run, and many of these activities here are innovative. In particular the introduction of Output Based Budgeting is to be commended. However, LBTH needs to do more to demonstrate that VfM is within the 'DNA of the organisation'; a required significant shift in culture is yet to be achieved.

Financial planning and budget setting both have room for improvement. The Medium Term Financial Strategy (MTFS) is a good document that meets most of the requirements of the best practice model. However, we have concerns over the underlying robustness of the budgeting process. This is exacerbated by a lack of challenge by finance and by poor budget monitoring and forecasting on the part of budget managers. Enabling strategies such as the Capital Strategy, People and ICT that should be linked to financial strategy are either out of date or incomplete compromising the robustness of the MTFS itself. The risk is exacerbated by a lack of clarity on communications and uncertainty from the senior management level.

The Finance Function is not sufficiently influential and more support is required to develop leadership qualities to bring about a transformational impact on the organisation's development. The extent to which Finance can detach from data manipulation and add value is seriously constrained by the weaknesses in the current financial system, Agresso. Pushing against the move to add value is the constraint on Finance's ability to carve out sufficient time to explore user needs for a future enhanced financial system. The system is very susceptible to errors in areas such as miscoding and maintaining workflows. These elements require manual intervention which uses up a huge amount of finance time.

Service Areas have a limited clarity and understanding of what the role of Finance Services is. LBTH needs to develop a contract basis for Financial services, with standards and levels of service defined, to strengthen clarity and understanding, which in itself will act to raise the profile of Finance in the organisation.

Business Partnering is in place and should be integral to business unit staffing and decision-making as well as providing challenge and support. Business Partners need sufficient 'standing/credibility' within the organisation. LBTH needs to strengthen wider commercial skills/attitudes and articulate a commercial strategy which is embedded within the DNA of the organisation. Roles and responsibilities for financial management are not clearly defined at LBTH.



A training programme for non-financial managers exists through e-learning and, in our opinion, LBTH would benefit by ensuring successful completion of this programme as a precursor for officers being considered as budget holders. At the moment it is too easy for managers to circumvent this “compulsory” training. There is a lot of “handholding” from Business Partners and core finance; the big shift in culture that is required is yet to come. Recruitment and development of good quality finance staff will be vital to a future high performing Finance function and to LBTH’s successful transformation. The current draft workforce strategy needs to include data and targets to aid senior management’s view of options available for the future. The use of a tailored competency framework for professional financial management will help here.

The current financial system, Agresso, is not efficient. The system requires significant manual manipulation of data and this element of manual resourcing imports additional cost and risk. The emphasis for successful transformation is a fundamental reshaping of financial management processes. The current financial system is not going to help facilitate transformational change. Further work is required to understand needs of system users, and this may require a radical approach and, possibly, consideration of a new finance system.

Whilst LBTH is engaged in strong stakeholder consultation it may not be giving sufficient attention to achieving necessary improvement in the internal quality of delivery mechanisms, which will allow external expectations to be met in a timely manner and within funding constraints.

1.6 Concluding comments

We would like to thank the Members and officers of LBTH who contributed to the completion of this review through interviews and completion of an online survey. We would especially like to thank the team of staff responsible for pulling the majority of the evidence together for the assessment.

Action plan

	Issue	Priority/Lead
Ownership and accountability	<ul style="list-style-type: none"> • absence of ownership and accountability for budgets • lack of sanctions for non-compliance • complacent attitude by managers with respect to finding budget cuts • Use of reserves to hide overspends 	
Strategic structure:	<ul style="list-style-type: none"> • need for strong, visible strategic leadership • strong leadership role required for finance staff in operational directorates 	
Financial Strategy	<ul style="list-style-type: none"> • lack of synergy between MTFS and supporting strategies • absence of links/integration with workforce strategy and performance measures • reluctance for budgets, outcomes, activities and performance to be aligned to corporate objectives although changing with OBB • messages from CMT not translated though the organisation 	
Financial Management Information Systems:	<ul style="list-style-type: none"> • self-service systems do not work • data needs manual manipulation • managers require handholding by finance restricting latter's ability to add value • information not trusted • resource inefficient -need clarity on future user needs • need for greater corporate standards setting • significant investment required 	
Financial Transaction Systems:	<ul style="list-style-type: none"> • high level of coding errors in the GL • automated invoice matching is unreliable and leads to duplicate payments • high level of inaccuracy in journal posting in the GL • workflow system is cumbersome to maintain • high level of manual intervention is resource inefficient • 	

FM Competency Framework and performance framework:	<ul style="list-style-type: none"> • no cohesive framework in place • variable financial management and system skills of managers • accountability not well understood • finance challenge requires greater depth • 	
Business Partnering	<ul style="list-style-type: none"> • lacks effectiveness; accountants not universally perceived as up to this role • commercial skills gap • soft skills require honing • need to build understanding of expectations of managers and demonstrate delivery of service • need for more individual agility to drive transformation • absence of Business Partners on many DMTs • 	
Value for Money approach	<ul style="list-style-type: none"> • not well understood or consistently applied • lack of involvement by managers in submission of benchmarking data • finance input to business cases too late to influence decision making • 	
Finance Function positioning and service planning	<ul style="list-style-type: none"> • needs greater visibility • need for a clear finance function service plan including service agreed performance targets • perceived absence of energy/drive for efficiency • viewed as bureaucratic • divided and not structured to drive transformational change • not a lot of resilience 	
Lack of diffused FM literacy	<ul style="list-style-type: none"> • absence of understanding of detailed activity costs • poor training on financial systems especially the GL • "compulsory" e-learning modules are easily circumvented • job descriptions regarded as out of date • weakness in governance approach on capital projects leading to slippage 	
Risk Management	<ul style="list-style-type: none"> • processes are in place but more of a tick box exercise - the Council is perceived as risk averse and arrangements are not dynamic 	

2. Introduction

Between November 2016 and February 2017, the London Borough of Tower Hamlets (LBTH) completed the CIPFA FM Model to provide the basis for a review of financial management arrangements within the organisation.

The CIPFA FM Model sets out the fundamentals of best practice financial management within a public sector organisation and uses a scoring system to provide an objective measure of financial management performance including the identification of strengths, weaknesses and areas for improvement. A more detailed explanation of the CIPFA FM Model is provided at **Appendix 1**.

2.1 Understanding the organisation

LBTH is an inner city borough which shares boundaries with the City of London and the London Boroughs of Newham and Hackney. Over the past five years, Tower Hamlets has seen the most growth in population, employment and new homes in all of East London. This growth has provided opportunities for new homes, new jobs and increased investment in infrastructure and services.

The 2011 census shows that LBTH has the fastest growing population in the country in recent years, growing almost 30% between the 2001 and 2011 Census. The Census also shows that LBTH is the third most densely populated borough in London with a population of 284,000 with a daytime population that increases by about 60%, rising to 428,000. Despite the growth and the prosperity associated with it LBTH has one of the largest health inequality gaps in the country and has one of the highest rates in London of people suffering bad or very bad health.

The approved net General Fund budget for LBTH services in 2016-17 is £362 million which represents spending of £337 million and the application of earmarked and general reserves of £25 million. Spending in 2017-18 is estimated to be £23 million lower at £339 million. The Council has around 10,500 staff of whom 4,800 work in schools. LBTH's Corporate Management Team is led by the Chief Executive, supported by Corporate Directors who report to the Chief Executive. The current structure is changing from 1 April 2017 and so we have shown the new titles and responsibilities below:

- Corporate Director for Place: Property & Major Programmes, Regeneration, Housing and Economic Regeneration, Planning and Regulation, Public Realm;
- Corporate Director for Resources: Finance, Procurement and Audit, HR and Transformation, IT, Revenues and Benefits and Customer Services;
- Corporate Director for Adults: Adult Social care, Community Safety, DAAT and ASB, Public Health and Integrated Health;
- Corporate Director Children's: Children's Social care, Education and Partnership, Sports, Leisure, Culture and Youth and Commissioning; and

- Corporate Director of Governance: Governance and Democratic Services, Legal, Strategy, Policy, Equalities and Partnerships, Communications, Registrar, Executive Support, Electoral Services and the Mayor's Office;

Like other local authorities, LBTH faces financial challenges in the coming years. Government funding continues to reduce increasing pressure on LBTH's budget for 2017/18 and beyond. The projected budget gap over the life of the current medium Term Financial Strategy is £59m. This is the first time that LBTH has faced significant budget pressures and it is meeting the challenge by embarking on a programme of change to transform the way in which services will be delivered in the future. This will have a major impact on corporate support services which will be expected to deliver over £30m of the planned savings of £58m. This programme includes an ambitious plan to relocate the Town Hall to Whitechapel and to make the workforce more agile by investing around £25m in redeveloping the ICT infrastructure.

LBTH has also introduced a new approach to budget setting. 2017/18 has seen the introduction of Outcomes Based Budgeting (OBB) for the first time. This will require officers and members to challenge current methods of service delivery by making use of external comparisons and benchmarking data. LBTH will need to demonstrate that its services provide Value for Money. These changes are being introduced against a background in recent years of relatively high levels of reserves and funds carried forward. LBTH needs a robust financial management structure to support the coming period of change, and the CIPFA Financial Management Model fits with that approach.



3. Key findings

This section outlines findings from the assessment and supports the action plan included in the Executive Summary. It is anticipated that LBTH will address the issues raised over the next 12 months as part of its plans for the continuing development of financial management within the organisation.

3.1 Applying the CIPFA Financial Management (FM) Model

In applying the CIPFA FM Model evidence was gathered from three main sources:

- document review/evidence
- interviews
- survey

Information from these different sources has been brought together to give an assessment for each of the best practice statements relevant to the LBTH. Further details of the methodology used are shown in **Appendix 2**. Within this section of the report, direct quotes from interviews and the survey are included but are not attributed to the individuals concerned.

3.2 Summary of CIPFA Financial Model Scores

The matrix below summarises CIPFA's evaluation of the LBTH's financial management arrangements against the best practice in CIPFA's FM Model, with each area being awarded a score from 0-4 (where 0 means the underlying statements of best practice do not apply at all and 4 means they fully apply). It should be noted that this takes into account the document review, interviews and electronic survey. The matrix is based upon CIPFA's scores for each statement, summarised across the three financial management styles and four management dimensions as shown below. The following key outlines the extent to which each grouping of good practice statement applies at LBTH in RAG rating:

Scoring - the extent to which statements apply	0.0	Not at all
	0.5	Hardly
	1.0	Hardly
	1.5	Lower than basic
	2.0	Somewhat
	2.5	Mostly
	3.0	Strongly
	3.5	Strongly
	4.0	Fully

3.3 Best practice matrix

FM Model key findings chart for LBTH

Financial Management Styles	Management Dimensions			
	Leadership	People	Processes	Stakeholders
Delivering Accountability	2.5	1.5	2.5	3.0
Supporting Performance	2.0	1.0	2.0	1.5
Enabling Transformation	2.0	1.0	1.0	3.0

The high level matrix measures Financial Management Styles with Management Dimensions. The styles of financial management are intended to be progressive, with a general expectation that organisations are likely to firstly establish the building blocks of control and adherence to regulations through the 'Delivering Accountability' 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.

The Model is also organised by 4 management dimensions of Leadership, People, Processes and Stakeholders. These cover both "hard edged" technical attributes that can be measured, as well as "softer" features such as communications, motivation, behaviour and cultural change.

Each element of the matrix shows not only the score assessed but also identifies the individual statements that contribute to that score e.g. L1 and L2. Later in this report we include the scoring and evidence for each statement grouped in the same way.

3.4 Overview – Styles of financial management

For LBTH, "delivering accountability" is clearly the strongest financial management style with a total score of 9.5 out of a possible total of 16. However, this total masks significant variations within the style of management. Although the Council scores well for the stakeholder dimension it scores only 1.5 for the people dimension. Leadership and processes are amber with scores of 2.5 each. This is not what we would expect for a well-established organisation in the heavily regulated public sector. It demonstrates that there is a significant weakness in the way that staff are managed and developed and we will



return to this later in the report. This style reflects the more traditional role of financial management and is one that is generally the strongest.

Whilst Delivering Accountability scoring is naturally stronger, scoring for Enabling Transformation is marginally lower than Supporting Performance with scores of 6.5 and 7.0 respectively. This is not what we usually find and the scores suggest that this is due to the way in which LBTH communicates effectively with its stakeholders.

From the best practice matrix the Stakeholder dimension comes out as the strongest management dimension due to LBTH's extensive consultation with communities, businesses and other local organisations.

3.5 Overview – Management dimensions

For LBTH the results above demonstrate that "the Stakeholder" is the strongest management dimension by a substantial margin. Our work indicates that the Council has focused on enhanced transparency, communicating with customers and stakeholders concerning services provided and spending priorities.

In sharp contrast the "People" dimension appears in a very poor fourth position with a score of only 3.5 out of 12. From our experience the "People" Dimension is typically the weakest of the Management Dimensions across the range of organisations we have worked with and our findings clearly highlight that "People" related issues feature across a number of development areas incorporated within our draft Action Plan. Particularly, we found a lack of understanding of the finance role and a consequential gap in ownership and accountability for financial performance by budget holders. Our Action Plan features a whole range of issues related to planning and budgeting processes where financial management skills and understanding of non-financial managers needs to be more strongly in evidence.

Within the "Processes" dimension the "Enabling Transformation" style scores badly due to a number of issues with the way in which Agresso operates and the consequent lack of understanding of the budgeting and forecasting process. There are also issues around the high level of manual interventions that are required to maintain the system.

Finally "Leadership" scores 6.5 and is in the amber category. Although there is high level leadership from the corporate centre of the finance function this does not permeate throughout the organisation. We will return to this issue later in the report.

3.6 Statement scoring and assessments

In this section of the report, we show scores for individual statements and summarise the evidence upon which the assessment is based. These statements are grouped in the same way as on the summary matrix, e.g. L1 and L2 together immediately below. The only exception to this is in relation to PR1 to PR9 where this large group of statements is broken down further at the delivering accountability level as explained later.

