

## London Borough of Enfield

### Finance and Performance Scrutiny Panel

10 March 2022

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**Subject: CIPFA Financial Management Update**

**Cabinet Member: Cllr Mary Maguire, Cabinet Member for Finance**

**Executive Director: Fay Hammond, Executive Director for Resources**

**Key Decision: No**

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#### **Purpose of Report**

1. This report provides an overview of the:
  - i. CIPFA Financial Management (FM) Model external review
  - ii. Council's ongoing focus on financial management, resilience and sustainability

#### **Proposal**

2. The Finance and Performance Scrutiny Panel is recommended to note this report and consider including a further progress report in the future year workplan for the Panel.

#### **Reason for Proposal(s)**

3. To update members on the CIPFA Financial Management (FM) external review and the Council's financial management arrangements.

#### **Relevance to the Council's Corporate Plan**

4. Good financial management, financial resilience and sustainability support the three objectives of the Corporate Plan.
  - a) Good homes in well-connected neighbourhoods.
  - b) Build our Economy to create a thriving place.
  - c) Sustain Strong and healthy Communities.

#### **Background**

5. Robust financial management arrangements are more important than ever as local authorities across the UK continue to face significant challenges including increasing demand and cost pressures, uncertain funding and operating in an increasingly complex and unpredictable environment.
6. As with other authorities, the Council remains in a financially challenging position for 2021/22. There continues to be significant risk and uncertainty due to the ongoing pandemic and these could persist into 2022/21 and beyond.

#### **Main Considerations for the Council**

7. This report provides an overview and update on the following:
  - i. CIPFA Financial Management (FM) code
  - ii. CIPFA Financial Management (FM) Model external review
  - iii. Internal improvement programme

## **CIPFA Financial Management (FM) code**

8. In October 2019, CIPFA published a new Financial Management (FM) Code, which sets out the principles by which authorities should be guided in managing their finances by which authorities should be guided in managing their finances and the specific standards, they should, as a minimum, seek to achieve. The code is designed to support good practice in financial management and to assist local authorities demonstrate their financial sustainability.
9. The FM code is designed to be flexible to the nature, needs and circumstances of individual authorities. The FM code assessment enables Councils to identify any actions to improve financial management. The FM code principles and standards are included in Appendix A.
10. An initial report on the code was considered by the Finance and Performance Scrutiny Panel March 2021 meeting.
11. In response to the new code and ongoing focus on financial management, the Council has:
  - i. Undertaken an initial light touch internal review of the standards to identify any potential areas of improvements requiring further action
  - ii. Set up a new Finance Improvement Board to focus on driving through improvements
  - iii. Commissioned CIPFA to undertake an external financial resilience assessment (In response to FM Code standard F)
  - iv. Considered the symptoms of financial stress and factors that drive the ability of the authority to withstand financial pressures as part of the January 2022 GPC Financial Resilience report. An action plan has been created to be monitored by the improvement board (In response to FM Code standard G)
12. The light touch internal review was undertaken by the Finance team considering each standard to identify any actions, potential areas of improvement and agree the priorities for the internal improvement programme. These have been incorporated in the Finance Improvement Board 2021/22 workplan and include:
  - i. Monitoring progress with internal audit actions
  - ii. Greater focus on in year processes
  - iii. Statement of Accounts improvements
  - iv. ERP (the councils financial ledger system) improvements
  - v. Governance reviews
13. The CIPFA FM Review will be used to inform the medium-term improvement plan and action plan, incorporating feedback from the wider organisation and best practice.

