



REVIEW OF FINANCIAL MANAGEMENT

USING

THE CIPFA FINANCIAL MANAGEMENT MODEL

NEXT STEPS REPORT

May 2012

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1. Executive Summary

- 1.1. In February 2012, Harrow Council commissioned CIPFA to undertake a review of Financial Management. Harrow asked for this review to be undertaken to inform the development of an action plan to improve Financial Management at the Council in order to successfully meet the challenges of fiscal retrenchment.
- 1.2. In order to establish a financial management baseline, provide a comparison with best practice and prioritise financial management improvements, Harrow Council decided to use the CIPFA Financial Management Model as a framework for the review.
- 1.3. Harrow Council, like other organisations in the public sector, is facing a period of significant reductions in spending, and must re-shape the organisation to manage the pressures while maintaining service delivery. It is carrying out a Transformation Programme to identify actions to strengthen its ability to manage within the budget envelope while delivering services that provide Value For Money (VfM). These changes are being introduced against a background in recent years of a number of financial challenges. Harrow needs a robust financial management structure to support this period of change. The CIPFA Financial Management Model fits with that approach.

The CIPFA Financial Management Model

- 1.4. The CIPFA Model is recognised by the Treasury as setting out the fundamentals of best practice financial management within a public sector organisation. 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 organisation's attitude to Financial Management not just the performance of the Finance Team. Our assessment is based on a mix of evidence obtained through Electronic Survey, Interview and Document Review.
- 1.5. The CIPFA Model is based on 38 Statements of best practice. Each of these Statements is supported by a series of up to 18 questions which both explain the scope of the Statement and help the assessment

Strengths and Areas for Further Development

- 1.6. Our work recognises that Harrow has made progress in the last year though there is more work to do to take the journey to the next level. Although our evidence points to financial management arrangements as being generally sound, there are issues involving accountability and ownership over financial management within the non-finance community. In overall terms we summarise areas where Harrow Council demonstrates relative strength and areas that would benefit from further development. These areas are based upon the best practice statements contained within the CIPFA Model.

Strengths

During the course of our work we were able to identify a good number of relative financial management strengths within the Council:

- § Management of the overall budgetary position in a volatile environment;
- § Pace setting S151 Officer providing valuable challenge and direction for financial improvement;
- § Robust arrangements within the Public Facing Finance Function;
- § Treasury Management arrangements; and
- § Business Partnership framework - direction of travel.

Development Areas

- 1.7. Here we summarise areas within Harrow Council that require strengthening and further development. We have categorised such areas between “Harrow Wide Challenges” and “Core Finance Development”. This differentiation being related to the appropriate sourcing and application of the primary focus of improvement. From this analysis, areas with low scores were explored further to identify underlying issues. Eight areas - some of which are interlinked were identified as follows:-

Number	Area
1	Financial Management Strategy
2	Culture – Ownership/Accountability and VfM
3	Financial Management Competencies for finance and non-finance staff
4	Financial Management Information Systems
5	Finance Function Service Standards and Performance Management
6	Positioning of Finance – Challenge and Added Value
7	Accounting processes
8	Internal Audit

- 1.8. Our high level comments on these headings are outlined below.

Harrow Wide Challenges

Financial Management Strategy

- § Producing a 4 – 5 year Medium Term Financial Plan containing detailed financial data for the first 3 years including longer term scenario planning;
- § Strengthening the linkage between reporting of Target outcomes and related Resource Utilisation/Financial Performance;
- § Building more precision in the alignment of budgets with Business needs; and
- § Strengthening the linkage between Medium Term Financial Planning and Outcome Targets.

Culture – Ownership/Accountability and Value for Money

- § Building universal acceptance of ownership and accountability for budgets amongst Budget Holders and Budget Managers across Harrow;

- § Achieving a consistent approach to the appraisal of Budget Holders re: Resource Management;
- § Introducing monitoring and control measures to identify and promptly address budget behavioural issues such as: optimism bias, overspending avoidance, dramatic year-end fluctuations and unregulated profiling of expenditure;
- § Ensuring managers demonstrate VfM (economy, efficiency and effectiveness) in their decision making for utilising budgets to achieve performance targets;
- § Requiring Budget Holders to demonstrate positive actions taken to secure savings rather than limiting their response to revised budgetary constraints by recalibrating the level of activity and re-profiling delivery;
- § Creating Budgets based on a full understanding of cost drivers and costs across Harrow; and
- § Challenging Budget Holders transparently and consistently to deliver VFM.