3.7 Leadership – delivering accountability

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.	2.5
	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 <i>service managers</i> .	2.5
	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.	2.5

For the Delivering Accountability style there are three statements that consider the elements of an effective framework of financial management.

For L1 the statement focusses on the role of the Chief Financial Officer (CFO), in driving financial management forward in ensuring it is integral to supporting the achievement of organisational objectives. The Chief Finance Officer is key also in ensuring the appropriate profile and positioning of the finance function within the organisation, to enable it to play its role in developing corporate strategy and business decision making. This statement meets the average score that we find in other organisations.

At LBTH the CFO (and section 151 Officer) role is represented at the Corporate Management Team level by the Corporate Director for Resources. She is supported by the Assistant Director Finance, Procurement and Audit who acts as Head of Profession for finance staff at the centre and in operational directorates. Both the Corporate Director and the Assistant Director are professionally qualified with substantial experience in London boroughs and other Councils. In the past there has been a lack of focus on finance across the organisation so the Council appointed new officers to the two posts above just over 12 months ago. As a result there is a positive answer to the first part of L1 in that finance is now seen as integral to enabling the delivery of the Council’s objectives. The Corporate Director for Resources has a high profile role not just in Finance but also in transforming the organisation. In addition to Finance we note that the Corporate Director Resources is also responsible for a number of other functions including HR & Transformation, IT and

Customer Services. Although it is not unknown in public sector organisations for such a senior level position to have responsibility for more than one area of the business, we would draw your attention to this matter in the context of the prevailing HM Treasury and CIPFA guidance on the CFO requiring that organisations review the scope of the CFO's other management responsibilities to ensure financial matters are not compromised. Principle 1 of CIPFA's the role of the Chief Financial Officer in public service organisations includes for the following requirements of a CFO³:

"There is a growing trend for CFOs to hold a range of different responsibilities beyond finance, including managing other services or leading change programmes. Whilst these can develop the individual as a corporate manager, organisations must not let the CFO's core financial responsibilities be compromised through creating too wide a portfolio. Dilution and/or overload in the role of the CFO can result in poor financial outcomes for the organisation. Setting out the core CFO responsibilities in this Statement is intended to allow public service organisations and their CFOs to assess their job descriptions to ensure that their core finance responsibilities can be properly performed."

The expanded role may contribute to the fact that the second part of the question is more problematic. Within the operational directorates finance is not highly visible nor is it particularly influential. It is not regarded as supportive by budget managers. Indeed, the problem extends to operational finance staff who are unclear about the role of corporate finance and their relationship with their colleagues. The problem is exacerbated by the frequent changes in staff and by the number of interim staff employed in the finance function. One member of staff commented "I don't know who the CFO is". This leads to a lack of "buy in" to financial management from budget holders.

We are aware that the finance function has been restructured recently so that there is now a direct, professional reporting line for finance staff to the Corporate Head of Finance. Within directorates the Assistant Director, Resources role has been abolished and replaced with the Finance Partner role. This new role is designed to support budget managers on a pro-active basis but there is a lot of confusion over their role and, how they should interact with operational managers and with the corporate centre. The Finance Function was last restructured in January 2014 but staff expressed concern over the speed of the reorganisation, the lack of training to support the changes and the fact that there has been no review of the restructuring before the current reorganisation was implemented

With regard to the detailed survey results only 52% of survey participants agree (and 34% don't know) that standards of compliance and objectivity of advice on finance matters are supported in LBTH by the line of professional accountability from the CFO through to those with principal functional responsibility for finance within the business. A minority of our survey participants (24%) agree that shared accountabilities and commitments between the Finance function and other business areas are clearly defined, with a further 28% don't know. Survey participants were also unsure about the extent to which the Finance function is central to core business decision formulation with only 51% agreeing and some 33% don't know.

³ CIPFA - the role of the Chief Financial Officer in public service organisations – Principle 1 – Page 9



Business Partnering

Looking specifically at the role of the Business Partners only 46% of participants thought that finance can and do give appropriate support and challenge to budget managers. The Finance team are viewed as producing clear and meaningful financial analysis, which is robust and impartial, by only 43% of our survey participants, with a further 27% being "don't knows". This view is supported by many of our interviewees who expressed concern that Business Partners were not capable of providing the necessary support either because of poor interpersonal skills or because of a lack of technical understanding of the business area. In addition many Business Partners were unclear about their role and what was expected of them.

At L2, the FM Model anticipates a number of key components for an effective financial management framework and these are generally in place at LBTH. We comment on the main components below.

Our survey participants are specifically asked whether they feel that the Corporate Management Team sets the tone that finance matters but only 32% of our survey participants agree with this idea while 53% don't know. Despite this low score our other work suggests that many of the basic building blocks are in place and that they function well. However, this does not appear to be communicated to staff.

Corporate Governance

The Council's Corporate Governance Framework is embodied in the document the "Guide to Our Core Values and Corporate Leadership and Management Framework." This sets out the Core Values of the Council and what it expects of its staff. A large part of the document is about management development and how staff will be trained, developed and appraised. In addition there is a comprehensive set of Financial Standards and Regulations running to over 100 pages covering Financial Regulations and Financial Procedures.

In terms of structure there is a clearly defined committee structure with an Overview and Scrutiny Committee supported by a number of sub-committees. There is an Audit Committee which considers reports from both internal and external audit and also considers risks to the Council. The Council produces an Annual Governance Statement and we have seen the draft Annual Governance Statement 2015/16 drafted by the Corporate Director of Resources which went to the Audit Committee on 20 September 2016. This was an urgent item in order to meet the statutory deadline of 30 September for sign off by the CEO and the Mayor. The 2014/15 AGS raised thirteen significant governance issues. The current status of these issues is shown in the report. The Assurance Control Checklist is an appendix to the report and provides a wholly positive answer to the questions of governance. In our view it appears to comply with the Accounts and Audit Regulations and the example seen was positive in its conclusion.

We also reviewed the Council's policies on Fraud and Corruption. There is an Anti-Fraud and Corruption Strategy 2016/17, written by the Director of Resources, and this was presented to the Audit Committee on 28 June 2016. The overall strategy is supported by a comprehensive set of Appendices including a separate Whistle Blowing Policy. Overall



the areas of Fraud and Corruption appear to have been covered in great depth and the issues also appear to be taken very seriously by the Council.

Reporting LBTH Finances

The Council is provided with a consolidated view of the organisations finances and risks.

We have reviewed the draft Annual Report and Accounts for 2015-16 and they conform to sector requirements, and include the AGS which is signed by the Chief Executive. The Annual Accounts were subject to a Value for Money qualification in 2013/14 and again in 2014/15. The external auditor's management letter is considered at appropriate levels within the Council and appropriate action has been taken to resolve the VFM issues working in conjunction with government appointed Commissioners. The external audit letter for 2014/15 raises no significant issues in relation to financial accounting and the external auditors confirmed subsequently that there have been no significant issues in relation to the accounts.

The Audit Committee receives and monitors the implementation of internal and external audit recommendations. The Committee and Council also receive the external auditor's annual letter for consideration of any recommendations.

Statement L3 has 3 strands, bringing together the matching of resources to organisational priorities, monitoring to ensure those priorities are achieved and the establishment and review of financial management policies.

Balancing the increasing demand for the varied range of local services with available resources is a significant challenge. LBTH has prepared a medium term financial strategy with separate supporting appendices. The overall allocation of resources to meet priorities is reflected in the annual budget. The Council has set out two key priority aspirations for the Council which have been arrived at following consultation with residents:

- Priority 1 - To create opportunity by supporting aspiration and tackling poverty
- Priority 2 - To create and maintain a vibrant and successful place

These priorities are supported by a third enabling objective of 'a transformed Council that makes best use of resources and develops a culture of transparency and trust'.

In previous years resources have not been aligned to corporate priorities or clearly aligned with strategic objectives. There has been little pressure to reduce expenditure and where overspending has occurred it has been masked by the use of reserves. This has led to the development of a culture where financial management has not been subject to the same degree of rigor that we have found in other authorities.

For 2017/18 the picture has changed significantly and the Council has identified the need to find savings of £58m over the life of the Medium Term Financial Strategy (MTFS). For the first time the Council has introduced the concept of Outcomes Based Budgeting (OBB) Finance in order to find the savings required. However, this process has not been applied with the same degree of effectiveness across the Council with some areas adopting a more



traditional “salami slicing” approach to budget cuts. On the positive side one survey participant commented:

“previously there used to be top slicing of budgets to achieve savings however in recent years there has been a more strategic approach of focusing on different areas that can deliver savings.”

Finance staff have been heavily involved in this process although there is a view among finance staff interviewees that their input is too late and that decisions are made as a result of the financial imperative and not on the basis of a sound business case. This is perhaps the first significant challenge to budgets in recent years and we are concerned that budget holders are not working sufficiently closely with their Business Partners. Our concern here is that the responsibility for thorough analysis should be accepted by the operational areas; the areas need to demonstrate ownership of their budgets. Finance have the role of challenge, and of providing advice to Senior Management/Members for decision making purposes. However, Finance are not well positioned to assert their influence and persuade areas to own their budgets.

We have seen evidence that the Corporate Management Team (CMT) and the appropriate committees and Council monitor performance/budgets and challenge reports on these items quarterly. Our evidence suggests that detailed performance reports are presented to Cabinet or full Council.

In terms of monitoring performance there is a six monthly Strategic Performance Monitoring Report that report details the Council’s progress in delivering activities within the Strategic Plan and performance for Strategic Measures at the six month stage. This report is supported by a series of detailed appendices that provide graphical information on performance. The report is considered by the CMT and by the Cabinet.

A quarterly Corporate Budget Monitoring Report prepared by the Chief Accountant is presented to the CMT and to the Cabinet by the Corporate Director for Resources. The Lead member for Resources takes a personal interest in this report. The report covers:

- General Fund Revenue and HRA
- General Fund and HRA Capital Programme
- Key balance sheet information

During the course of our document review we saw the report for the end of period 6 i.e. September 2016. The net spend for 2016/17 per the budget was £361.9m with funding of £338.6m leaving a gap of £23.4m. At the end of period 6 the projected out turn was showing an overspend of £1.5m on the general fund and a surplus of £11.2m for the HRA. The report also showed a shortfall in the projected savings for Children’s Services of £966K which will not be achieved.

The Capital programme for the year was set at £170.4m of which only £25.45m or 15% had been spent as at the end of period 6. This highlights a major problem with the way in which the Capital programme is set. Once a capital project has been approved the full amount of the expenditure is shown as due to be spend in year 1. There is a lack of

accurate profiling of capital expenditure with the result that budgets are always showing as underspent. We return to this issue again below under Processes.

There is also an issue with regard to the timeliness of reporting. The report for period 6 referred to above was not seen by the Cabinet until the middle of December 2016. As a result the reports appear too late for senior officers or members to take remedial action or to reallocate resources. The timeliness of reporting is of major concern to members and needs to be addressed urgently. Otherwise the report provides a useful report to the CMT and Members. More detailed, monthly monitoring reports are also provided to budget holders and Directorate Management Teams and, again, we will refer to these under the Processes section of our report.

All of the corporate governance and reporting processes above are supported by the Financial Regulations referred to at L2, which define the responsibilities of the Treasury Manager, and s151 officer. Financial Regulations also provide rules on the definition of budget holder/budget delegation and other roles that are relevant here for each stage of the financial management process from planning to budget implementation.

Assurance on compliance with these regulations and procedures is provided through the work of Internal Audit and External Audit.

3.8 Leadership – supporting performance

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.	2.0
	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.	2.0

For the performance style there are two statements which consider financial planning, financial management strategy and the way financial management expertise is used in strategic decision-making. The scoring for L4 and L5 at 1.5 are both below what we would expect to see.

At L4 the FM Model expects there to be a clear integrated strategy with linkage between business plans, workforce strategy, and underpinning financial strategies (including procurement strategy, asset management strategy etc.), i.e. a medium-term financial

strategy, to demonstrate that resources are in place to deliver the planned actions. Most of the supporting questions here refer to a medium term financial strategy.

LBTH has a detailed, written MTFS which conforms to CIPFA's Best Practice Guidance and which is supported by detailed budget schedules. The MTFS is presented to Cabinet and is ultimately approved by the full Council. As part of our work we have reviewed the MTFS for 2017/18 and the supporting strategies referred to above. Although the document itself appears to be sound we have major concerns over the rigor of the underlying processes. We have already referenced the shortcomings in the 2017/18 budget process and we will refer to these again under process issues below. However, our review of the major resourcing strategies reveals a lack of detail and a failure to bring the strategies together to address corporate priorities. The major concerns are:

- HR Strategy – although we could find a high level Workforce Strategy 2016 to 2021 containing the Council's aspirations it had no objective indicators by which the Council could monitor achievements. In many cases indicators were left blank pending their development. We were unable to find any evidence of a detailed HR strategy setting out what the Council expected to achieve, by when, the cost of implementing the strategy and how success would be measured. Furthermore, there is no clarity over who is responsible for developing the strategy and who will be accountable for its delivery
- Procurement Strategy – the Council has an addressable spend of £345m and it has a robust strategy which sets out seven key principles for procurement. There is an Annual Procurement Report that outlines progress against those seven principles and positive progress is being made. There is also a contracts' register and all contracts over £25K are procured through the Council's e-tendering system. Our key reservation is that although the procurement processes are working well there is a lack of a "business-like" approach across the Council. This relates, in part, to the relaxed approach to financial management referred to above but there is clearly a need to embed a "business-like" approach within the wider organisation
- Asset Management Strategy - The Council has an Asset Management Strategy that covers the period 2015 to 2020 and which sets out its Scoping, Principles and Priorities. The financial implications of this were updated in 2015 to reflect the financial implications of the July 2015 Medium Term Financial Plan. One of the key principles of the strategy is that the strategic elements of the Council's portfolio are managed by the Asset Management Team. We found that there was concern over whether this was working in practice with some properties potentially being disposed of before consideration has been given at an appropriate level as to whether there could be a better corporate use of the property. CMT has recognised the need to update the strategy to clarify the buildings required, costs and opportunities for more efficient use or disposal. This needs to be done with close working with the ICT and HR strategy work to ensure that a true corporate view can be developed. We believe that this should be underpinned by a Target Operating Model that ensures investment is placed in the right locations and that benefits are identified and then realised

- ICT Strategy - Our overall conclusion is that there has been underinvestment in ICT over the last few years and the Council now needs to make a major investment in making the infrastructure fit for purpose. As a result the Council has completed two key pieces of work in the last year. It has worked with SOCITM who produced an ICT Strategy in June 2016 and, subsequently, Atos Consulting who have produced a Technical Digital Roadmap in November 2016. Agilisys is the Council's strategic partner for ICT. In total £21.5m has been identified as the capital cost for ICT over the next three years to cover key work streams such as:
 - Network Transformation Business Case
 - Migration to the Cloud and Office 365 Phase 1
 - Desktop transformation
 - Tactical Projects
 - ICT Centralisation

There are high level Business cases in development for these projects but these are not sufficiently detailed to support the proposed level of investment. We would expect to see detailed business cases with a clear statement of costs and benefits.