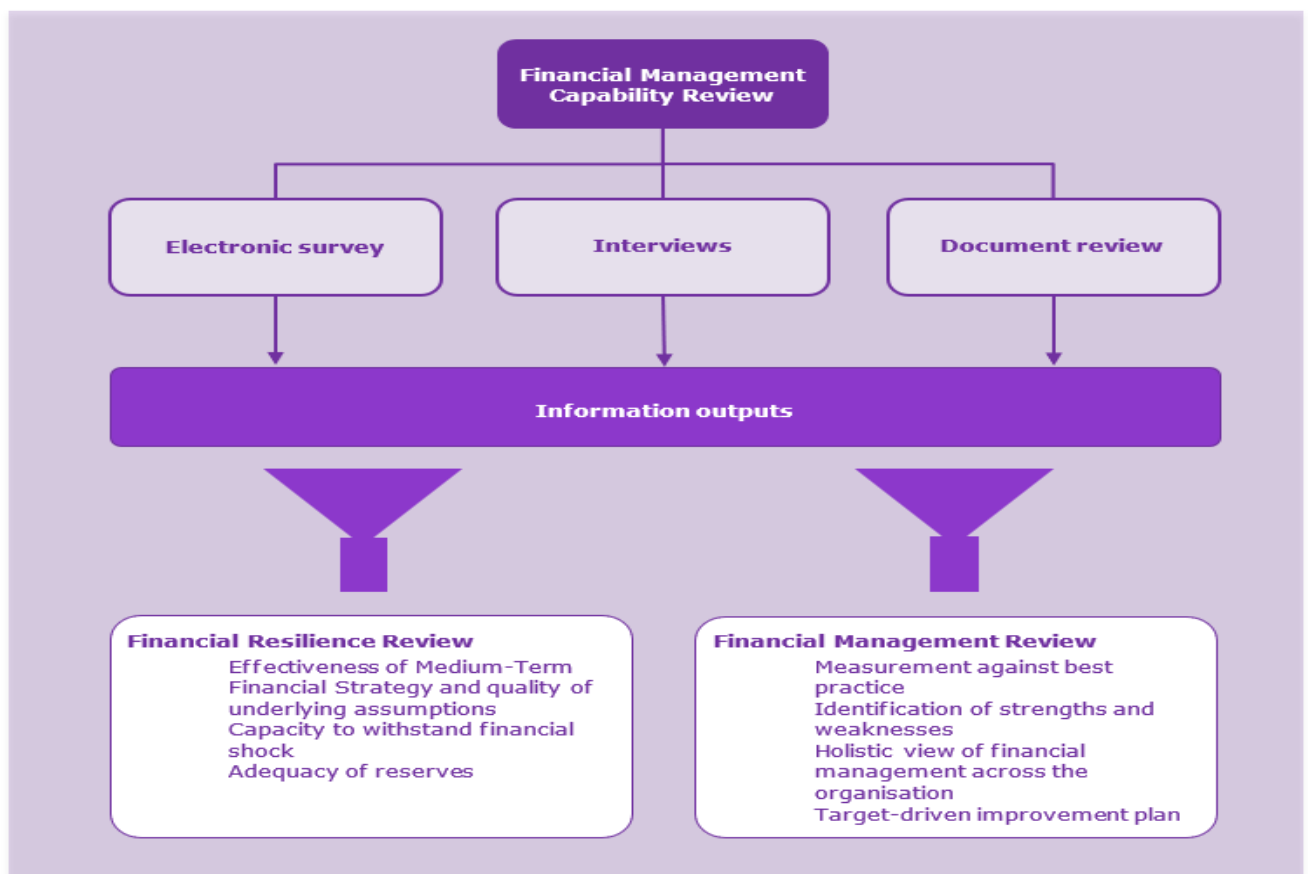
## **External Review**

14. In recognition of the importance of strong financial management in the current environment, our internal review and improvement programme is being further supplemented by an in depth external assessment of our financial management arrangements across the organisation by CIPFA using the CIPFA Financial Management (FM) Model.

15. It is important to note that the focus of the review is on self-improvement. The model is an aspirational model, benchmarking Enfield against around 400 other public sector organisations and best practice. It is intended to identify and disseminate good practice and help prioritise areas where change may be needed.
16. The review is intended to help us build on the areas of improvement that have been identified internally by the Finance Team. The wider feedback from across the wider organisation, best practice and learning from other organisations from the review will be used to help develop a longer-term improvement plan which will be monitored by the Finance Improvement Board.

### **CIPFA Financial Management (FM) Model External Review**

17. CIPFA’s FM Model is an independent ‘as-is’ assessment of an organisation’s capability to effectively manage its current finances, internal processes and operations, as well as how it plans future financial management. Key outputs include identification of areas of best practice and areas for improvement.
18. The FM Model Review consists of two elements:
  - i. A financial resilience review – an assessment of the financial sustainability of an organisation and its ability to withstand financial shock.
  - ii. A financial management review – an assessment against best practice and other organisations who have also been reviewed using the FM model to identify issues and create an improvement plan that can be tracked.
19. The CIPFA FM Model Review combines an electronic survey with interviews and document review.