Financial Management Competences for finance and non-finance staff

- § Developing and implementing formal and comprehensive financial management competency framework for finance and non-finance staff;
- § Taking action at Corporate Leadership Group level to demonstrate support for the importance of financial management skills and build recognition of that importance amongst Budget Holders and their staff;
- § Building statements of required financial competencies into all job descriptions for finance and non-finance staff and obtain evidence of testing of these competencies during the selection process;
- § Developing/updating the appraisal process to ensure staff include financial management objective(s) in annual statement of objectives, appraisal against objectives is evidenced during the year, and incentives and penalties for failure to meet objectives are contained in Finance Regulations/HR Procedures;
- § Assessing extent of variation in current levels of financial management competency of operational staff against level of competency required;
- § Identifying Financial Management competence gaps and dealing with these on a timely basis;
- § Prioritising actions to identify and address key skill gaps to provide increasingly critical value added activities; and
- § Developing and implement a cohesive training programme for non-finance staff.

Financial Management Information Systems

- § Producing a standard suite of Reports
- § Appraising options and taking action to reduce the current significant level of manual manipulation of base data required for reporting;
- § Improving quality of in year information for forecasting purposes;
- § Leading integration programme with other systems;
- § Introducing consolidated real time information – complete picture currently difficult to achieve quickly; and
- § Taking steps to help managers make much better use of the SAP system to reduce undue reliance on Finance staff.

Core Finance Development

- 1.9. In the context of Harrow's stated aspiration to provide a first class financial service we consider the following development areas are crucial to take forward:

Finance Function Service Standards & Performance Management

- § Introducing formal Service Standards for agreement with internal customers;
- § Implementing formal Performance Monitoring of the Finance function with internal customers;
- § Utilising Service Standards as valuable benchmarks to gain deeper understanding of cost drivers and their sensitivities to demand;
- § Improving clarity of statement of roles and responsibilities; and
- § Actively use statement of roles and responsibilities to regulate relationship between Finance and Non-Finance Community.

Positioning of Finance – Challenge and Added Value

- § Identifying key drivers on Finance Team in supporting Budget Holders and take actions to reinforce roles and responsibilities of Budget Holders and reduce over-reliance;
- § Appraise extent of Finance staff time tied up in reshaping existing data (e.g. using Excel spreadsheets) and providing reactive tactical short term financial solutions, identifying options to address this constraint on Finance;
- § Reducing finance staff focus on detailed work to provide added value financial support such as Financial strategy/Affordability/Business case modelling;
- § Taking steps to strengthen influencing and negotiation skills of Finance staff to address perception that they cannot provide value added input to policy or development issues
- § Assessing, and where appropriate addressing, capacity of Finance to meet concerns that they are able go beyond 'number crunching' ;
- § Introducing a programme of career and skill development for the core Finance Team to address lack of experience of innovative business models and new ways of working that is currently limiting their capacity to contribute towards Transformational change;
- § Uprating skills and expertise of permanent staff to reduce reliance on interim staff and associated issues of lack of continuity;
- § Restructuring may offer opportunities to rebalance the existing skill set with current requirements; and
- § Ensuring recruitment process is cross referenced to competency framework (when developed) and require evidence that recruited staff meet required experience and skills.

Accounting Processes

- § Implementing more stringent regime of regular monitoring of reconciliations of accounts

Internal Audit

- § Ensuring Internal Audit has access to adequate resources and suitably qualified staff:-
 - Head of Internal Audit is professionally qualified
 - Providing CCAB qualified resource(s) to assess key Financial Systems
 - Obtaining additional resources to address issues arising from changes in Finance and introduction of new ways of working
- § Strengthening the status and robustness of the Internal Audit Plan in line with best practice by:-
 - Clarifying within the Plan itself, the risk based foundation methodology underpinning the creation and management of the Internal Audit plan within the plan
 - Including a statement of skills required/reconciliation of audit time to proposed audit tasks within the plan
- § Identifying areas where compliance with recommendations are variable and raise non-compliance as part of the appraisal process

Recommendations for Improvement

- 1.10. The aim of this review is to help improve financial management in Harrow, so we plan to work with management to develop a Schedule of Improvements to respond to the relevant improvement areas . To facilitate this we attach at Appendix 1 - a framework Schedule of Improvements into which the detailed activities can be mapped. Additional resources and investment will be required to take forward the necessary changes to successfully implement Financial Services' restructuring. Resources will also be needed to ensure that the Improvements/Action Plan is implemented. In this respect Harrow Council would require to set aside sufficient resources to enable this critical work to be completed.
- 1.11. The development steps identified represent quite a demanding improvement programme both within finance and more broadly. Additional resources and investment will be required to take forward the necessary changes to successfully implement Financial Services' restructuring. A pre-requisite of success is that staff will need to be involved and take ownership of the process.