The Council has a number of corporate plans as well as service plans for directorates and specific service areas. The two main plans are the Local Plan which, at the time of our review, was out for consultation. The Council's Strategic Plan sets out the two key Priority Areas and the Enabling Objective of a Transformed Council. For 2017/18 the budget has been aligned with the delivery of the corporate priorities and the supporting objectives. corporate objectives.

Statement L5 looks at the way financial management expertise is used in strategic decision-making.

Effective financial management requires core finance staff to be influential in decision making processes from the Cabinet and Corporate Management Team down and through into the Service areas. Our evidence from survey participants and interviewees suggest that although finance staff are involved in the business areas' strategic planning and decision reporting their influence over planning and budgets is limited and at times ineffective.

Successful influencing requires leadership qualities, individuals who are proactive champions and drive transformational change based on a robust understanding of the business of the organisation. Good leaders can persuade 'naysayers'. Leadership qualities require encouragement and support to develop. The majority of our survey participants suggest that the organisation does not develop leadership capability and we will return to this theme under the People Section below. However, we received a lot of comments on the effectiveness of Finance and some of the more telling quotes are set out below.

With regard to staff development and recognition two participants commented that:

"LBTH absolutely fail to recognise or take into account previous skills and experience from outside of local government... the failure to recognise previous skills and experience is frustrating and the attitude that they will only talk to one grade up and one grade down is archaic"

"Employing staff with the appropriate level of financial acumen is important to ensure that the Authority receives the best advice that it can obtain on financial matters"

On the effectiveness of finance input to budget setting and business cases we received the following comments:

"Too many business cases are manipulated to fit a desired operational or financial outcome rather than based on realistic and validated figures"

"Contractual arrangements models do not have sufficient finance involvement that allow to properly assess the costing, saving opportunities and future financial implications. The analysis is based on available budget as opposed as service driven."

"The biggest issues around budget setting are that there is no transparency around corporate recharges or central costs. Cost centre managers are given a figure for corporate recharges that is not explained they cannot change and does not relate to the number of staff they have or service delivered. Similarly a set amount is taken for building /utility costs which was raised a couple of years ago when the central system was set up. Managers have no idea how this relates to usage."

In terms of potential improvements to current arrangements we received the following comment:

"Business cases and justifications are always asked for when making either savings or investments, but they're not always as robust as they could be for a number of reasons:

- a lack of understanding of the full implications of a proposal, which obviously makes it difficult to assess the full financial implications - especially long term;*
- inadequate tools (cost benefit analysis - CBA) available that support the full exploration of, particularly long-term, impacts;*
- time constraints that make it impossible to develop effective CBA tools for a particular piece of work.*

Developing effective CBA tools for various analysis needs is a necessary investment itself. Having said that, sometimes whether or not the decision is made, particularly whether or not to de-invest in something, is driven by external factors - mainly the need to make savings - and so a robust CBA of the long-term impacts makes little difference, other than to underpin a political narrative (still needed through)."

3.9 Leadership – enabling transformation

<p>Enabling Transformation</p>	<p>L6</p>	<p>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.</p>	<p>2.0</p>
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For the transformation style there is one statement covering the integration of financial management approach and resources driving the change agenda. The score here is slightly below the average for organisations we see.

This statement considers issues such as performance and cost measures or risk. It is recognised that for some organisations with robust internal controls, the ability to stimulate transformational capacity can be difficult by their inflexible nature which restricts transformational capability. A feature of transformational capability is the ability to look at alternative (often radically different) delivery models.

The Council’s new Outcomes Based Budgeting approach is designed to look at different ways of delivering the required outcomes for less money. It focuses on service delivery rather than simple cost reductions through “salami slicing”. The new process has not been applied consistently in 2017/18 and there are still large gaps in benchmarking data.

The Council is also seeking ways to transform the organisation through the new Workforce Strategy 2016 to 2021. This is designed to introduce new ways of working but this will only be possible if the HR strategy links to the Asset Management and ICT Strategies. The latter is very high level at the moment and there is an absence of detailed business cases containing costs and benefits. Similarly, the asset strategy is not reviewed from a corporate perspective although there is a commitment to relocate the Town Hall to a new building in Whitechapel. All of the above are also reliant on the transformation of support services including the finance function. Early indications are that the Council is suffering major problems arising from the recent reorganisation of this function. We will return to this in more detail in the People Section below.

3.10 People – delivering accountability

The people dimension traditionally attracts low scores in the CIPFA FM Model assessment exercise and LBTH is no exception to this trend.

Delivering Accountability	P1	The organisation identifies its financial competency needs and puts arrangements in place to meet them.	0.5
	P2	The organisation has access to sufficient financial skills to meet its business needs.	2.5

For the Delivering Accountability style these two statements cover the financial competencies required by the organisation and the skills that match these needs. Statement P1 considers the organisation more generally, and statement P2 looks particularly at finance staff. Although Statement P2 exceeds the average of other organisations we see there is a significant difference between the two scores.

Statement P1 anticipates the use of frameworks that identify the financial management competences needed at different levels of responsibility throughout the organisation. Many public bodies now formalise this need, combining a framework of general behavioural competences for all employees outlining organisation standards for how individuals should work, with a more tailored set of competences for specific functions or roles. An example would be the 10 common Civil Service competences framework used in tandem with the complementary Civil Service professional competency frameworks. Tailored competency frameworks define the integrated knowledge, skills, judgment, and attributes that individuals need to carry out a specific role/perform a specific job effectively.

Competency Framework

During the course of our work we have been unable to identify a council-wide financial competency framework. However, we have seen individual job descriptions that refer to the need for financial management capabilities for a specific post. The Council does not have a framework that includes specific competences for financial management as envisaged by the FM Model.

Roles and responsibilities for financial management are defined in LBTH's Financial Regulations for all relevant posts. There is also a scheme of delegation. However, this is no substitute for a clearly defined competency framework that is backed up by training and accountability. These are themes that we return to below.

A critical issue relating to the use of professional competency frameworks is in designing the structure of the role and job outline, which are undertaken by service managers. Job descriptions used in job adverts are built from this basic information. In addition competency frameworks are helpful in the identification of training needs. For example, the Council recognises a requirement for all officers who have responsibility for a budget to have financial awareness training and that they shall attend formal training, and that such training is compulsory. From the interviews that we conducted and from the survey comments it is clear that there are shortcomings in the training provided in that:

- Training on Agresso was carried out when the system was introduced in January 2014 but it was very rushed

- Repeat training sessions have not been arranged so new joiners are not trained properly on the system
- The training that is available is on-line and although it is required before using Agresso it is very often circumvented e.g. admin staff complete it on behalf of managers
- Managers do not understand how to use the "self-service" aspects of Agresso especially the budget monitoring and forecasting tools

Comments here from our survey include:

"Whilst having experience of managing budgets is often included in job descriptions there is to my knowledge no formal testing of managers' competencies in this field. Training is generally only given on how the Agresso system works - and that is very basic."

"While I now have a delegated budget for my area the only training I have ever received was a two hour workshop on how to use and upload the Agresso spread sheets on line and on a monthly basis."

"There is a certain amount of ambiguity and lack of direction in regard to the requirement for training and qualifications. This ought to be more clearly defined."

"Whilst the majority of managers are sufficiently trained, skilled or have experience in financial management for standard budget monitoring against service cost centers, more complex financial management skills required for contract management are not adequately developed. Managers that have to oversee the financial complexities of contracts (such as surplus share arrangements, compound interest, differing tax regimes and different types of indexation) are not trained or developed to have the skills necessary to adequately interrogate accounting information provided by contractors, which can result in the Council not providing sufficient challenge to contractors that provide services on our behalf."

"There is not enough emphasis put on ensuring that people have the correct skills to manage budgets. I've never seen it being a specific target (i.e. "...within a % of budget..") in appraisal documents, and am not sure this would actually help. There are several factors that make it difficult in our service to manage: lack of skills amongst project managers and their assumption that someone else will do it - measures have been put in place to ensure individual projects are more effectively managed; multiple funding streams; limitations of Agresso to articulate multiple funding streams (possibly user error); constantly moving goal posts in trying to achieve savings; too many cooks stirring the broth (if you'll excuse the metaphor); a lack of clarity within the Budget Book, which seems to be used as vague guide rather than a definitive outline of allocated budgets (GF in particular)."

We could find no evidence that LBTH has carried out a training needs assessment. Given the ease with which the current “compulsory” training can be avoided we doubt whether a TNA would have a great deal of impact without supporting mechanisms to ensure that staff do undertake the training and that follow up assessments are carried out to assess how effective it has been. For example, many Civil Service organisations also carry out skill audits to build a skill database covering all employees to allow skill sets and experience to be matched to specific urgent projects or internal vacancies before turning to recruitment agencies or similar. As one manager put it:

“As a holder of one of the smaller budget areas in the Council. I have received support from finance colleagues to understand budgets and how to manage them. There is also reference in my job description to the requirement to manage the budgets. There has also been certain training available and there is an opportunity through the PDR process to seek further training. However, what is probably lacking is the formal focus in ensuring the above happens and ensuring the skills are there. Managers are busy and have lots of demands on their time and unless this is pushed it probably doesn't always reach the front of the pile of things that need doing (e.g. the training aspect).”

The last two questions for P1 consider: the finance skills and experience Finance staff expect of managers; and whether managers consider finance staff have appropriate skills and experience to support them in financial matters.

For the first of those two questions, 46% of the finance staff in our survey either did not know or did not agree that managers had sufficient finance skills and experience; only 24% of finance staff in our survey thought managers had some of the skills/experience required. For the second question, 42% of managers agree that finance staff have the appropriate skills and experience to support them while a further 41% partly agreed.

Statement P2 assumes the presence of a competency framework, but this time for finance staff to identify the technical competences needed at different levels within the Finance function. Job descriptions reflect the requirements for specific roles/posts (63% of our survey participants agree or partly agree with this idea). Somewhat fewer survey participants agree (45%) that such posts are filled by suitably qualified and experienced accountants. One comment suggested that the finance function was helpful but hindered by other organisational issues:

“Finance staff working with our service are good and helpful, but I think issues are created by a lack of clarity in the confusing systems and by the constantly moving goal posts of savings requirements, restructures, approval processes... Staff have too much work - for example, the need for financial concurrents on reports going to CMT/MAB, etc. is high volume work that requires more resources if Committee deadlines are to be met.”

Training and Development for Finance

As we referenced above LBTH has recently restructured the finance function placing much greater emphasis on the role of Finance Business Partners within Directorates. We formed the view that this has led to a great deal of confusion over the roles and responsibilities of

finance staff viz a viz budget managers. The Business Partners are unclear about their role and about their relationship with the corporate centre. There is a clear need for additional training not least in the interpersonal skills required to support operational managers. At the moment, there is a strong feeling amongst managers that they are not receiving the support that they require from finance:

"Whilst Finance staff are helpful and supportive the majority of the financial management falls to service managers who are not accountants and or financial specialists. There is limited training, and the training that has been provided is not as effective as I would like, there is an expectation for service managers to be experts in several fields but what would be helpful is qualified financial staff who can assist with these types of queries."

It is also apparent that finance staff are sometimes regarded as "traditional" and lacking specialist skills

"Our Divisional staff are not finance driven as the team are not a finance team. However, creativity in policy and programme development requires a level of suitable finance experience. Finance colleagues are always knowledgeable and helpful and get the tasks completed. Finance staff seem to fill the role of traditional accountancy and management accounts. The financial climate requires a degree of specialism in certain aspects that current staff lack."

In terms of future anticipated requirements for technical financial skills, 38% of our survey participants agree or partly agree with the idea that finance staff demonstrate technical financial skills required to meet the organisation's anticipated requirements, with a further 35% agreeing in part.

Staffing

In response to the question on whether posts that require recognised professional skills, knowledge and competencies have job description and person specification that reflect these requirements 63% of respondents agreed or partly agreed. In responding to the question on whether or not these posts filled by suitably qualified and experienced accountants only 45% agreed or partly agreed. When asked whether or not the organisation avoids over reliance on temporary staff 65% said no or don't know. The following quotes were received:

"As a borough we rely very much on consultants who can be classed as temporary staff, rather than training internal staff to take on the work of a consultant."

"As much as this can be sourced from external organisations, investment in existing staff may be in the long run more efficient."

Staff said to us that following the last restructuring of Finance in January 2014 there had been no follow up review to test the effectiveness of the new structure. The key lesson here for LBTH is that there needs to be a full review of how well the new structure is operating and appropriate remedial action taken. Although it may seem early to be carrying out such a review there are clearly gaps in knowledge and expectation on the part of both finance staff and budget managers.