20. The review considers arrangements in view of the incremental styles of financial management. All organisations require effective stewardship in line with the traditional and core finance role. However, best practice is moving organisations to a more transformational style to cope with the degree of change now required. The CIPFA Model is structured around three styles of financial management:
- i. Delivering Accountability – an emphasis on control, probity, meeting regulatory requirements and accountability.
  - ii. Supporting Performance – responsive to customers, efficient and effective, and with a commitment to improving performance.
  - iii. Enabling Transformation – strategic and customer-led, future orientated, proactive in managing change and risk, outcome focused and receptive to new ideas.
21. The Model is also organised by four management dimensions. These cover both “hard edged” attributes that can be costed/ measured, as well as “softer” features such as communications, motivation, behaviour and cultural change. These are:
- i. Leadership – focuses upon strategic direction and business management, and the impact on financial management of the vision and involvement of the organisation’s decision makers and senior managers.
  - ii. People – includes both the competencies and the engagement of staff. This aspect generally faces inward to the organisation.
  - iii. Processes – examines the organisation’s ability to design, manage, control and improve its financial processes to support its policy and strategy.
  - iv. Stakeholders – deals with the relationships between the organisation and those with an interest in its financial health, whether Government, inspectors, auditors, taxpayers, suppliers, customers or partners. It also deals with customer relationships within the organisation, between finance services and its internal users.
22. The electronic survey, interviews and document review result in a scoring matrix, with 0 to 5 (5 being best/green) scores. An example of the format that will be used for the results is shown below.

Example scoring matrix

<b>CURRENT SNAPSHOT</b>	<b>Management Dimensions</b>			
<b>Financial Management Style</b>	<b>Leadership</b>	<b>People</b>	<b>Processes</b>	<b>Stakeholders</b>
<b>Delivering Accountability</b>	***	*	***	*****
<b>Supporting Performance</b>	**	*	**	**
<b>Enabling Transformation</b>	**	*	*	**
<b>Overall Rating</b>	**			

23. CIPFA have advised that they would generally expect local authorities to receive an overall rating in the region of 2 to 3 stars, reflecting the ongoing challenging financial environment that local authorities are facing and funding available to target additional resources in this area to support the move to a more transformational style in line with best practice. CIPFA’s 5 star rating assessment criteria is provided in Appendix B.

## **CIPFA FM Review – initial update**

24. CIPFA have provided an update on progress with each element of the review as at mid-February based on the interviews and surveys that had been completed at this point in time:
- i. Document review – the CIPFA team have reviewed a wide range of documents including the Medium-Term Financial Strategy, Capital Strategy, Treasury Management Strategy and Internal and External Audit Reports
  - ii. Interviews – the CIPFA team have conducted 40 interviews of officers across the Council, both in Finance and all service areas and at all levels of seniority
  - iii. Electronic survey – the survey has currently been completed by 40 staff
25. The CIPFA FM Model Review is still underway, however the early emerging findings that have been initially discussed with CIPFA are broadly in line with the key areas of improvement that have been identified internally.
26. Areas of strength or recent improvement that have been initially identified include:
- i. Very positive feedback from the interviews that individuals in Finance were approachable and helpful, with good often long-standing relationships in place
  - ii. Creation of the second Director of Finance post to strengthen the finance structure to reflect the Council's ambitious Capital Programmes, Regeneration, Housing Programme and Treasury Strategy
  - iii. Progress with the capital improvements made to date including the establishment Capital Finance Board and Development and Investment Financial Framework (DIFF)
  - iv. Improvements made in developing forward financial plans and strategies including the MTFP, Capital and Treasury Management Strategies and the borrowing cap.
  - v. Compared to most authorities Enfield has more developed financial plans and strategies. This is important given the series of ambitious capital / regeneration projects.
27. Potential areas for further improvement and risks that have been initially identified include:
- i. Challenges with the current finance and budget monitoring systems which are impacting on the team's time, focus and ability to move focus from transactional activities to focusing more on value added activities
  - ii. Importance of focusing on streamlining processes and cultural change in preparation for a new ERP system
  - iii. Ability of the team to move towards a more transformational style in the short to medium term based on the current system challenges
  - iv. Importance of progressing the work to ensure that finance is equipped, skilled and appropriately resourced to support the complexities of the Council's commercial arrangements and ambitious capital programme (including exploring use of the HM Treasury Better Business Case model learning)
  - v. Resilience risks relating to the Council's ambitious Capital Programmes, Regeneration, Housing Programme and Treasury Strategy e.g., construction price increase risk

28. Once the review has been completed, the results will be finalised and incorporated into the agreed action plan and improvement plan, supplementing the existing internal improvement programme. This will be reported to the General Purposes Committee.
29. As part of the Finance and Performance Scrutiny Panel 2022-23 work programme planning, Members may wish to include further updates on the Action Plan. We will also look to include commentary with the annual governance statement, in line with the CIPFA guidance once further details are provided.