Conclusion

- 1.12. We consider Harrow Council has recovered well from a number of financial difficulties in recent years including an overspend on the 2010 Capital Programme and a low level of usable Reserves from 2006-07. In many areas of Financial Management the direction of travel is now the right one - within Financial Management operations the Business Partnering approach is working particularly well and there are some obvious technical strengths within the core Finance Function – indeed, our evidence points to a hard-working and competent core Finance Function being in place although a rebalancing of strengths may improve the service through restructuring.
- 1.13. Whilst solid progress has been made within financial management in the last year there is much more to do. Although our evidence points to the financial management arrangements

being generally sound there are issues involving accountability and ownership over financial management within the non-finance community. This latter issue may have a negative impact on financial management capability and decision making at a time when Harrow is seeking to address the impact of significant fiscal retrenchment. There is also a specific need to further embed VfM within the prevailing culture for Harrow to continue to meet the demands of doing more for less. In practice, it is yet to fully embrace the more advanced styles of financial management that will help it meet such challenges. However, given the level of ambition that has been set by the Chief Executive and the self- challenging and continuous improvement culture so evident within the organisation, we are confident that Harrow can successfully meet these challenges.

2. Introduction

Understanding the Council

- 2.1 Harrow is one of the 32 London Boroughs and is situated in North West London. There are 21 wards and 63 Councillors. In the 2010 election the Administration changed from Conservative to Labour.
- 2.2 Harrow has a growing population, estimated as 230,100 representing a 9.6 per cent growth since 2009, and a changing demographic profile. Harrow's population is one of the most diverse in the country, ranked in 2009 as being the fourth highest local authority area in England, with ethnic minorities representing approximately 53 per cent of the population
- 2.3 A wide range of local services are provided by Harrow, though excluding services provided London-wide by the Greater London Authority, such as Police and Transport. Harrow Council is currently undergoing re-structuring, and in the future will be organised in a way that reflects the complexity of the services that it is responsible for and the number of bodies involved in delivering those services. The review was conducted during a period of organisation service change and the following Service Directorates are now managing local service provision in 4 key areas:-
- § Children and Families services;
 - § Community, Health and Wellbeing;
 - § Environment and Enterprise; and
 - § Resources.
- 2.4 The Harrow Board is led by the Chief Executive, the Corporate Directors of the 4 Service areas and the Assistant Chief Executive. The Chief Finance Officer at Harrow, currently recruited on an 18 Month contract, is also the s151 Officer under the Local Government Act 1972, and is the Corporate Director of Resources, and is currently a member of the Corporate Strategic Board - CSB.
- 2.5 The cost of key services for 2010-11 provides an idea of the different levels of activity in the Council and is summarised below¹:-

	Gross Expenditure £000	Gross Income £000	2010-11 Net Expenditure £000
Continuing services:			
Central Services	25,087	(23,460)	1,627
Cultural, Environmental and Planning Services	46,536	(9,202)	37,334
Children's & Education Services	341,710	(204,710)	137,009
Highways, Roads and Transport Services	31,793	(13,791)	18,002
Housing Services HRA	145,062	(25,690)	119,372
Housing Services General Fund	139,569	(127,049)	12,520

¹ Harrow Council 2010-11 Comprehensive Income and Expenditure Statement

Adult Social Care	83,254	(20,216)	63,038
Corporate & Democratic Core costs	11,777	(1,253)	10,524
Non-distributed costs	(68,249)	(114)	(68,363)
NET COST OF SERVICES	756,539	(425,476)	331,063

2.6 In February 2012 the Council took the decision to freeze the Council tax for the second year running. Harrow Council received a Government grant in 2011 equivalent to the value of a 2.5 per cent rise in Council Tax (based on 2011-12) to be able to make this decision. This grant will be paid each year until 2015. For 2012-13 the Government again provided a grant, but only for one year.

2.7 The decision to freeze the Council Tax for a second year will result in an erosion of Harrow's income base. Harrow estimate that by the time the Grant for 2012-13 runs out, there are likely to be gaps in the Council's funding of:-

§	2013-14	£6.7m
§	2014-15	£4.3m

2.8 Such gaps are not only influenced by Council Tax but also the outstanding gaps in the Council's Medium Term Financial Plan (MTFP).

2.9 During the current financial year Harrow will continue to focus on identifying ways to increase the efficiency with which it can provide services, and on reducing costs. As part of that approach the Council will continue to develop its approach to commissioning services to identify organisations that are best placed to deliver. This move is likely to introduce new working relationships with a range of different partners.

2.10 For 2012-2013 the Council's revised revenue budget is £173.1m. In 2010/11 the Council underspent on its budget by £3.3m. The third quarter budget monitoring report for 2011-12 showed an under-spend of £0.190m. There was a perceived risk that this position would deteriorate, so Harrow had a Protocol in place to ensure that the budget is delivered in year, and to enable an under-spend (2011/12) to meet current year(2012/13) and future redundancy costs.