3.11 People – supporting performance

Supporting Performance	P3	The organisation manages its finance function to ensure efficiency and effectiveness.	1.0
	P4	Finance staff provide business partner support by interpreting and explaining performance as well as advising and supporting on key business decisions.	1.0
	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.	1.0

The three performance related statements cover the assessment of the effectiveness of the finance function, finance support on key decisions, the enforcement of accountability and the degree of diffused financial management. LBTH scores below average on all three statements.

Service standards

An initial supporting question for P3 tests the extent that the finance function is performance managed against standards and targets (for both Finance and for the client in relation to Finance i.e. ‘reverse indicators’), and regularly monitored and reported. LBTH does not have a service level agreement for the Finance function as a whole with which to measure performance. We would recommend strongly that an appropriate SLA should be put in place particularly to support the role of the Business Partners. We received very few comments on this topic and those we received suggested a lack of knowledge or interest in SLAs

We believe that Finance’s profile can be raised through enhanced transparency. There are benefits in actively communicating the performance of the Finance function, in terms of meeting targets and/or performance standards, as well as in managing the costs of Finance itself, to raise the profile of Finance. The costs of the Finance function should be of keen interest to managers in service areas that receive re-charges for central functions, and if the news is good then re-charges are more likely to be understood.

The current Finance system, Agresso, is not well integrated with the other feeder systems, and the coding structure makes it difficult to prepare user friendly reports. The system was intended to be self-service for managers, but it is not user friendly. In the interviews we found widespread dissatisfaction with the budget monitoring and forecasting tools in Agresso. In many cases the basic reports were supplemented by the use of Excel spread



sheets which were too complicated for non-finance staff to understand. We will discuss this further in later sections of this report on processes. The consequences of weaknesses now presented by this system is that Finance staff carry out extensive data manipulation that is then uploaded to Excel to work around system deficiencies. Such extra work, alongside some duplication of processes and actions, places extra pressure on Finance staff and diverts them from activities that would add value to the organisation. It also imports additional risk of error. We also noted other areas of manual intervention which we will return to later in this report.

As far as we can ascertain only limited steps have been taken to assess service quality and costs. Although Finance is a member of the CIPFA Benchmarking Club the reports that we have seen do not contain all the information required to carry out an assessment of the cost and effectiveness of the function. This suggest that, although the Council is paying for the service it is not making good use of the information potentially available.

Recruitment and development of good quality finance staff will be vital to a future high performing Finance function. LBTH's draft workforce strategy does not include data with corresponding costs, risks and scenario analysis for different options, which we would normally expect of such a document. The draft strategy discusses has a lot of gaps into which performance measures and targets can be inserted but there is a complete absence of any numbers in the Workforce Strategy document that we have seen.

In respect of P4 the FM Model tests the effectiveness of Finance Business Partnering arrangements. We have already noted above that the Business Partnering role is new to LBTH and that there are a lot of teething problems with the way in which it is operating currently. This is reflected in the low percentage of respondents saying yes to the following specific questions:

- 40% - the finance function supports budget holders and policy makers and adds value through a finance business partner
- 28% - the Finance function adds value through the BP structure;
- 35% - BPs demonstrate the technical and interpersonal skills, and organisational awareness, needed to meet the current and future BP requirements;
- 37% - BPs are accepted as part of the business unit staffing and an integral part of current and future business decisions;
- 28% - BPs provide strong challenge and support on Value for Money and performance; and
- 36% - analysis of financial implications in decision reports by Finance staff are reliable, comprehensive and robust.

The above results were confirmed during the interviews that we carried out both with budget managers and with members of the finance community. The following quotes from the survey respondents confirm this view:

"The level of finance support that I have is fairly low level in terms of normal budget management and posting."

"There is little, if any, communication from business partners."

"My personal experience is good and bad. However, overall, I am not sure finance staff understand the business well enough in order to challenge and rely upon officers responsible for that area of business being able to interpret / analyse / comment upon financial implications and options."

"I work on projects that I would expect more contribution from finance business partners in the ways you suggest, but in my experience this is lacking. This is not entirely down to finance business partners, rather how the organisation goes about these projects and team roles and key stakeholder engagement activities. (Everyone seems too busy to want to commit themselves)."

Some of the current finance business partners are quite competent but the situation is not consistent across directorates. The current structure does not encourage cohesion.

My only point really is that sometimes finance officers can struggle to explain exactly how the systems work in relation to my budget and sometimes it takes a good while to sort out minor issues. I generally feel these are more system problems than staffing problems but it may be that the officer doesn't have the right knowledge of the system.

Clearly a good deal of work is required to assess the current issues with the Business Partnering arrangements and to take swift remedial action.

LBTH also scores below average for Statement P5. Here the Model considers financial literacy within the non-finance community, accountability and delivering services cost effectively. The latter point is important for LBTH given the requirement to find £58m of savings over the life of the current MTFS. Non-finance staff require training, tools and support to enable them to operate effectively.

Financial literacy and performance

For many organisations demonstrating strong finance skills and experience by the way in which decisions are taken at the Corporate Management Team level, sends a clear message down through the organisation. It is key to achieving successful transformation in service delivery and meeting budgetary challenges. Only 29% of respondents agreed that this is the case at LBTH. A further 27% agreed partly.

The position is reinforced by the "yes" responses to the following statements:

32% - the organisation provides clear documentation, support and guidance, so that managers who are budget holders understand their responsibilities and own their budgets

37% - managers with budgets or other financial management responsibilities have clear performance and financial targets

30% - these managers' targets include measures of cost effectiveness, such as savings targets, performance improvements, etc.

As we have indicated in earlier sections of this report work needs to be done to implement an effective way of working following the restructuring of the finance function. Particular areas to address include:

- Definition of roles and responsibilities with respect to financial management. This applies not only to the relationship between budget holders and Business Partners but also between Business Partners and corporate finance
- Clear objectives and indicators for budgets, projects and individuals in some cases; absence of an agreed performance framework
- Drafting of a clear SLA for the delivery of the finance function
- Plans and strategies are either out of date or incomplete e.g. Asset Management Plan, ICT Strategy and the HR Strategy
- interviewees stated that there is a significant variance in the quality and depth of support across Business Partners which needs to be addressed through training

The following comments from survey respondents are illuminating with regard to the perception of the corporate centre of the Council:

"These questions suggest that there is a rational resource view at the centre which I do not perceive. The budgets I have inherited were chaotic, not geared to providing and supporting efficiency rather just seeking to explain expenditure at the end of the year rather than getting more bangs for the buck."

"Whilst managers may produce business plans to mitigate financial risks / deficits, often decisions are taken by members not to instigate financial decisions which may be politically unpalatable. Decisions taken for political reasons often leave managers in a position of budget overspend or having to cut in other areas to accommodate the impact of a political decision with a negative financial impact. This also needs to be taken into account when considering manager accountability for their budgets."

Accountability

Key to accountability is to have targets against which performance can be measured. For budget managers there are essentially two elements to this with a need for both:

- Clear performance and financial targets; and
- Measures of cost effectiveness, such as savings targets.

Measurable predefined indicators and targets aid transparency for performance management. However, our interviews suggest that the degree to which managers are

held accountable is limited and that there are no real sanctions for poor performance or of non-compliance with corporate financial standards. Particular areas of concern that we noted cover the following:

- Monthly forecasting returns are not taken seriously by budget managers. It is often left to finance to do the returns
- There is an attitude of complacency brought about by the easy availability of money in the past. The new budget cuts are starting to have an impact but it is early days so far. This has led to Business Cases not being very robust around benefits and savings
- If managers fail to comply with financial requirements there is no sanction against them by senior managers. We found one exception but this seems to be a general problem
- There is an attitude that "if it has a £ sign then it is finance's responsibility"
- There is a feeling that there is a lack of direction and leadership on financial issues both from the service directors and from the corporate centre
- There is a lack of "buy-in" on financial management from budget holders
- The overall view is that there is a lack of accountability for financial matters in general and budgetary control in particular

Our findings are borne out by the results of the survey, in particular statements 5 and 6 as follows:

20% (25% partly) - managers at all levels are held accountable for performance and financial outcomes, with meaningful consequences for their appraisal

18% (21% partly) - managers at all levels are held accountable for the value for money implications of their decisions, with meaningful consequences for their appraisal?

The following comments from the survey are relevant here and support the view that there is a general lack of accountability:

"I can only comment on my own area of work; I have monthly budget monitoring meetings with our Finance Officer and closely monitor budget performance. However, since losing the dedicated finance team in we no longer have regular service-wide

financial reports delivered to the Senior Management Team so have lost oversight of the overall performance of the service outside of my own area”

“Again my experience is limited here but in relation to what I have seen there is good awareness of the need to be financially efficient and robust and that message is relayed regularly but I’m less sure of the support available. I’m not aware of any guides I can use to help my own efficiency assessments and I’m not aware of specific support to help me in that way.”

“There is regular dialogue between managers and finance staff but room for improvement in terms of the quality of this dialogue. Currently it tends to be focused simply on the mechanics of completing monthly budget forecast reports”

“My view is that we have some way to travel before managers across the organisation understand their budget management responsibilities and the consequences for them and the organisation of not giving these responsibilities due weight.”

3.12 People – enabling transformation

Enabling Transformation	P6	The organisation develops and sustains its financial management capacity to help shape and support its transformational programme.	1.5
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The transformation statement covers the extent to which financial management capacity and resources are capable of driving transformational change. The score for P6 meets the average for organisations that we see.

This Statement expects finance staff to have a wider range of skills and experience than has traditionally been the case. At this transformational level there is an expectation that finance will have a detailed understanding of the way the organisation operates so that appropriate advice can be given. It also expects knowledge of other organisations and different ways in which financial management processes can operate. Above all, this requires high-calibre staff. Contributors have mixed views on this idea with a high percentage of “partly” answers although there were more statements where the no answers slightly outweighed the yes answers. In terms of comments from the survey respondents two are particularly relevant here:

“Not convinced by the management who decided to spend lots of money to recruit external consultants and assumed no measurement has been taken to look into existing workforce to help on certain area for improvement. Perhaps Tower Hamlets management should prepare to take time to assess the overall staff force capabilities and involvement.”

“Finance staff do not seem to have a high status or be seen as influential in the areas I work in. My involvement with them is related to compliance checking and relatively simple financial comparisons.”



From our interviews we have also identified a common view that finance staff are not prepared for the transformation role that the Council now expects. The main areas that we identified for attention are as follows:

- There is a need for better communication between finance staff and service managers. There is also an issue over communications between finance staff in departments and those at the corporate centre
- Lack of willingness to change on the part of many finance staff. Some have been around too long and are “time servers”
- Some accountants are too technical in proposing solutions. They lack the interpersonal skills to communicate effectively with non-financial managers
- There appears to have been a focus on getting the revenue budget process right and, because of the abundance of capital, this has been treated less rigorously
- There was a number of concerns about the use and quality of Business Partners

Finance staff are not seen overall to have the status and influence that will result in a transformational impact on the organisation’s development. To support transformation the organisation needs to build internal knowledge and capacity in financial management to allow, if necessary or appropriate, the organisation to explore novel options. Our contributors were only partly convinced on this idea. Contributors do not agree that the organisation systematically learns from the best in class with only 6% saying yes. Nor do they agree that there are processes to identify learning points for the future from for example, projects or process changes with only 9% saying yes. As we discussed earlier in this report Finance has undergone a major restructuring and it is clear that the desired improvements in the performance of the finance function have not yet been realised.

Underpinning a move to successfully introduce innovation in financial management is to recognise innovative ideas through awards, rewards etc. We noted that the Council does have an award scheme but one survey respondent commented that:

“The organisational culture is definitely there to look for efficiencies but it is difficult to say it rewards.”

3.13 Processes – delivering accountability

For the Accountability style of financial management the score combines nine individual statements. This is typically one of the highest scoring areas of the FM Model across public sector bodies.

As there are so many statements here, they are most easily considered in a series of thematic groups dealing with different aspects of financial management. Each group is introduced by a series of scores.

Delivering Accountability	PR1	Budgets are accrual-based and robustly calculated	2.5
	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.	2.5
	PR3	The organisation operates and maintains accurate, timely and efficient transactional financial services (e.g. creditor payments, income collection, payroll, and pensions' administration).	2.5
	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.	3.5

The first four delivering accountability statements deal with foundational requirements across annual budget setting, transactional finance, treasury management arrangements, as well as integrity and performance of financial systems. The scores for PR 1, PR2 and PR3 meet the average; while the score for PR4 exceeds the average for all the organisations that we see.

The first statement PR1 tests the question of whether LBTH's budget setting process is robust. This would typically mean that its construction would be: integral to the corporate medium term financial plan; be founded upon operational service planning objectives, within a 'bottom up approach' formulation; and incorporates, where possible, aspects of outcome and/or zero based budgeting.

The budget setting process at LBTH is not accruals based. Budgets are incremental for day to day spend. In the past, budgets have not been zero-based nor have they incorporated activity based costing approaches; project budgets may be zero-based. Budgets are profiled, and Finance can and do redirect money to another budget during the year if managers release unspent funds.

For 2017/18 a different approach has been adopted in that the Council has introduced a system of OBB linking budgets to service outcomes rather than setting an incremental target. The results of our interviews suggest that the degree of success has been mixed. Some interviewees commented that the approach had worked well while others thought that the approach was still too incremental. Some areas have attempted to use comparative data and benchmarking but the extent of available data in year 1 of this



approach has been limited in some areas. To some extent the degree of success has depended on the skills and experience of the Business Partners in each business area. As we have noted already in this report those can be very mixed.

Generally, the respondents to our survey gave a fairly positive picture of budgeting although there were also some negative comments as we can see from the sample below:

"In general I think this area appears strong and is being strengthened too by better reporting and monitoring of agreed savings targets to ensure they are being met.I can't be sure on whether managers are fully involved in the budget setting process. I think we probably are but I'm not sure the level you are thinking is required. for example, I have meetings regularly looking at my budget and we monitor whether growth bids or savings bids are required but on the other hand I don't have a meeting to determine what my budget is for the next year. I just seem to be given a figure and then have to run with it."