### **Internal improvement programme**

30. Alongside the external review, the ongoing Finance internal review and improvement programme is continuing to progress. The remainder of the report provides an update on the key areas of improvement currently underway, for consideration in view of the emerging themes from the external review and future action plan:
- i. Financial resilience
  - ii. Review of the finance structure
  - iii. Finance Improvement Board
  - iv. ERP (the councils financial ledger system) improvements

### Financial Resilience

31. Financial resilience continues to be a key area of focus for the Council, with the following reports on resilience considered by the General Purposes Committee (GPC) in the past year:
- i. Financial Resilience Update – January 2022
  - ii. Annual Review of Financial Resilience – March 2021
  - iii. Capital Expenditure and Sensitivity of Interest Rates – March 2021
32. In addition, financial resilience risks, existing risk mitigations and further planned actions are included in the Corporate Risk Register.
33. Further the Finance and Performance Panel considered Public Interest reports risks and Companies financial resilience in the informal meeting held in January 2022.
34. The most recent GPC report provided further details on the areas of risk and an annual update on financial resilience providing an update on:
- i. Work undertaken to improve the robustness and resilience of the Council's finances
  - ii. Initial consideration of some of the factors that drive the ability of the authority to withstand financial pressures, as outlined in the new CIPFA Financial Management Code
  - iii. Other areas of risk
  - iv. The external financial resilience assessment that CIPFA have been commissioned to undertake as part of the Financial Model assessment

35. The Council continues to have an ongoing focus on resilience with significant work undertaken in previous years to create a robust and sustainable budget to put the Council in a strong position to manage the challenges ahead. Improvements made include an increased focus on longer term financial planning, increased focus on capital financing and regular assessment of interest rate risk, detailed review on the use of reserves and the introduction of additional financial governance and challenge arrangements. These include the Pressures Challenge Board, Capital Finance Board, weekly Executive Management Team budget meetings, Assurance Board and Finance Improvement Board (new 2021).
36. In addition to the factors identified in the CIPFA FM Code guidance, the Council continues to monitor closely additional areas of risk including gross external debt and interest payable and commercial arrangements.
37. Whilst significant work has been done and good progress made, an ongoing focus on review, challenge and continuous improvement of our financial management arrangements to support financial resilience and sustainability continues to be essential.

#### Review of the finance structure

38. A suitably resourced and fit for purpose finance team is important to effectively support the Council to drive forward the council plan, address emerging challenges and ensure financial sustainability in the medium term. Council's are working in an increasingly complex financial environment with the need for a broad skill set from more complex technical accounting requiring commercial acumen. Layered with increased financial risk due to the broader economic and social environment post Covid19.
39. CIPFA were commissioned to undertake an initial review of the finance structure in 2021, following the permanent appointment of the role of the Executive Director of Resources. This review was intended to support the reassessment of the priorities for the department, organisational risk and the economic and financial context of the Covid19 pandemic and consider options for developing a structure that was fit for the future.
40. The underlying theme from this review was that "Finance do the basics but lack the strategic thinking/capacity to take the commercial/financial discussions to the next level". This review resulted in a clear consensus emerged from those conversations:
  - i. Significant progress had been made to date to improve the resilience of the budgets
  - ii. Finance team roles in the council's ambitious regeneration and housing programmes needs to be strengthened – engagement in these areas and influencing the strategic direction at the outset
  - iii. Delays in the Statement of Accounts is a significant priority to address
  - iv. Team members commented on the lack of capacity to "think" and plan and invest in continuous improvement due to the workload and capacity issues
  - v. Procurement function is currently in the process of being restructured and requires the improvement plan to be delivered
  - vi. Commercial function and strategy requires review

41. The CIPFA review suggested a number of recommendations for consideration including to split out the current single role of the Director of Finance and Commercial into two roles to balance the workload from one to two directors. “This will also provide an increased managerial focus on the day-to-day running (and transformation of) core Finance whilst allowing another Director post to focus on the commercial, capital, regeneration, financing of the commercial, capital, regeneration, financing of the capital programme and procurement activities of the function”.
42. In response to this recommendation, the creation of a second Director of Finance post was agreed by the Staff Appeals, Appointment and Remuneration Committee at the April 2021 meeting. The post holder has recently commenced in post and will progress the high-level priorities for the post as outlined in the committee report.