2.11 The Council implemented a 3 year savings programme 'Better Deal for Residents: Shaping Harrow for the Future' aiming to position the Council as a more efficient and effective organisation that can live within its means. Phase 2 of that Transformational Programme identified £31.4m of savings.

2.12 In the period 2007-08 to 2009-10, savings actually totalled £38m. In the previous year's Medium Term Financial Strategy (MTFS) the Council identified £19m of savings for 2011-12, with a further £12.3m for future years. Over the three years of the 2012-13 MTFS now proposed, the Council identified an additional £18.6m of savings. Achieving savings on this scale is considered challenging because:-

- § Harrow is considered a relatively low spending, high performing, low grant Council;
- § Large parts of the budget are outside the Council's direct control;

- § Considerable savings have been made in previous years making it increasingly difficult to identify new areas for efficiencies and reductions;
 - § Demand for services and expectations from Central Government are growing and government reforms on other services may impact significantly on the Council;
 - § The Local Government Settlement entails significant reductions in funding.
- 2.13 Externalities also exert pressures on the budget, for example: the number of benefit claimants increased from 16,600 to 20,400 from April 2008 to date, an increase of 23%; and demographic changes are leading to an increase in demand for services for the elderly. Inflation is running at approximately 4.8%.
- 2.14 Harrow Council's stated aspiration is to be "a high-performing, low cost Council". In support of this aspiration, the Council is currently embarking on a thorough review of all of its services. A number of different options for service delivery are being pursued, and are set out in the 2012-13 budget and in the Corporate Plan:-
- § Sharing and collaborating with other boroughs and other partners;
 - § Exploring alternative ways to deliver services;
 - § Designing services so that they are more targeted;
 - § Continuing to make access to services more convenient for customers;
 - § Adopting a more commercial approach to Council business ;and
 - § Harnessing the opportunities for future investment and regeneration in the Borough.
- 2.15 Examples of specific options include service sharing with other London Boroughs such as the West London Alliance, and a joint venture with the NHS. The proposals form the programme of activity for a second phase of transformation. Further options have been identified, not included in the Budget, and are being actively explored. The 2012-13 Budget is balanced.
- 2.16 We believe that financial management across the public sector currently presents a huge challenge. This is partly because of the range of different activities, each of which will have their own pressures and risks. However, it is also because of the inevitable pressure on central government funding and limitations on local tax raising freedom.
- 2.17 The Current Harrow Administration priorities are set out in the Corporate Plan for 2012-13:-
- § Keeping neighbourhoods clean, green and safe;
 - § Supporting and protecting people who are most in need;
 - § United and involved communities: a Council that listens and leads; and
 - § Supporting our town centre, our local shopping centres and businesses.
- 2.18 In 2011 the Municipal Journal awarded Harrow Best Achieving Council in the Country status.

3. Key Findings

3.1 This Section outlines our Key Findings and supports the Action Plan at Appendix 1. It is anticipated that Harrow Council may address some of the issues raised, as appropriate within plans for the continuing development of Financial Management within the organisation.

Structure of the Model

3.2 The 38 statements in the CIPFA Model are organised in a matrix of Financial Management Styles and Dimensions.

3.3 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 “Securing Stewardship” style. This leads on to financial management contributing towards “Supporting Performance” by assisting decision-making and supporting the delivery of organisational objectives. “Enabling Transformation” would then be likely to represent the next stage, with financial management supporting the change agenda, innovation and re-engineering of systems and processes, where appropriate.

3.4 The Dimensions reflect the different elements that need to be combined to ensure effective Financial Management and comprise Leadership, People, Processes and Stakeholders. Further details of the CIPFA Model are shown in Appendix 2.

Applying the CIPFA Financial Model

3.5 In applying the CIPFA Model we have gathered evidence from three main sources:-

- § Electronic survey of staff;
- § Interviews; and
- § Document Review.

3.6 Information from these different sources has been brought together to give an assessment for each of the best practice Statements relevant to the Department. Further details of the methodology used are shown in Appendix 3.

Summary of CIPFA Financial Model Scores

3.7 The matrix below summarises CIPFA Finance Advisory’s assessment of Harrow’s Financial Management arrangements against the best practice CIPFA Financial Management Model, with each area being awarded a score from 0-4 which is converted to a RAG rating. In terms of high level representation 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

3.8 It should be noted that this represents CIPFA Finance Advisory’s independent view, taking into account the Interviews, Document Review and Electronic Survey. The matrix is based upon CIPFA Finance Advisory’s scores for each statement converted to a RAG Rating, which are summarised in this section. It would be our view that a comparative assessment of scoring with other public bodies would be unhelpful at this stage due to the differing range of operating environments and complexities involved.