"The budget system has been centre led and allows for very little initiative. The tools provided and budget reports are inflexible and unhelpful. There are some finance staff who will go above and beyond to help but I have never been so frustrated in any organisation as to trying to get my budget transparent. There is too much emphasis on out turn rather than process"

"Budget setting does not fully take account of variances - as a result budget issues can recur year on year. There is too much reliance on 'fixing' budgets in month 12 - rather than on addressing structural problems."

"I think we are stronger in this area although some of these questions are quite technical and I didn't fully understand them. There is room for improvement in involving managers. In my budget manager role Finance have never spoken to me about budget setting."

"I've answered "partly" to a lot of these questions because whilst the will is there, there is often a lack of detailed knowledge around the cost benefit analysis (which need time and resources to effectively model), and then the needs of the organisation as a whole always takes precedence over the needs of a particular service."

The main issues seem to centre on the following:

- There is a feeling that budgets are still driven by the centre
- There is still a push to cap budgets rather than look at need
- A lack of profiling means that a disproportionate amount of expenditure occurs in month 12
- There is insufficient time and skills to look in detail at business cases

This mixed view of the budget process is also reflected in the answers to the survey statements. There was a relatively positive response to the statements on basic budget setting as follows:

56% - the organisation prepares its budget in accordance with its corporate objectives, strategies and medium-term financial plan

47% - forecast or actual budget variances and trends are reflected in the budget setting process

When the questions become more concerned with forward projections and trends the answers become much less positive:

40% - revenue and capital budgets are based on plans and projections about resource needs, pay and inflation, productivity levels, and income

39% - cost reductions, growth and savings options are identified and reliably costed as part of the budget process?

Our overall view is that the budget setting process is still "traditional" but attempts are being made to move to an OBB approach. This is being hindered by all the issues around the restructuring of finance that we identified above and by cumbersome systems.

PR2 assesses the extent that there are robust and modern financial systems in place which are properly supported, documented and maintained, that deliver effective financial data meeting user requirements that will assist optimal decision making.

LBTH currently uses Agresso for General Ledger, Cash Management, Purchase Ledger, Purchase Ordering and Budget Modelling modules. Agresso was introduced at the beginning of 2014. We have been told that the implementation was rushed and that the system has never been configured correctly. It has not been subjected to a post implementation review. Furthermore, staff were not trained properly in the use of Agresso and there is no ongoing training available to new joiners. Finance staff joining specialist areas will receive on the job training but the main problem relates to budget managers who have joined since Agresso was introduced. An e-learning application is available for budget monitoring and forecasting and, in theory this is compulsory. However, we understand that many managers circumvent the training by asking junior staff to complete it on their behalf.

As a result of the above there is a general lack of commitment by budget holders to the budget monitoring and forecasting modules in Agresso. During the course of our interviews we heard the same repeated issues with regard to financial management and the shortcomings of Agresso. In summary, we found that:

- Before Agresso was implemented there was a perception that the previous system was poor and this has persisted with Agresso. The main problem continues to be with budget managers and forecasting. They see this as a finance function and

hence they feel that they are not equipped to do it. We were informed that managers will ask others to sign into Agresso on their behalf to do the forecasts.

- This is partly due to the fact that Agresso was designed around an organisation structure that has never been implemented and hence the system is not fit for purpose
- We were also informed that although Agresso can allocate a code based on a description administrative staff will often over-ride the suggested code. This occurs at the point of requisition where administrative staff are told by their line managers which code to use. Over 1000 people have access to the requisition part of Agresso which causes a major problem
- Although managers have a self-service access to Agresso and can generate their own reports they still fail to complete forecasts. We heard complaints that it is difficult to extract enhanced information from Agresso. No one is asking managers what they want and they are not articulating it. There is a user group but, apparently, no one turns up for it. Business Partners used to hold a regular forum which used to meet weekly but then lapsed to quarterly. There are monthly finance meetings but they are for wider issues and not just Agresso
- Perhaps the main system issue is in the way Agresso is structured. User access is role based within cost centres so if a centre is closed it affects access and limits functionality for users
- Business Partners are able to write their own reports and as a result there is a lot of repetition. There are some basic corporate standards but they are only for the simplest reports.

Looking at the survey responses to the "Yes" answers to statements about the general ledger were generally very low with a high percentage of "don't knows".

27% - the financial system uses accrual information in an integrated and comprehensive way

20% - financial systems provide management information (e.g. commitments, unit costs, trends, and expected variances) without the need for re-keying data or extensive manual adjustments

23% - managers are equipped with the tools and skills to use financial systems effectively and to access the information they need

13% - users' needs are regularly reviewed to ensure that financial systems remain 'fit for purpose'

18% - finance staff and managers rely on the formal information systems rather than using separate spreadsheets



Comments on the reporting function of the financial system:

"We have a system to identify different project costs in our ledger. The problem is mistakes occur at inputting level so too many errors and recodings are required to maintain the system"

"I sometimes think that computer based systems become our master even though they may start life as our servant. Often there is a need to compile box after box of information just because the system demands something in box before it moves on"

PR3 reviews the operation of transactional financial services. An aspect of this is performance and internal controls. A feature of such controls would include the assessment of the sufficiency of performance monitoring and reconciliation thereby enabling LBTH to be able to place sufficient reliance on such transactional services to be effective.

Operating Transactional Financial Services

LBTH has documented policies and procedures for transactional financial services; we are not aware of the extent to which they are reviewed and challenged. Although Financial Regulations are clear about the requirements for financial control we have reservations about the knowledge and awareness of the regulations amongst non-financial managers and we have referred to this above.

Finance Performance Indicators are used to monitor performance for transactional financial services in terms of timeliness, accuracy and efficiency. Targets are set for income collection that are monitored, reported and acted upon. Cash and bank positions are reconciled regularly. There is a cash flow model which is incorporated into the MTFS and reported to members for approval as part of the budget pack. Supporting this area are the findings of Internal Audit which provides assurance on controls and the operation of the financial systems.

The Financial Transactions Team is responsible for the processing of purchase orders, invoiced payments, direct payments and accounts receivable. The arrangements for authorisation are typical of most councils i.e. authorisation of order, confirmation of goods received and authorisation of invoice. There are three payment runs per week. A large part of the team's work is the maintenance of the system for the creditors' address book, the matching of invoices and keeping staff details for work flow up to date. In addition, for accounts receivable, the team maintains all the invoice information in case recovery action is required. The team works very closely with the systems team which is responsible for the maintenance of Agresso. Where an issue cannot be resolved by this team it is passed to Agilysis.

From the results of our interviews we are aware of a number of issues in relation to transactional services including the following:

- Matching of orders and invoices – invoices are sent directly to a processing centre in Slough where they are scanned onto the system. The invoices are then

matched with the orders. However, the system is not very effective and rejects are sent to an E-Queue system to be matched manually. Currently 75% of invoices are matched manually. There is also a problem with schools' catering invoices in that there is a high volume of duplicate payments

- Maintenance of the workflow system – the payments system uses workflow to push invoices to the appropriate member of staff for certification. However, there is a problem with staff turnover in that when a member of staff leaves the e-mail address is left open for 90 days. Until the account is closed there is no automatic way of informing the AP team that an invoice has not been certified so it is followed up manually by the Financial Transactions Team. We understand that HR is working on a solution for this
- Staff responsibility – when an invoice is sent to a member of the administrative staff in a directorate it is that member of staff's responsibility to ensure that the invoice is signed off by the manager who approved the original order. Unfortunately, members of staff do not take their responsibilities very seriously which leads to more delays in the system and additional work for the AP team. We understand that senior officers are the worst offenders and hinder the admin staff in carrying out their work
- Duplicate payments – there is an ongoing problem with duplicate payments. There is a high chance of these occurring usually due to the input of the same invoice with different reference numbers. AP spend a lot of time carrying out checks to spot these and recover over-payments. A report is run daily to try to pick up instances of duplicate payments

PR4 concerns the organisation's Treasury Management policy, and related Treasury Management practices. It questions whether there is an effective system for reporting on Treasury Management activity, the expenditure monitoring processes and the evaluation of budget variances, and the processes in place for balance sheet maintenance to ensure that reported balances are accurate.

As part of our work we have carried out a detailed review of the Council's Treasury Management Strategy. The results of our work can be summarised as follows:

CIPFA defines Treasury Management Activities as follows:

"The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

- We have reviewed the TMSS against the CIPFA Treasury Management Code and we are satisfied that the document complies with the Code. In particular we note that:

- The definition set out above is quoted in full in the Introduction to the TMSS on Page 2
- The three Key Principles set out in the Code are covered in the TMSS
- The TMSS also states on Page 3 that “the elements in the TMS cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CLG MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance”
- The only exception from the Code that we noted was an explicit reference to Money Laundering

Responsibility for implementation and monitoring is delegated to the Section 151 Officer, who also retains responsibility for the overall Strategy and, within the limits set by this Strategy, the flexibility to adjust the balance between borrowing and investments to meet changing circumstances. Scrutiny has been delegated to the Audit Committee prior to consideration by the Cabinet and adoption by Full Council.

Delivering Accountability	PR5	The organisation actively manages budgets, with effective budget monitoring arrangements that ensure ‘no surprises’ and trigger responsive action.	2.0
	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.	2.0

These statements cover critical budget performance monitoring and associated responsive agility, as well as how the balance sheet contributes to the effective management of the organisation’s assets and liabilities. The scores for PR5 and PR6 are lower than the average for all the organisations that we see.

In relation to PR5, the model assumes managerial accountability, accurate forecasting of outturns and prompt action when needed. Budgets are available to managers prior to the start of the financial year after they have been approved by full Council in February. We have commented in some detail above on the inadequacies in the budget setting and monitoring processes. The results of our interviews indicate that not all budget managers demonstrate a strong sense of ownership for budgets, because they believe they are imposed. Finance question whether Service Managers really understand what “ownership” entails. There is a lot of “handholding” from Business Partners.

A key task for the Business Partners is to set out the annual governance arrangements for the budget i.e. its strengths, weaknesses and risks. Some Business Partners feel that they are spending much more time on lower level tasks and that systems do not support finance

staff adequately. A lot of time has been wasted on sorting out miscoding and checking the accuracy of information. Although staff have been trained they tend to use any code for convenience and this supports our comments above regarding financial transactions. There is a lack of “buy in” and responsibility. Finance staff spend too much time firefighting and not adding value. More time should be spent on risk assessment and the assessment of growth bids. Senior managers need to take advice from the Business Partners but there is currently a feeling that they do not. There needs to be more discussion with finance so that there is enough evidence to justify growth bids and savings.

As we stated above there is a need for major cultural change following on from the restructuring of the Finance Function.

Capital

At PR6, the Model seeks to address processes for ensuring that Assets and Liabilities are recorded accurately in the Balance Sheet. A key line of assurance here comes from the opinion of the external auditors, which concluded that the Council’s accounts presented a true and fair view.

Our review indicates that there is a major problem with the way in which the capital programme is compiled in that Directorates produce their own capital programmes before they go to cabinet for approval. Corporate Finance is responsible for refreshing the programme and for quarterly reporting to the CMT and Council. Projects can be added in-year with delegated authority up to £250K. Projects between £250K and £1m need Cabinet approval while those over £1m require full Council approval. Financial Planning checks to ensure that projects can be delivered in terms of funding. At the year end the capital funding is allocated so there is assurance that capital expenditure is recorded accurately in the accounts.

Once approved capital expenditure on projects tends to be allocated in full to the year in which the project receives approval. The profile of projects will be changed each quarter where there is evidence of significant slippage. By the end of the third quarter all approvals are added and the list of indicative approvals for the following year is prepared. However there are two main issues:

- Directorates have cash to spend but do not spend it quickly enough against the budget due to a lack of accurate profiling
- Initial profiling is very inaccurate and it is all done within the directorates. Corporate finance take the figures as given without any real challenge.

It is the responsibility of project managers to reprofile budgets but they do not do this rigorously. The Business partner model is not working here and there is no challenge. As a result, all expenditure tends to be dropped into year 1. Although Financial Planning tries to adopt a challenging role and the section has issued instructions about the need to reprofile over more than one year. However, there is a lack of buy-in amongst Capital Programme Heads in the directorates and there is a need to change the culture here. In effect the Asset Management Working Group needs to exert more control. Project Managers sit on this group but they do not challenge each other. There needs to be much



more of a corporate approach rather than each directorate operating in silos as they do currently and we refer to this again below in our comments on the Asset Strategy.

Financial Planning prepares the Capital programme report which goes to members for approval. The report is part of the MTFS but it is at a very high level i.e. programme level and there is no scrutiny of individual projects corporately, particularly by Members.

As part of our work we have carried out a detailed review of the Asset management Strategy and our views are summarised below:

- The Council has an Asset Management Strategy that covers the period 2015 to 2020 and which sets out its Scoping, Principles and Priorities. The financial implications of this were updated in 2015 to reflect the financial implications of the July 2015 Medium Term Financial Plan
- One of the key principles of the strategy is that the strategic elements of the Council's portfolio are managed by the Asset Management Team. We found that there was concern over whether this was working in practice with some properties potentially being disposed of before consideration has been given at an appropriate level as to whether there could be a better corporate use of the property
- CMT has recognised the need to update the strategy to clarify the buildings required, costs and opportunities for more efficient use or disposal. This needs to be done with close working with the ICT and HR strategy work to ensure that a true corporate view can be developed. This should be underpinned by a Target Operating Model that ensures investment is placed in the right locations and that benefits are identified and then realised

Although there is a quarterly budget monitoring report for members it does not include the balance sheet. This was an area of concern raised with us by members.

The Model considers good practice to be reporting the complete balance sheet on at least a quarterly basis to Corporate Management Team, and the Cabinet. This does not happen in a way required by the FM Model.

