

Birmingham City Council

Report to Cabinet

29th June 2021



Subject: Outcome of CIPFA's Assessment of the Council's Financial Management capability

Report of: Sara Pitt,
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Relevant Cabinet Member: Cllr Chatfield, Cabinet Member for Finance and Resources

Relevant O &S Chair(s): Cllrs Carl Rice, Co-ordinating O&S Committee; and Cllr Mohammed Aikhlaq, Resources O&S Committee

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Are specific wards affected?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No – All wards affected
If yes, name(s) of ward(s):		
Is this a key decision?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, add Forward Plan Reference:		
Is the decision eligible for call-in?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

1 Executive Summary

- 1.1 In April to May 2021, CIPFA undertook a review of the Council's Financial Management capability against their five-star model and scored the Council's Financial Management capability as three stars stating:

"It is clear that over the last two years at Birmingham City the core finance function has moved on from the more traditional stewardship aspects of financial management that had evolved through keeping the services 'safe' by trying to ensure that the organisation works within its approved financial targets to a much more mature and dynamic supporting and enabling service. Our evidence strongly points to a significant improvement having been achieved over the last two years on Financial Management capability to a position where high levels of effectiveness are now evident."

“Birmingham City Council should be considered to be an exemplar in the transformation of financial management capability given the extent of improvement achieved over the last two years.”

- 1.2 Three stars is a significant improvement on the previous one-star score received from CIPFA in July 2019, which indicated the Council was only at the basic ‘securing stewardship’ level. The full report from CIPFA is appended to this report.

2 Recommendations

- 2.1 Cabinet is recommended to formally note that the Council has now been awarded three stars against the CIPFA Financial management capability framework, 12 months in advance of the target date as approved in the Delivery Plan by Cabinet in November 2020.
- 2.2 Cabinet is recommended to note that CIPFA will be commissioned to undertake an assessment to establish the additional activities and effort required, beyond the existing TOM Programme, to achieve four stars. A cost benefit analysis will be undertaken to assess these implications of targeting four stars.

3 Background

- 3.1 In July 2019, Scrutiny Chairs received a briefing from CIPFA regarding the effectiveness of Financial Management at BCC. This briefing was based on the review that CIPFA had undertaken against their five-star financial management model. The review concluded that financial management capability was significantly compromised by:
- Damaging lack of accountability for financial performance in services – legacy issues including unachievable savings proposals;
 - Finance function structure has lacked effectiveness - credibility/confidence, skilling issues, not fully fit for purpose.
- 3.2 Consequently, the Council was awarded one star against the five-star framework, indicating the Council was only at the basic ‘securing stewardship’ level. This assessment reflected the combined effectiveness of both the Finance Service and Budget Managers dispersed across the Council.

4 Improving Financial Management Capability

- 4.1 In response to the 2019 CIPFA findings, a Finance Improvement Programme was established. The CIPFA review identified 16 areas for development and, in consultation with CIPFA, these were mapped into 18 finance improvement initiatives that were progressed by Service Finance. This significant work included the following activities and required substantial capacity and effort across Service Finance.
- Implement accountability letters
 - Review the scheme of delegation

- Business Partnering work programme
- Budget holder training
- Financial regulations review
- Rationalisation of recharges
- 'My Finance' intranet site for budget holders
- Capital programme management
- Finance training programme

- 4.2 The Finance Improvement Programme delivered significant improvements in the effectiveness of financial management, but it was recognised there still remained much to do and a different approach was required to ensure clear direction, traction and momentum.
- 4.3 In early summer 2020, KPMG were commissioned to help develop a new Target Operating Model with Finance that established a roadmap for the future. In parallel with this, the Oracle implementation programme was established to replace SAP with Oracle Fusion and this created further opportunities for improvement in financial management – for both Service Finance and Budget Managers.
- 4.4 Remaining tasks from the Finance Improvement Programme along with the Target Operating Model (TOM) implementation plan and Council delivery plan objectives have now been drawn into a single, comprehensive and cohesive plan - The Finance TOM Programme. This is being delivered in a coordinated and integrated approach, in parallel and in collaboration with the 1B Oracle implementation programme. The Finance TOM Programme and Oracle ERP implementation are separate programmes but run together - it is essential they are delivered in an integrated approach to maximise the opportunity and benefits available from Oracle.

5 2021 CIPFA Assessment

- 5.1 The council's delivery plan objective is to achieve a three-star CIPFA Financial Management rating by March 2022. In order to provide a baseline assessment of the Council's financial management capability towards achieving that goal and to ensure the combined programme would deliver a three-star score, CIPFA were commissioned, in April 2021, to undertake an informal 'self-assessment'.
- 5.2 This 'self-assessment' concluded that the Council had *achieved "strong overall progress"* since the previous review and *"financial management has been significantly transformed"*. CIPFA also provided an informal view that the Council had achieved a three-star rating.
- 5.3 The review also commented on the *"highly commendable response to issues arising within our April 2019 assessment. It would be our considered view that Birmingham City Council should be considered to be an exemplar in the*

transformation of financial management capability given the extent of improvement achieved over the last two years.”

5.4 Consequently, in order to formalise this ‘self-assessment’ rating, the Council commissioned CIPFA to undertake further interviews and a survey to complete a formal assessment and cement the three-star score.

5.5 The formal assessment has now concluded and CIPFA have confirmed the Council’s three-star status. CIPFA Commented that:

“Over the last two years the core finance function at Birmingham has moved on from delivering the more traditional stewardship aspects of financial management that had evolved through keeping the operational services ‘safe’, ensuring that the organisation works within its approved financial targets, to a much more mature and dynamic supporting and enabling service that drives diffused financial management. Our evidence strongly points to a significant improvement having been achieved on Financial Management capability including improved accountability for financial performance across the services. Indeed, there has been a highly significant improvement in the Supporting Performance Financial Management style which is a hallmark of a high level of effective Financial Management capability.”

5.6 In the context of strong controls over both revenue and capital spending supported and monitored by the Executive, Finance Service and budget holders, this review was undertaken with CIPFA having a clear understanding of the Finance TOM Programme which sets out the direction of travel and the improvement work planned in Service Finance over the next 12-18 months. The report states that: *“On a comparative basis, the average statement scoring would place Birmingham just within the top quartile for comparable organisation scoring at this point in time.”* and this further substantiates the need to continue driving the Finance TOM Programme in order to safely secure the three star rating on our journey to be a leading class finance function.

5.7 The CIPFA report includes a template for developing an improvement plan to address remaining issues. This template will be completed, in collaboration with CIPFA, drawing on the work that is already planned as part of:

- The Finance TOM Programme
- The Procurement Transformation Programme
- The council’s Delivery Plan and corporate transformation programme.

5.8 The full CIPFA report is attached at Appendix A.

6 Appendices

6.1 CIPFA Financial Management Capability Report.

7 Background Documents

7.1 None