Best Practice Matrix

3.9 Using the matrix, the key findings of the review can be summarised across the 3 financial management styles and 4 management dimensions as follows:-

Table 4 – Actual Scoring – Best Practice Matrix

Financial Management Styles	Management Dimensions			
	Leadership	People	Processes	Stakeholders
Securing Stewardship	Amber	Amber	Amber	Green
Supporting Performance	Amber	Red	Amber	Amber
Enabling Transformation	Red	Red	Red	Amber

Styles of Financial Management

3.10 The results show that, for Harrow, “Securing Stewardship” is clearly the strongest financial management style with the best (or equal best) scores in all cases. This is as you would expect for a well-established organisation such as Harrow which operates in a sector that is heavily regulated. It demonstrates that the building blocks for sound financial management are already in place, such as governance, financial reporting and probity/propriety. This financial management style also reflects the more traditional role of financial management and is one that is generally strongest.

3.11 The scores for “Supporting Performance” and “Enabling Transformation” are both lower in total than “Securing Stewardship”. The pattern of scoring reflects the progressive nature of the financial management styles, whereby Harrow still has work to do in areas of VfM, and financial management competencies throughout the operational parts of the organisation. We recognise that it is difficult to make the transition from Stewardship to Transformation, while at the same maintaining the strength of Stewardship, as the very attributes that deliver such strength in governance issues can act as inhibitors to Transformation in some cases.

Management Dimensions

3.12 From the best practice matrix, the “Stakeholder” Dimension is clearly the strongest, illustrating the outward focus of the Council on transparency and service to its “customers”, as well as a very balanced performance on financial management. The scores for “Processes” and “Leadership” Dimensions score equally. As is frequently the case however, in the organisations we review, the “People” Dimension was found to be the weakest of the management dimensions. We expand on the reasons for these scores below.

Leadership Management Dimension

Stewardship	L1	The organisation has an effective framework of financial accountability that is clearly understood and applied throughout, from the <i>Board</i> through executive and non-executive directors to front line service <i>Managers</i> .	
	L2	The organisation’s leadership allocates resources to different activities in order to achieve its objectives and monitors the organisation’s financial and activity performance.	

3.13 At a high level the main components of an effective framework of financial management for this Statement at the stewardship level, are met by the overall framework for corporate governance, including financial accountability, which is set out in the Council’s Constitution, as is the case for all local authorities. Not all staff are convinced that individuals actually use this guidance in their day to day work or know where it can be found. In addition not all staff believe that the spirit of the “One Council” initiative, to encourage greater consistency across Harrow, is being followed equally by all Directorates.

3.14 The Governance, Audit and Risk Management Committee (GARM) comprising elected Members, regularly receives reports on Audit (both Internal Audit and External Audit), Risk, Insurance, and Treasury Management. The Committee monitor the extent of the implementation of both internal and external audit recommendations, and thus overall acts to provide assurance on the financial and accounting systems.

3.15 A key question that supports the first statement in the model is as follows - “*Is the Chief Financial Officer a member of the Leadership Team, reporting directly to the Chief Executive and with direct access to the Council and Audit Committee*”. At Harrow the current Section 151 Officer, also the Corporate Director of Resources, is a qualified accountant and a full member of the Corporate Strategic Board (CSB) giving finance a voice at the “top table” and clearly meeting best practice standards.

- 3.16 A report is presented to Harrow Council in February each year as part of the approval process for the Annual Budget. The report includes a Corporate Plan for 2012-13, and a Medium Term Financial Strategy (MTFS) (both approved in February 2012) supporting financial planning for the period 2012 to 2013, and beyond to 2014-15. Harrow will need to improve its linkage between performance and the financial position. Additionally in our opinion the Corporate Plan does not represent a Medium Term Plan, does not contain sufficient financial detail for the 3 years, and does not accord with commonly regarded best practice sense of 4 – 5 years Medium Term Plan.
- 3.17 A new regime is operating to encourage Directorates to examine spend against budget and to improve their forecasting and control. This position is not necessarily uniformly reflected across the Service Directorates. We received evidence that monthly reconciliations of expenditure, part of the monitoring process, are not being fully carried out in accordance with internal procedures thus potentially diluting overall control on spend and importing an element of risk.
- 3.18 Processes exist to adjust budgets in year. Decisions to change resources allocations during the year are not always explained to staff. The Corporate Plan aims to demonstrate strategic resources allocation to meet the Council’s aims and objectives. Many staff however do not agree that the Corporate Plan demonstrates this adequately. Given that for the budget is largely based on historical figures, we feel it is unlikely that the Medium Term Financial Strategy can fully reflect realistic estimates of funding for defined levels of service to meet demand and strategic objectives.