Delivering Accountability	PR7	Management understands and addresses its risk management and internal control governance responsibilities.	2.5
	PR8	Management is supported by effective assurance arrangements, including internal audit, and audit and risk committee(s).	3.5
	PR9	The organisation's financial accounting and reporting are accrual based and comply with international standards and meet relevant professional and regulatory standards.	3.5

The first two statements here address key aspects of critical internal risk management and internal control arrangements together with more independent organisational scrutiny processes. The final statement assesses the effectiveness of financial reporting, including compliance with relevant professional and regulatory standards. The score for PR7 is slightly lower than the average, while the scores for PR8 and PR9 meet the average for the organisations that we see.

For PR7, LBTH has a Risk Management Policy Statement and a Risk Register. These documents are maintained by the Head of Audit and Risk Management. In terms of risk he uses a governance model to provide an overall assessment of where risks lie. He also interviews directors and service Heads each year to ensure full coverage of systems and to identify specific risks. He has identified CLC as a particular risk area (although this Directorate will not exist in the new structure). The Head of Audit and Risk Management maintains the Council's risk register and reports are produced on a quarterly basis for CMT which takes the issue of risk very seriously. The risk register is arranged such that each directorate maintains its own part of it and can access the document as required. Each Directorate has its own risk champion although some take their responsibilities more seriously than others. The register uses a system called JACAD. The system is designed to chase the champions to update the system on a regular basis and it operates on a self-service approach.

Internal Control

Moving on to Internal Control, LBTH has Financial Regulations and Standing Orders to enunciate the control environment and processes. By encompassing areas such as LBTH's responsibilities for collaborative/partnership arrangements Finance Regulations follow good practice. Overall the Financial Regulations appear to be comprehensive and in line with best practice arrangements.

Evidence in support of a strong internal control environment is provided by the annual audit letter from External Audit for 2014-15 which was free of weaknesses in the operation of internal controls. We only had access to the 2014/15 letter at the time of review as the

letter for 2015/16 and the audit opinion has been delayed due to the VFM qualification issues. However, we met with the external audit partner and he was able to provide an assurance that there was no material issue with the financial statements. He also referred to the general quality of working papers and of the ability of the Council's finance to deal with audit queries.

The internal audit function is led by an experienced Head of Audit and Risk Management. He produces an annual plan that is designed to cover all the key financial systems each year. There is a comprehensive Internal Audit Plan in place for 2016/17 and this was provided for our review. The plan was reported to the Audit Committee by the Corporate Director of Resources on 22 March 2016. The plan is risk based and it starts by addressing the 11 corporate risks identified by the Council. The plan sits within an overall Internal Audit Strategy that was approved by the Audit Committee in 2010. In terms of resources the plan provides for just over 1500 man days comprising 4 internal staff plus management supplemented by a team from Mazars which is procured under a framework agreement with the LB of Croydon.

Generally the Head of Audit and Risk Management is satisfied that controls across departments are working. His views on each major system are set out below:

- GL – there were several issues when the Council changed from JD Edwards to Agresso due to controls disappearing. The implementation was rushed and poorly planned. Internal Audit carried out a pre-implementation review with the External Auditors which concluded that the Council was not really ready for the switch but it went ahead anyway. He still has concerns about the payments system and the potential for over-payments. He cited one example of an overpayment of £750K although it was recovered subsequently. There was no bank reconciliation for the first year of the GL (2013/14) and there was a problem matching cash received with debtor accounts. He is of the opinion that Agresso is now working properly
- Payments – procurement and ordering systems are sound. There has been a minor problem with fraud on payments but due to human error rather than the system
- Payroll – generally sound although exception reports are not always actioned. As a result there can be significant budget variances on this heading. The key control of budgets in relation to established staffing numbers is unclear.

On financial control the work of internal audit supports the views expressed in the earlier sections of this report in that the Council has suffered some severe problems. Cash has been kept in reserves to help balance budget overspends. This has led to a culture of complacency with a lack of budgetary control. Budgets are balanced at the macro level but this hides a lot of variances in the detail. Monitoring at this latter level is weak. Financial regulations are very clear on the need for budget monitoring and control at Service Head and Head of service level. Budget holders should be held accountable but they are not. They need support from business partners but the support mechanisms are not always in place.

The Head of Audit and Risk Management provides an annual internal audit opinion in accordance with the Public Sector Internal Audit Standards. The opinion supports the annual governance statement, which forms part of the annual statement of accounts required under the Accounts and Audit Regulations 2003 (as amended). This report is submitted for approval to the Audit Committee and we reviewed the report for 2015/16 submitted on 28 June 2016.

The report concludes that the Council has an adequate system of internal control which was in operation throughout 2015/16. The report is comprehensive and covers:

- Opinion and basis of opinion
- Summary of audit work undertaken in 2015/16
- Audit Charter and Internal Audit Strategy, setting out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards
- Appendices covering Audit Resources, Summaries of reports not previously reported Summaries of all audit reports are submitted to the CMT and Audit Committee, Follow Up Audits, List of planned audits undertaken in 2015/16, Summary Head of Audit Opinion, Detailed Head of Audit Opinion, Benchmarking club/headline.

The following extract from the report is relevant:

"2015/16 Year Opinion

Internal Control

From the Internal Audit work undertaken in 2015/16, it is my opinion that I can provide a satisfactory assurance that the system of internal control that has been in place at the Council for the year ended 31st March 2016 accords with proper practice, except for any details of significant internal control issues as documented in the Detailed Report on pages 80-87.

Risk Management

In my opinion, risk management within the Council continues to be embedded, with increased emphases on buy in from staff, Member and the Corporate Management Team. Embedding risk management within the culture is a lengthy process, continuing to improve the management information in the form of risk registers and reporting of risks and control will ordinarily assist this process. The Audit Committee will receive an annual Risk Management report in June 2016.

Compliance with CIPFA Code of Internal Audit Practice

Internal Audit has comprehensive quality control and assurance processes in place to confirm compliance with the CIPFA standards. Assurance is drawn from:



- The work of external audit; and
- My own internal quality reviews.

External audit carried out a review of internal audit for the financial year 2009/10 and reported their findings in March 2010. The main conclusions of their review were:

- Internal Audit is compliant against the 11 code of the CIPFA code of Practice (applicable at the time);
- The Internal Audit Service has appropriate governance arrangements, internal policies and sufficient resources to enable an independent, objective and ethical audit to be completed in line with the code.
- That audit files contained sufficient information for an experienced auditor with no previous connection with the audit to re-perform the work and if necessary support the conclusions reached.

Minor recommendations were raised and were addressed. Following the implementation of the Public Sector Internal Audit Standards in April 2013, Tower Hamlets will, on a five year cycle, be subject to an independent peer review from the Head of Audit of another London borough. A peer review is planned for the next financial year. Findings from this review will be brought to the Audit Committee in due course."

LBTH has an Anti-Fraud and Corruption Strategy, which appears to be comprehensive and up to date.

PR9 concentrates on financial reporting.

The financial accounts and statements for LBTH are produced in accordance with statutory deadlines but there have been delays in signing and publication due to the VFM qualifications which started in 2013/14 and which resulted in the appointment of Commissioners. As a consequence of this history the Annual Governance Statement for 2015/16 was only presented to the Audit Committee on 20 September 2016 so that it could be approved for signing by the Chief Executive Officer and the Mayor by the statutory deadline of 30 September 2016.

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.	2.5
	PR11	Forecasting processes and reporting are well developed and supported by accountable operational management. Forecasting is insightful and leads to optimal decision making.	2.0

The first performance statement addressed the critical area of medium term financial planning and how financial strategy is underpinned by key funding assumptions, strategic service planning and analysis. The second statement tests the effectiveness of forecasting and the influence of such processes upon decision making. The scores for PR 10 and PR 11 are the same as the average of organisations that we see.

PR10 tests the strength of medium term financial planning at LBTH. As part of our review we have carried out a detailed assessment of the MTFS with the following results:

- We have carried out a review comparing its content and approach with the guidance contained in the CIPFA publication "Looking Forward - Medium-term financial strategies in the UK public sector"
- A detailed comparison of the contents of the MTFS with the CIPFA has led us to the overall conclusion that the MTFS document does pull together all the relevant factors in one place and it does inform decision making by members
- However, we have concerns over the process itself and the extent to which it offers a robust scrutiny of priorities. Our concerns are summarised in the bullet points below which summarise the key points arising from the interviews with staff

Our main areas of concern with regard to the MTFS are as follows:

- There is a general feeling that the approach to budget cuts has been fairly traditional and that the OBB process has not had a full effect
- The approach to savings has not been sufficiently analytical
- There is an attitude of complacency brought about by the easy availability of money in the past. The new budget cuts are starting to have an impact but it is early days so far. This has led to Business Cases not being very robust around benefits and savings
- The MTFS supporting strategies appear to have been developed in isolation from each other and we could find no evidence of a coordinated corporate approach e.g. ICT
- There appears to have been a focus on getting the revenue budget process right and, because of the abundance of capital, this has been treated less rigorously
- We could find little coordination across the various Departments to ensure the Capital programme in Departments is combined and aligned to the overall corporate priorities, particularly regarding asset disposals

Forecasting processes and reporting are dealt with in PR11. The majority of our evidence here comes from the results of our interviews and the scoring of the survey. With regard to the former the key points to emerge were as follows:

- On capital projects expenditure tends to be allocated in full to the year in which the project is approved. There is a perception that as long as the total cost of a scheme is requested then the profiling of the actual spend is a finance responsibility and not the service department so giving problems in the forecasting of spend. This leads to enormous slippage due to the lack of budget profiling
- There is a need for more corporate standard setting, particularly on financial reporting and forecasting. Although some basic standards have been set there is a tendency to re-invent the wheel. This applies to Business Partners and finance staff in general
- On financial input to reports there is a general feeling that finance are consulted too late in the process. They are asked for a view after the key decisions are made and they are not part of the decision making process when financial issues may have a greater impact on a decision
- Monthly forecasting returns are not taken seriously by budget managers. Finance staff are often left with the responsibility of completing the returns
- There is a prevailing view that there is a lack of accountability for financial matters in general and budgetary control in particular

With regard to the survey scores respondents agreed that the basics of budgeting and forecasting were sound. However, there were much lower scores around the scrutiny and challenge to budgets and this is reflected in the percentage of "Yes" answers below:

36% - base data used for forecasting considered is considered to be robust

24% - forecasts are based on a thorough knowledge of cost/income drivers and activity behaviours e.g. latest intelligence on tax yield/income trends, etc.

18% - the appropriate quantitative/qualitative techniques and sensitivity analysis are used within decision support modelling of forecasts

13% - assumptions are 'stress tested' and validated for risk and uncertainty

16% - the appropriate techniques are used and challenge provided to counter behavioural aspects of forecasting including optimism bias

3.14 Processes – supporting performance

Supporting Performance	PR12	The organisation systematically pursues opportunities to reduce costs and improve value for money in its operations.	1.5
	PR13	The organisation systematically pursues opportunities for improved value for money and cost savings through its procurement, commissioning and contract management.	2.5

Both performance statements cover the extent to which arrangements to secure value for money are embedded within the organisation. The first statement considers the systematic delivery of value for money in ordinary activities, whereas the second statement tests the effectiveness of procurement commissioning and contract management in securing value for money. The score for PR12 is slightly lower than the average while the score for PR13 meets the average of organisations we see.

At PR12, the FM Model envisages a detailed plan of specific Value for Money improvements that LBTH intends to make (either as a separate plan or as an identified element of the budget).

In response to the drop in government funding and the need to find savings of £58m over the life of the current MTFS LBTH has introduced a new approach to budgeting for 2017/18 based on outcomes. We have referred to this earlier in this report and we have found that it has worked in parts of the organisation but some service areas are still using an incremental approach to budget setting.

The Council has also launched a transformation programme for the way in which services are delivered. Key to this will be an examination of how the Council's spending compares with other boroughs. Support services will be expected to contribute over £30m of the £58m while, at the same time, improving the service provided to operational directorates. This will have a major impact in the finance function. The Council's Strategic Plan sets out two key priority aspirations for the Council which have been arrived at following consultation with residents:

- Priority 1 - To create opportunity by supporting aspiration and tackling poverty
- Priority 2 - To create and maintain a vibrant and successful place

These priorities are supported by a third enabling objective of 'a transformed Council that makes best use of resources and develops a culture of transparency and trust' and it is this latter objective that will have the biggest impact on finance.

As part of the transformation of support services the Council has ambitious plans to introduce new ways of working which will be dependent on large scale investment. For example, the Council intends to relocate the Town Hall from its present site to Whitechapel. It also intends to invest around £25m in new ICT infrastructure. These large scale investments will enable the workforce to adopt new ways of working and become much more agile.

Given that the transformation and the savings will depend largely on staff efficiencies we would have expected to see details of the transformation plans in a detailed HR strategy containing objectives, measurable targets and costs and benefits. However, to date we have only been able to find a high level strategy entitled "Workforce Strategy 2016 to 2021". From our review of the existing strategy we would comment that:

- This strategy sets out the overall aims for the type of workforce and the way it will operate at a high level for 2021
- We have not been able to find any other documents that support this strategy document so there is a need to be clear on the Performance Indicators which are mainly blank at present in the document
- We could find little reference to the costs of developing this strategy between now and 2021
- We would have expected to see a clear plan which had costs and benefits plus performance indicators defined as a blueprint for the organisation to work to ensure that the strategy was delivered. There is also a need to be clear who is responsible and accountable for delivering the strategy

LBTH will need to address cultural and behavioural issues currently limiting opportunities available to achieve value for money. These issues relate to weaknesses in accountability for the cost-effectiveness of decision making and insufficient depth in "holding to account" for financial performance. Savings are identified at outturn, and high level aspirational savings targets and service options are generated within the annual budget setting process, but even so it is still difficult to identify fundamental savings and efficiencies across the whole of the Council. We accept that this is the first year of the OBB approach and we would hope to see a much more widespread use of comparative data in the 2018/19 budget cycle.