#### Finance Improvement Board

43. A new internal Finance Improvement Board was set up in 2021 to coordinate, agree and monitor a number of key activities and workstreams which aim to drive forward a number of financial improvements including:
- i. Monitor progress with internal audit actions
  - ii. Greater focus on in year processes
  - iii. Statement of Accounts improvements
  - iv. ERP (the councils financial ledger system) improvements
  - v. Governance reviews
44. The board was established in September 2021, meets monthly and is chaired by the Executive Director (Resources) and is a sub-board of the Council’s Assurance Board chaired by the Chief Executive. To date key areas of performance improvement, include monitoring of in year processes to support Statement of Accounts production, review of finance policies, expedited the delivery of high-risk audit actions in finance, reviewed use of holding codes to simplify ledger. This Board has a forward work programme which also includes delivering the CIPFA FM action plan.

#### Enterprise Resources Planning (ERP) improvements

45. The Council’s financial ledger system and budget monitoring system are a key area requiring significant improvement over the medium term. Options will be considered as part of the planned replacement of the Council’s Enterprise Resource Planning (ERP) system, which is included in the current capital programme. This is a significant and complex change, requiring appropriate preparation, cultural change and lead in time. Feedback from other local authorities’ recent experiences is that early focus on preparation is crucial. From a finance perspective, the initial focus for preparing for the change is on the review of our current business processes and procedures, which is a specific workstream of the new finance improvement board.

#### **Safeguarding Implications**

46. None

#### **Public Health Implications**

47. None

#### **Equalities Impact of the Proposal**

48. None

#### **Environmental and Climate Change Considerations**



49. None

**Risks that may arise if the proposed decision and related work is not taken**

50. The report is for noting

**Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks**

51. The report is for noting

**Financial Implications**

52. The review is being funded from within existing budgets. Any additional costs arising out of the review will be reported through the Quarterly Revenue Monitoring reports.

**Legal Implications**

53. There are no legal implications arising directly from the CIPFA FM Code.

**Workforce Implications**

54. None arising directly from the Review.

**Property Implications**

55. None

**Other Implications**

56. None

**Options Considered**

57. None

**Conclusions**

58. The Council will consider the outcome of the review, which will be incorporated into an agreed action plan and improvement plan.

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23 February 2022

## Appendix A – CIPFA FM Code Principles and Standards

### FM Code Principles

- (A) Organisational leadership – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture
- (B) Accountability – financial management is based on medium-term financial planning, which drives the annual budget process supported by effective risk management, quality supporting data and whole life costs
- (C) Financial management is undertaken with transparency at its core using consistent, meaningful and understandable data, reported with appropriate frequency and with evidence of periodic officer action and elected member decision making
- (D) Adherence to professional standards is promoted by the leadership team and is evidenced
- (E) Sources of assurance are recognised as an effective tool mainstreamed into financial management and include political scrutiny and the results of external audit, internal audit and inspection
- (F) The long-term sustainability of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources

### FM Code Standards

- (A) The leadership team is able to demonstrate that the services provided by the authority provide value for money (Include alternative delivery models)
- (B) The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government
- (C) The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control
- (D) The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016)
- (E) The financial management style of the authority supports financial sustainability
- (F) The authority has carried out a credible and transparent financial resilience assessment
- (G) The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members
- (H) The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities
- (I) The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans
- (J) The authority complies with its statutory obligations in respect of the budget setting process
- (K) The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves
- (L) The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget
- (M) The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions
- (N) The leadership team takes action using reports, enabling it to identify and correct emerging risks to its budget strategy and financial sustainability
- (O) The leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability
- (P) The chief finance officer has personal responsibility for ensuring that the statutory accounts provided to the local authority comply with the Code of Practice on Local Authority Accounting in the United Kingdom

(Q) The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions

## Appendix B – CIPFA’s 5 Star Rating Assessment Criteria

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