Performance	L3	The organisation integrates its business and financial planning so that it aligns resources to meet current and future business objectives and priorities. Performance management is conducted through measures of service delivery and clear understanding of the costs incurred.	
	L4	The organisation has a developed financial management strategy to underpin long term financial health.	
	L5	The organisation uses financial management expertise in its strategic decision-making and its performance management based on an appraisal of the financial environment and cost drivers.	

- 3.19 Scores in relation to strategic financial planning are largely linked to preparing the strategic Corporate Plan and Medium Term Financial Strategy. Harrow applies criteria for reviewing and justifying its activities, including the impact on people most in need, the risks involved and alternative agents of delivery.
- 3.20 Harrow recently introduced a Lean initiative to identify savings. Applying Lean does not necessarily by itself lead to a deeper understanding of underlying service delivery costs. Some Directorates, such as the former Adults & Housing, do carry out extensive reviews of the impact of key external cost drivers. Some areas in Harrow link outputs and outcomes with costs; for other areas the link is not so clear. Without a deep understanding of costs in all areas of the organisation clearly linked to performance, it is difficult to give a view on the implications of policy choices, for example for variations in demand or provision, on expenditure.

- 3.22 Reports from various stakeholder consultative forums feed the information in the Corporate Plan. The extent to which there is collaboration with delivery partners is less clear. Integrated reporting should bring information on financial performance, activity levels, outcomes and risk together.
- 3.23 Statement L4 seeks to address the issue of financial management strategy over the medium to long term, through the actions of management and the development of appropriate policies. The commitment of senior management to the financial strategy is indicated by the degree of involvement in setting up the MTFS and the degree of monitoring which takes place. In terms of policies, the Financial Regulations provide the management responsibilities, while Accounting policies are largely set for the whole of Local Government and there is little flexibility here.
- 3.24 The Council needs to maintain an overview of the consistency of application of these policies, and that compliance is monitored. We found inconsistent approaches to preparation and monitoring of budgets.
- 3.25 Finance Staff are involved in their business area’s strategic planning and decision reporting. We believe that Finance Staff have the skills and expertise to make the important financial contribution necessary to strategic decision making. What is less clear is the extent to which these skills are actually used. Our evidence suggests that Finance Business Partners should be more involved in developing plans for new policy areas.
- 3.26 To some extent the issue is cultural, and dictated on one side by the views of some managers concerning the lack of communication skills and business knowledge of finance staff, and, on the other, by the views of finance staff regarding the lack of financial knowledge amongst managers. We find this situation replicated in other similar organisations.
- 3.27 There is evidence of a lack of uniformity across service areas in getting to grips with costing and other financial management information. Some managers clearly value the advice and challenge that Finance bring, so that they understand the financial implications and VfM of policy options; others are not so convinced.

Transformation	L6	The organisation develops and manages employees pay and benefits strategically.	
	L7	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.	

- 3.28 Employee costs make up the largest single component of cost within some public sector organisations. In relation to the statements about the strategic management of employee costs, Harrow, like other local government organisations, is constrained by prevailing terms and conditions of employment, and management flexibility is limited.

- 3.29 Harrow's workforce strategy outlines current staffing profiles which pose future challenges. The Workforce Strategy does not include supporting financial analysis. Until the implications of transformation projects are more fully analysed and understood in terms of staff numbers, overall staff profile, together with the costs required to fund the proposed structure, the link between remuneration and strategic planning is not clear.
- 3.30 On integration of financial management into strategies to meet future business needs, our evidence indicates a mixed performance at Harrow. Some staff seem to doubt that some senior managers fully understand the implications of some of the changes being introduced.
- 3.31 Discussions of future demands for services and how they may change are driving Harrow's examination of various partnering initiatives with other Local Authorities, which may change the way services are obtained for Harrow citizens. Harrow is exploring the potential for new technology to introduce efficiencies.

People Management Dimension

- 3.32 The People dimension traditionally scores lowest of the four management dimensions in the typical CIPFA Financial Model Assessment exercise and at Harrow Council there was to be no exception to this trend.

Stewardship	P1	The organisation identifies its need for financial competencies and puts arrangements in place to meet them.	
	P2	The organisation has access to sufficient financial skills to meet its business needs.	