Statement PR13 explores whether LBTH is systematically pursuing opportunities to improve Value for Money through its procurement strategy, the contract procedure rules and benchmarking of services. We have reviewed the Council's Procurement Strategy and we are satisfied that the Council has adopted a sound approach. Although the processes and approach are in line with best practice there is a lack of "commercial awareness" or the need to adopt a "Business-like approach" across the Council. The main points arising from our review are:

- The Council procures approximately £345m per year that is seen as addressable procurement spend

- It has a Procurement Strategy and its performance against that strategy is reported in the Annual Procurement Report which outlines progress against seven key principles
- Positive progress is being made year on year on the targets for the key principles
- There is a Contracts Register and all contracts over £25k are procured through the Council's e- tendering system and, with a spend under contract of over 90%, we think the strategy is working
- The key issue arising from our review that we would highlight here is that, although Procurement can be seen as working, there is a general lack of commercialism within the Council. This may be because a lack of finance is not seen as a major issue at present. However, we believe that to build on the success of the procurement strategy there is a need to look to embed more of a commercial culture within the wider organisation

With regard to the final point on commercialisation the Council is aware of the need to develop a new Income Generation Strategy. Work on this has already started with the assistance of external consultants. The main points arising from the draft strategy are as follows:

- The new draft strategy sets out the overall aim and plan of action for the Council's new and emergent corporate approach to Income Generation
- The purpose of the draft strategy document is to set out a path to develop a detailed implementation programme on income generation by:
 - Determining the national and local policy drivers of the business case for change
 - Proposing a new corporate vision for success and underlying principles that aligns to the Mayor's objectives
 - Sharing transferable insights from sector good practice
 - Identifying possible new options for commercialisation to build on the Council's current activities
 - Understanding the governance implications for members and officers
 - Forward action planning to make these new opportunities a reality over the next 3 years
- The draft will be issued for consultation during February 2017

3.15 Processes – enabling transformation

Enabling Transformation	PR14	The organisation continually re-engineers its financial processes to ensure delivery of agreed outcomes is optimised.	1.5
	PR15	The organisation’s financial management processes support organisational change.	1.0

The transformation statements test the extent to which financial processes contributes to improved outcomes through transformational change. The scores for both PR14 and PR15 are significantly lower than the average we see in other organisations.

These statements deal with testing whether financial systems and processes are radically reviewed as end-to-end processes to give Value for Money over the whole organisation and whether there is evidence that planned benefits from process re-engineering and change has delivered the benefits anticipated in the business cases and have provided Value for Money. The model tests whether performance information is used to prioritise areas for analysis and change, and if new services or ways of doing business subject to thorough business case analysis.

There are several different elements to PR14 as indicated by the range of supporting questions. The emphasis is on fundamental reshaping of financial management processes, which necessitates establishing the required outcomes rather than current systems and processes.

LBTH introduced a new General Ledger system, Agresso, in 2014. As we have noted earlier in this report the system implementation was managed badly and received adverse comments at the time from both internal and external audit. Although the initial issues over balances and reconciliations have been resolved there are still a number of problems with the way in which the system operates that require a great deal of manual intervention. Although we have referred to some of these issues elsewhere in this report we thought that it would be helpful to bring them together in one place. The main problems are as follows:

- Requests for changes to Agresso that go to IT are too complicated and the response from IT is poor
- A major problem relates to the processing of journals. Accountants, and some non-accountants, complete the pro-formas which are then sent to the Operational Accounting Team for processing. There is a high error rate on journals which means the team has to revert to the various operational finance teams to resolve the problems
- A particular problem relates to cash income and its subsequent allocation



- Matching of orders and invoices – invoices are sent directly to a processing centre in Slough where they are scanned onto the system. The invoices are then matched with the orders. However, the system is not very effective and rejects are sent to an E-Queue system to be matched manually. Currently 75% of invoices are matched manually. There is also a problem with schools' catering invoices in that there is a lot of duplicate payments
- Maintenance of the workflow system – the payments system uses workflow to push invoices to the appropriate member of staff for certification. However, there is a problem with staff turnover in that when a member of staff leaves the e-mail address is left open for 90 days. Until the account is closed there is no automatic way of informing the AP team that an invoice has not been certified so it is followed up manually by Jo's team. Apparently, HR is working on a solution for this
- Staff responsibility – when an invoice is sent to a member of the administrative staff in a directorate it is that member of staff's responsibility to ensure that the invoice is signed off by the manager who approved the original order. Unfortunately, members of staff do not take their responsibilities very seriously which leads to more delays in the system and additional work for the AP team. Jo claims that senior officers are the worst offenders and hinder the admin staff in carrying out their work
- Duplicate payments – there is an ongoing problem with duplicate payments. There is a high chance of these occurring usually due to the input of the same invoice with different reference numbers. AP spend a lot of time carrying out checks to spit these and recover over-payments. A report is run daily to try to pick up instances of duplicate payments
- Coding is a major issue. Although Agresso can allocate a code based on a description admin staff will over-ride the suggested code. This occurs at the point of requisition where admin staff are told by their line managers which code to use. Over 1000 people have access to the requisition part of Agresso
- Although managers have a self-service access to Agresso and can generate their own reports they still fail to complete forecasts. There is a view that it is difficult to extract enhanced information from Agresso. No one is asking managers what they want and they are not articulating it. There is a user group but no one turns up for it. BPs used to hold a regular forum which used to meet weekly but then lapsed to quarterly. There are monthly finance meetings but they are for wider issues and not just Agresso
- Perhaps the main system issue is in the way Agresso is structured. User access is role based within cost centres so if a centre is closed it affects access and limits



functionality for users. Business Partners are able to write their own reports and as a result there is a lot of repetition. There are some basic corporate standards but they are only for the simplest reports

- The recharges system is cumbersome and time consuming

One interviewee commented that Agresso is very labour intensive and that budget holders do not take responsibility. The system requires a lot of form filling just to change simple things. There is a huge volume of miscoding due to errors by administrative staff. Finance staff spend large amounts of time on correcting these errors. There is a need to get things right first time and eliminate waste.

With regard to ICT we have reviewed the ICT Strategy and would comment as follows:

- Our overall conclusion is that there has been underinvestment in ICT over the last few years and the Council now needs to make a major investment in making the infrastructure fit for purpose
- As a result the Council has completed two key pieces of work in the last year. It has worked with SOCITM who produced an ICT Strategy in June 2016 and, subsequently, Atos Consulting who have produced a Technical Digital Roadmap in November 2016
- Agilisys is the Council's strategic partner for ICT
- In total £21.5m has been identified as the capital cost for ICT over the next three years to cover key work streams such as:
 - Network Transformation Business
 - Case Migration to the Cloud and Office 365
 - Phase 1 Desktop transformation
 - Tactical Projects
 - ICT Centralisation
- There are high level Business cases in development for these projects
- The business cases which we have reviewed contain very little detail on the financial benefits that will be achieved by the investment
- Although there is a Technology Roadmap we could not find the financial investment equivalent of that map which showed what would be invested when, what the financial benefits (if any) would be and when they would come on stream so that a realistic budget profile could be compiled
- The estimates that are being used have been provided by Agilisys and are clearly marked as "indicative". They do indicate a capital spend on Cloud Migration and end User Computing of £13.4m in 2017/18. At this stage, for an investment of this size to be made from April 2017 onwards, we would have expected to see

comprehensive business cases with a profile of spend through the year(s) based on firm numbers where possible

- There has been a great deal of work on the ICT strategy but it is not clear to us who is responsible for the achievement of the benefits. We have not seen a Target Operating Model that pulls together the investment in ICT along with the Asset Strategy and the HR Strategy
- There is no clarity regarding the ownership or responsibility for the delivery of benefits
- We understand that there is a view that the Council needs to “play catch up” on ICT and we have not seen the contract that it has with Agilisys. On the engagement of a strategic partner, we would have expected to see refresh clauses in the contract so that the condition of the ICT estate kept pace with new developments.

For PR 15 - looking at the way the organisation’s financial management processes support organisational change, the starting point would be the extent to which those processes help the organisation understand the real costs of the current pattern of activity.

Achieving transformational capability is difficult for public bodies. Public bodies in the UK typically follow predetermined stewardship and governance arrangements. However, for such organisations the ability to effect transformational change is particularly difficult, especially in the short term, without sacrificing the inbuilt strengths and controls necessary in securing strong stewardship. Therefore the demonstration of the evidence required to satisfy the supporting question is difficult to achieve - does the organisation use agile methodologies for systems and other developments and do governance procedures provide an appropriate level of control?

Transformational change must carry with it some continuity for internal control and compliance with key procedures to ensure risks are mitigated. However, it is appropriate for LBTH to look at the control environment and compliance overheads to ensure that it is relevant and proportionate to risks during organisational change, and that it continues to add value. Heads of Service and Service Managers expressed concerns at the high costs of recharges for central services and the lack of transparency in those charges. Managers suggest that a transformed efficient Finance function should be able to demonstrate a reduction in such charges. This is an area that Finance must monitor carefully as transformational change begins and ensure communications are well designed and working.

3.16 Stakeholders management dimension

The CIPFA FM Model combines a number of stakeholder elements here, including the views of external stakeholders, on value for money, financial integrity, compliance with statutory and regulatory obligations and the ability to influence decisions on resource allocation.

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.	3.0
	S2	The organisation demonstrates that it achieves value for money in the use of its resources.	1.5
	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.	3.0

The first statement examines the degree to which external stakeholders receive assurance on financial integrity from a number of sources including processes and publications. Financial impacts and factors that influence stakeholder confidence are key to this dimension. The second statement seeks to test the assurance provided to external stakeholders on the delivery of value for money. The final statement uncovers stakeholder engagement and the degree to which this relationship influences financial strategy and organisational priorities.

External Stakeholders

LBTH has experienced delays in the publication of signed accounts due to Value for Money qualifications of the external audit opinion. Despite that the accounts are published on time and there has been no major issue in relation to the financial accounts. External audit reports are free from material criticism on financial management.

Like many public sector annual reports and accounts these tomes are heavy to read for most individuals outside the officers of the organisation. LBTH's report explains the operational and financial performance using 'plain English', and as far as we can tell is transparent in its narrative and data presentation. Our contributors generally agree that the presentation of the summary accounts is intelligible and accessible to the non-expert user. The percentage of "Yes" answers to the statements on financial reporting are shown below:

41% - public accountability duties are discharged, e.g. statement of accounts published on time

37% - the annual report and accounts transparently explain operational and financial performance

37% - the organisation is able to report the achievement of its financial targets and budget reliability



28% - summary accounts are presented in a way that is intelligible and accessible to non-expert users?

Although these percentages may look low they are largely explained by a high percentage of “don’t knows”. The number of “No” answers was negligible. Respondents generally had little exposure to the annual report.

LBTH has appropriate, typical public facing governance mechanisms to underpin confidence for the sector – we reviewed copies of the Core Values and Corporate Leadership and Management Framework, the Annual Governance Statement, the Anti-Fraud and Corruption Strategy, the Complaints Procedure and a Whistle-Blowing Policy. Financial information in the form of budgets, strategies, senior leadership minutes are also available although some documents such as the Capital Strategy was out of date by some years. However, the senior management in finance were aware of this and the strategy is being rewritten currently. At the start of our work only the MTFs for 2016/17 was available but the final draft for 2017/18 became available during January 2017 on time for the current budget cycle. This document will be made public after approval by the Council in February 2017. Committee Meeting agendas and reports are available.

Our contributors are largely in agreement that the Council demonstrates robust fiscal discipline through publishing supporting documents such as the budget book on the internet. Although there was only a medium level of “Yes” answers there was a large proportion of “Don’t knows” with a negligible number of “Nos”.

Our survey participants agree that the organisation demonstrates compliance with statutory/legal obligations.

For S2, the score for LBTH is significantly lower than the global average score. The key area here is for LBTH to publish transparent plans for achieving Value for Money with targets and indicators, and reports of outcomes from those plans clearly demonstrating a holistic view to application of public funds. Until 2017/18 very little use had been made of benchmarking and comparative data including for the finance function. This is beginning to change but our sense from the interviews is that there is still some way to go.

In addition, the Council had a Value for Money qualification on its accounts for 2013/14 leading to the appointment of external Commissioners, by the government. This led to further qualifications in subsequent years. Although steps have been taken to rectify these issues the accounts for 2015/16 had not been signed at the time of our review. The Annual Governance Statement in the Annual Report sets out the steps that the Council is taking to address these issues. The Annual Report also has a brief description about how the Council achieves Value for Money but it is very brief.

A number of strategies are published which explain how relating activities can be directed to achieve Value for Money savings e.g. Procurement Strategy and Asset Management Plan. These documents are helpful to the readers but overall what is needed to demonstrate Value for Money is a corporate view linking all the plans/strategies together with specific objectives and finances i.e. Integrated Reporting, a holistic approach report

that can be used to identify synergies from the relationships between different parts of the organisation and different activities.

For S3, LBTH's score of 3.0 is higher than the global average that we see elsewhere.

The issues that are important to consider here are the approach LBTH takes to seeking views of customers and stakeholders about priorities, and that the organisation can demonstrate that it has responded to consultation in relation to its strategy and planning decisions. LBTH is clearly very active here. Our review of documents on the website and our contributor conversations strongly support this. LBTH is proactive in its conversations with communities and local businesses, seeking views, and building links with its external operating environment. During the course of our review we noted that the latest version of the Local Plan was out for consultation until the end of January 2017.

We also noted that the MTFP contains a separate section on budget consultation containing the following key points:

- On 6th December the Mayor in Cabinet received an updating report on the progress of the council's MTFP including specifically details of the consultation exercises that had been carried out with residents and stakeholders
- Since that time further consultation has taken place at a business breakfast meeting held on 2nd December 2016 which was attended by 48 representatives of the business rate paying community. In addition to hearing about the context for and the Council's approach to its 2017/18 budget participants gave their views on a number of issues
- The outcome from all of the budget sessions together with the outputs from both the residents and businesses online and survey has been analysed and used to inform the development of the Council's MTFP and budget strategy for 2017/18
- The Your Borough Your Future campaign will continue to engage and involve residents and other stakeholders in the design of key services as the Council's proposals are developed and implemented.

Such a high score here when other scores in this dimension, and the FM Model Matrix more generally, are rather lower suggests a need to re-balance efforts looking out with those required to look inwardly. We see a potential risk that by placing undue emphasis on discussions with external stakeholders senior management is raising expectations before achieving necessary improvements to internal quality of data/information, processes and delivery mechanisms.

4. Concluding comments

4.1 Survey completion

The electronic survey completion rate for this roll out of the CIPFA FM Model was 74.0% (which should be above the minimum level of evidence needed of 50%) with 179 out of 242 participants submitting data/evidence.

4.2 Interviews

The roll out of the CIPFA FM Model relies heavily on interviews (35) to cover specialist areas (such as internal audit, year-end financial reporting, and procurement) and to probe further into areas covered by the electronic survey.

4.3 Summary conclusion

LBTH is able to demonstrate a sound level of financial management capability with foundational delivering accountability and stewardship being secured through a competent finance function and supporting governance and assurance functions. Such strengths are typically associated with the more traditional stewardship aspects of financial management. There is some evidence of good practice across the organisation, particularly in the areas of financial accounting, internal control and strong customer focus. The organisation runs a finance function that has been subject to a recent restructuring with an evolving Business Partnering role, however fundamental re-shaping of the function has yet to take place.

Finance is not currently well placed to 'add value' in a way that would help drive the business towards transformational change. Whilst we would regard the Chief Finance Officer (CFO) as being highly effective, the CFO role is not supported across the wider organisation. There is a need for clarification of the role of the Business Partners as they are unclear about their relationships with operational managers and also with the corporate finance function. The ability to focus on finance is important, not only in the pure sense of financial reporting issues, but also in considering future strategic sustainability. The Finance function lacks balance between business as usual, financial strategy and transformational change activities.

A lack of ownership and accountability over financial performance by budget holders represents the most significant financial management challenge for LBTH. Financial challenge is not sufficiently robust, as a consequence of the competing demands and pressures on finance decision support. Performance management is not effectively discharged in the absence of an agreed Performance framework.

LBTH has launched a major transformation programme which is intended to make the workforce more agile and to change the way the authority is funded and run, and many of these activities here are innovative. In particular the introduction of Output \based Budgeting is to be commended. However, LBTH needs to do more to demonstrate that

VfM is within the 'DNA of the organisation'; a required significant shift in culture is yet to be achieved.

Financial planning and budget setting both have room for improvement. The Medium Term Financial Strategy (MTFS) is a good document that meets most of the requirements of the best practice model. However, we have concerns over the underlying robustness of the budgeting process. This is exacerbated by a lack of challenge by finance and by poor budget monitoring and forecasting on the part of budget managers. Enabling strategies that should be linked to financial strategy are either out of date or incomplete compromising the robustness of the MTFS itself. The risk is exacerbated by a lack of clarity on communications and uncertainty from the senior management level.

The Finance Function is not sufficiently influential and more support is required to develop leadership qualities to bring about a transformational impact on the organisation's development. The extent to which Finance can detach from data manipulation and add value is seriously constrained by the weaknesses in the current financial system, Agresso. Pushing against the move to add value is the constraint on Finance's ability to carve out sufficient time to explore user needs for a future enhanced financial system. The system is very susceptible to errors in areas such as miscoding and maintaining workflows. These elements require manual intervention which uses up a huge amount of finance time.

Service Areas have a limited clarity and understanding of what the role of Finance Services is. LBTH needs to develop a contract basis for Financial services, with standards and level of service defined, to strengthen clarity and understanding, which in itself will act to raise the profile of Finance in the organisation.

Business Partnering is in place and should be integral to business unit staffing and decision-making as well as providing challenge and support. Business Partners need sufficient 'standing/credibility' within the organisation. LBTH needs to strengthen wider commercial skills/attitudes and articulate a commercial strategy which is embedded within the DNA of the organisation. Roles and responsibilities for financial management are not clearly defined at LBTH.

A training programme for non-financial managers exists through e-learning and, in our opinion, LBTH would benefit by ensuring successful completion of this programme as a precursor for officers being considered as budget holders. At the moment it is too easy for managers to circumvent this "compulsory" training. There is a lot of "handholding" from Business Partners and core finance; the big shift in culture that is required is yet to come. Recruitment and development of good quality finance staff will be vital to a future high performing Finance function and to LBTH's successful transformation. The current draft workforce strategy needs to include data and targets to aid senior management's view of options available for the future. The use of a tailored competency framework for professional financial management will help here.

The current Financial system, Agresso, is not efficient. The system requires significant manual manipulation of data and this element of manual resourcing imports additional cost/opportunity cost and risk. The emphasis for successful transformation is a fundamental reshaping of financial management processes. The current financial system

is not going to help facilitate transformational change. Further work is required to understand needs of system users, and this may require a radical approach and, possibly, consideration of a new finance system.

Whilst LBTH is engaged in strong stakeholder consultation it may not be giving sufficient attention to achieving necessary improvement in the internal quality of delivery mechanisms, which will allow external expectations to be met in a timely manner and within funding constraints.

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Appendix 1 - CIPFA FM Model - Summary

The CIPFA FM Model was originally released in July 2004 and describes a model for best practice in financial management within the public sector. This is the fourth iteration of the FM Model. Version 4 has been specifically developed to incorporate the very latest best practice initiatives as well as the emerging financial management issues associated with the current financial environment. The Model recognises that using money well leads to more and better front-line services and that effective financial management in the public sector now requires financial responsibilities to be more widely diffused throughout the whole of the organisation.

Budget holders/managers therefore need to be financially literate and finance professionals need to contribute through challenge, interpretation and advice. Good financial management is no longer just about accounting for expenditure and demonstrating probity, but finance must be placed in the wider organisational context, in terms of how it supports the delivery of the organisation's strategic objectives.

The CIPFA FM Model is structured around three styles of financial management:

- **Delivering Accountability** – 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 three styles will be present in an organisation exhibiting best practice financial management characteristics. For example, accountability alone is not sufficient to enable an organisation to drive performance and to develop its transformational capacity and, conversely, performance or transformation programmes that are not founded in a robust approach to controlling and accounting for resources are unlikely to succeed.

The CIPFA FM Model is also organised by four management dimensions. These cover both hard edged attributes that can be costed or measured, as well as softer features such as communications, motivation, behaviour and cultural change. These are:

- **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.

A matrix approach is therefore used in the Model, combining the three styles of financial management and four management dimensions. The organisation's current financial management position is assessed through comparing its arrangements against 30 statements of best practice, with a set of supporting questions sitting behind each statement. The table below shows how the 30 statements fit into the Best Practice Matrix.

Table 1 – Management styles/dimensions matrix

Financial Management Styles	Management Dimensions			
	Leadership	People	Processes	Stakeholders
Delivering Accountability	L1 – L3	P1 - P2	PR1 – PR9	S1
Supporting Performance	L4 – L5	P3 – P5	PR10 - PR13	S2
Enabling Transformation	L6	P6	PR14 - PR15	S3

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, as shown in the following table.

Table 2 – How far does the best practice statement apply?

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

The methodology used to undertake the review of financial management within LBTH is described in **Appendix 2**.

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Appendix 2 – review methodology

Introduction

The aim of the review is to form a view on the extent to which the statements of best practice in financial management apply to the organisation and the approach aims to gather evidence for this in the most economical way. Evidence was collected from three main sources: interviews, document review and survey, the balance from each based on judgement of appropriateness for purpose. For the interviews and survey, staff were segmented by financial management role (see survey groups below), with samples drawn from each key role.

The high level stages involved in the review are set out in further detail below.

Application of best practice statements

Assessment methodology requires contributors to the electronic survey to approach the scoring for their relevant best practice statements and supporting questions by allocating scores from 0-4 to each of the statements.

The approach includes the categorisation of five survey groups as follows:

Table 1 – Survey groups

Group	Survey group	Description
SG1	Strategic finance	This group would comprise senior finance staff at the core of the corporate strategic finance function and include deputy/assistant CFOs, chief accountants, senior corporate financial performance specialists, long term finance and funding specialists, special project investment specialists, technical financial reporting specialists, etc.
SG2	Operational finance	This group is generally made up from the corporate core finance function but can include finance specialists from devolved arrangements with operational departments/functions. Members would typically include group accountants, budget monitoring teams, departmental business partners and corporate transactional finance staff.
SG3	Service directors	This group is aimed at service directors/heads of service – the objective is to capture evidence on strategic financial capability from an operational non-Finance perspective at the most senior operational level. Such contributors would typically be members of the organisational corporate management team/Corporate Management Team.
SG4	Operational managers	Typically but not exclusively budget Holders. This group would include any operational manager that is empowered to make decisions consuming organisational resources that have financial implications. Such decisions are typically taken supported by



		management information or decision support advice provided by finance colleagues.
SG5	Board, Stakeholders and external contributors	The senior stakeholders group comprises the chief finance officer, Chief Executive/Permanent Secretary, board non executives, Audit Committee chairs and members, other external stakeholders or partner organisations, external audit representation and external supervisory representation – e.g. external auditor.

A selection of the most relevant statements and questions for each of the survey groups were determined and tailored accordingly. This “culling” process produces the most relevant application of the best practice statements designed to extract the optimal information from each specialised survey group. Benefits include relevancy and the minimisation of time exposure for participants and allowed a categorisation of evidence capture between:

- Document review/evidence.
- Interviews.
- Electronic survey.

Document review/evidence

An integral aspect of the review was the assessment of a number of key documents for the LBTH (including material specifically made available as part of this assessment process, as well as publicly available material). This served two main purposes; to enable the assessor to familiarise him/herself with the structure, processes and culture of the LBTH , and to confirm factual information relating to the best practice statements and supporting questions e.g. whether or not a specific policy was in existence.

Interviews

Interviews with 35 contributors were used to supplement the document review as well as substantiating the evidence generated from the survey. Interviewees were largely Members and Officers of LBTH (with a sample of finance staff and staff with financial management responsibilities), with additionally KPMG, the Council’s external auditors.



Table 2 – List of interviewees

Group	Survey group	Name	Job Title
SG1	Strategic Finance	Neville Murton	Corporate Head of Finance
		Dan Warren	Operational Accounting Manager
		Ekbal Hussain	Head of Financial Planning
		Jo Campbell	Financial Transactions Team Manager
		Kevin Miles	Chief Accountant
		Laura Lewis	Head of Financial Systems
		Zamil Ahmed	Head of Procurement
		Sean Green	Head of ICT
		Alison Jebbet	Corporate Capital Financing Accountant
		Ruth Ebaretonbofa	Corporate Capital Accountant
SG2	Operational Finance	Altin Bozhani	Senior Business Accountant Adult Services
		Angela Sherwood	Capital Accountant, CLC Resources Team
		Bharat Jashapara	Business Partner Children's Services
		Katherine Ball	Senior Business Accountant HRA & Capital, Regeneration and Development
		Paul Leeson	Business Partner for Regeneration and Development
		Renee Buffery	Business Accountant Regeneration and Development
		Sailesh Patel	Schools Finance Manager
		Steve Adams	Business Partner, Culture, Learning and Leisure

SG3	Heads of Service	Karen Sugars	Service Head for Adults Commissioning and Health
		Nasima Patel	Service Head Children's Social Care
		Shazia Hussain	Service Head, Culture, Learning & Leisure
		Somen Banerjee	Director of Public Health
		Mark Baigent	Assistant Director, Regeneration, Housing, and Economic
		Pat Watson	Service Head, Capital Projects Adults' and Children's Services
SG4	Operational Managers	Esther Trenchard-Mabere	Associate Director Public Health
		Ann Sutcliffe	Head of Asset Management
SG5	Stakeholders – Board, Audit, External Etc.	David Edgar	Lead Member Resources
		Will Tuckley	Chief Executive Officer
		Zena Cooke	Corporate Director Resources
		Debbie Jones	Corporate Director Children's Services
		Aman Dalvi	Corporate Director Regeneration and Development
		Denise Radley	Corporate Director Adult Services
		Graham White	Acting Corporate Director, Legal, Policy and Governance
		Minesh Jani	Chief Internal Auditor
		Andy Sayers & Anthony Smith	KPMG External Audit

Electronic Survey

A powerful component of the CIPFA FM Model is the electronic survey. Across a range of staff with differing financial management roles the electronic survey is used to test best



practice statements against the actual prevailing conditions and practice within the organisation. Such scope would include e.g. the robustness of budget setting, the integration of business and financial planning, financial management competencies, the extent to which finance supports strategic decision making etc.

Contributors complete the electronic survey and submit their results on line over a prescribed period of time. In addition to scoring the statements, contributors were given the facility to record observations and evidence which provide valuable insight as well as substantiating their scoring. The overall response rate for the electronic survey was 179 out of 242 participants – 66.1% submitting data/evidence. The minimum level acceptable as evidence is normally 50% for each survey group. Response rates for each of the survey groups are set out in the chart below:

Table 3 – Survey groups

Group	Survey Groups	Invited	Completed
SG1	Strategic finance	13	11
SG2	Operational finance	99	86
SG3	Heads of Service	6	5
SG4	Operational managers	124	77
SG5	Board, Stakeholders and external contributors	0	0
	Total	242	179

Master scoring

In terms of high level representation of the scores we have used a “traffic light” approach as follows:

Colour	Score
Red	0.0 – 1.9
Amber	2.0 – 2.9
Green	3.0 – 4.0

The following key outlines the extent to which each grouping of good practice statement applies at LBTH in RAG rating:



Scoring - the extent to which statements apply	0.0	Not at all
	0.5	Hardly
	1.0	Hardly
	1.5	Lower than basic
	2.0	Somewhat
	2.5	Mostly
	3.0	Strongly
	3.5	Strongly
	4.0	Fully

The assessor concluded the independent assessment of the score for each best practice statement, taking into account the range of evidence gathered from all sources⁴ during the review. The key findings of the review are set out in section three of the main report.

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⁴ Electronic Survey, interview and document review.