- 3.33 This statement deals primarily with the general need that organisations have for financial skills at all levels. Many public bodies now formalise this need through a competency framework, defining the integrated knowledge, skills, judgment, and attributes that individuals need to perform a job effectively. A financial management competency framework is not currently in operation at Harrow.
- 3.34 In other organisations we have looked at, competency frameworks have been influential in raising the profile of financial management requirements and establishing that financial management skills are part of the core requirements for all managerial posts. Indeed, these skills are essential if Budget Holders/Managers are to fulfil their accountability responsibilities. A competency framework needs to be developed which extends through Budget Holders and Budget Managers throughout the organisation. It is extremely difficult to identify skill gaps and training needs. Our evidence pointed to gaps in training of some non-finance staff, and the need for further refresher training on a range of financial management issues. This is a somewhat disappointing finding against the background of training for managers in Budget Holders' roles and responsibilities in 2009.
- 3.35 Our work suggests that Harrow has a capable core Finance Team that has significant levels of experience and technical skills - some team members having substantial length of service within Finance at Harrow. There needs to be been a fundamental review of training needs,

career development plans and a competency framework for financial staff currently in place. In our opinion this places Harrow in a weak position. Without thoroughly understanding the competencies that exist, the willingness for staff to develop and grow, and the corresponding opportunities to support such growth Harrow will find it difficult to respond quickly and appropriately to new situations.

- 3.36 The ability to provide professional challenge to the financial implications of operational decision making is critical in providing optimal financial management support. This includes the 'added value' finance services of forecasting, project appraisals, business plans, cost-benefit analysis and VfM. Due to the level of dependency that exists, with time spent on transaction processing and budget management, we do not believe that the Finance Team can achieve that.
- 3.37 A key feature of this dependency is that many Budget Managers appear to place heavy reliance on the finance function through the Business Partnering Model, to manage their budgets for them. This level of dependency is not, in our view, appropriate and reduces the ability of the finance function to provide those added value services. Further work is required to rebalance the relationship.
- 3.38 From our evidence, Budget Managers firmly believe that core Finance Staff have appropriate skills to support them in financial matters. However our evidence also shows that Finance Staff believe the financial competencies of existing Budget Managers (to enable cost effective delivery) are only partly sufficient for this role.
- 3.39 The Harrow 'Workforce Strategy' does not specifically address the finance community, but does contain general objectives to attract good recruits. Specific job roles such as Treasury Management and Procurement require defined financial expertise and knowledge, and in Harrow such roles are filled by appropriately professionally trained and experienced staff, albeit in some cases interim staff. We have some concerns about the length of time some staff in Finance remain in one post without skill refreshment. Without staff enrichment programmes, skills can become stale.
- 3.40 A Training scheme or defined career pathway for Finance and Accounts staff within Harrow needs to be developed. Staff believe that there is an absence of central training budgets to update staff and reinforce processes. Continuing Professional Development is driven by individuals' need to meet professional body requirements rather than by the Council's recognition of the value of such activity.
- 3.41 Our interviews suggest that some staff will welcome the opportunity, and have the capacity, to uprate skills and expertise while restructuring offers the possibility of an alternative route to strengthening the skill set to meets the requirements that will allow Harrow to develop a transformational capability.
- 3.42 Our evidence indicates that CCAB qualified Finance staff generally demonstrate the necessary technical finance skills to do their job, though we are not so convinced about staff carrying out a more basic Accounting role. Staff in core Finance functions are judged by contributors as promoting financial policies and procedures to Managers. Our evidence suggests that compliance with policies and procedures varies across the Service Directorates.

Performance	P3	Managers understand they are responsible for delivering services cost effectively and are held accountable for doing so.	
	P4	Finance staff analyse financial issues and contribute interpretation, insight, advice, options, expertise and solutions to support decision makers and <i>Managers</i> .	

- 3.42 One of the questions in the Model asks whether all managers are held to account for performance and financial outcomes with meaningful consequences for their appraisal.
- 3.43 Our evidence would suggest that managers are aware of the general need for accountability, and to demonstrate VfM from their actions, although the degree of actual accountability demonstrated is somewhat less than this awareness would suggest. There is no clear mechanism which requires managers to fully account for delivering their services in such a way. Harrow needs to build accountability and ownership of Budget Managers – particularly at lower levels.
- 3.44 For Service Directors and their Budget Managers we found that the main focus was on the delivery of operational targets but, within that, there was a need to avoid budget over-spends or significant under-spends. Harrow introduced a Business Partnering approach whereby individual named Finance individuals are partnered with a specific Service Directorate. In theory this should allow the Business Partners to focus on challenge, interpretation of data and advice. Finance Business Partners build their knowledge and understanding of a specific Service business to provide tailored advice and challenge to respond more specifically to the Directorate needs.
- 3.45 In reality Finance Staff believe they spend a significant proportion of their time “hand holding” some budget managers in terms of developing forecasts and carrying out relatively straightforward tasks, rather than being free to focus on interpretation and advice. Problems with SAP exacerbate the situation.
- 3.46 Despite improvements arising from Business Partnering, evidence suggests that traditional budget behaviours still exist, with Budget Holders/Managers comfortable with spending up to their respective budget limits in the belief that unspent resources will be lost. If not tackled, such sub optimal budget behaviours will inevitably produce poor decisions, optimism bias, overspending avoidance, and unregulated profiling of expenditure. We believe that variations in the level of ownership and accountability for effective Harrow wide financial management are directly related to these weaknesses. The lack of real consequences for poor financial management performance within the appraisal process is, in our considered opinion, a key factor that can inhibit “good” budget behaviours.
- 3.47 It is a basic function of finance staff to support managers by providing a proactive challenge in the decision making process. If this is carried out effectively a culture can develop where managers will have a sense of VfM, and challenge decisions and assumptions themselves. Holding managers to account for VfM and the positioning of the finance function are equally critical in this regard. In this respect, clear communication, guidance, training and ownership

are key to success. Such a change requires a cultural shift which needs to be driven from the top down.

Transformation	P5	Financial literacy is diffused throughout the organisation so that decision takers understand and manage the financial implications of their decisions.	
	P6	The organisation develops and sustains its financial management capacity to help shape and support its transformational programme.	

- 3.48 Reports to the Council/Committees contain significant amounts of detailed performance information, though the level of detail of financial information is much less pronounced and sometimes falls short of what we see in other organisations. Staff generally believe that outside of Finance and the specialist roles, financial management literacy is fairly limited.
- 3.49 Sustaining the culture of financial awareness is important, but has to be done alongside many other things. One way of embedding financial awareness is through regular briefings of the senior Directors and Members on emerging financial issues which should be reflected in strategic planning. We would expect that such briefings need more robust financial analysis.
- 3.50 When Managers and Finance staff work closely together at all levels, financial awareness improves. Our evidence is suggestive of a good working relationship in some areas of Harrow, though we found a significant variation across the organisation in how Managers and Finance work together. There seems to be some sharply divided opinion amongst some specific individuals in both “camps”. This strongly suggests that there are some specific silos of behavioural activity which will need to be addressed – we understand that Harrow is trying to address this issue.
- 3.51 The Statements here move to the transformation level, and here the role for finance staff is quite outward looking - from the finance function but also from the organisation itself to gather best practice.
- 3.52 Questions here address whether Finance has developed rounder, more commercial expertise, and appropriate commercial acumen and negotiating skills. We found that many staff in Finance generally had been in Harrow for some considerable time, and that although some had moved around the organisation their experience was quite narrow; individuals tended to stick in one spot, perhaps longer than in other similar organisations. Commercial skills are not particularly in evidence.
- 3.53 We found that there are some frameworks for Harrow to learn best practice and to share it but there is more that could be done in this respect. And in order to sustain learning and best practice the Finance function itself needs to be adapted and shaped to meet new challenges.
- 3.54 Whilst the Finance core function has capability and performs well it is, in our opinion, not presently well placed to drive transformational change. We believe that Financial Management has still some way to go in this respect and, in particular, to improve their added value in delivering the above objectives beyond the basic monitoring and overall strategic roles currently undertaken. We are of the considered opinion that the Finance Function is

eminently capable of making this transition but is hindered in so doing by capacity issues as well as the undue reliance placed upon it by the non-finance community. This reliance limits their ability to deliver higher level adding value activities that will be critical to the Department's ability to meet the change agenda ahead. In essence, given the level of support and dependency we believe that the Finance Function is precluded from fully supporting and driving transformational change.

Processes Management Dimension

Stewardship	PR1	The organisation identifies and manages its significant business risks. The organisation is risk aware rather than risk averse.	
	PR2	The organisation has arrangements in place to maintain an effective system of internal control.	
	PR3	The organisation operates proper and effective internal audit.	
	PR4	The organisation operates and maintains accurate, timely and efficient transactional financial services (e.g. creditor payments, income collection, payroll, and pensions' administration).	
	PR5	The organisation's treasury management is risk based. It manages its investments and cash flows, its banking, money market and capital market transactions, to control the risks associated with these activities effectively; and pursue optimum performance consistent with these risks.	
	PR6	The organisation operates financial information systems that meet users' needs.	
	PR7	The organisation's financial accounting and reporting meet professional and regulatory standards.	
	PR8	Budgets are robustly calculated.	
	PR9	The organisation actively manages budgets, with monitoring and forecasting that is insightful, ensures 'no surprises' and leads to responsive action.	
	PR10	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.	
	PR11	Collaborative arrangements to deliver services are accountable for their funding and service performance.	

3.55 For the Stewardship style of financial management, the score combines eleven individual statements dealing with the more basic requirements for financial management. Here the main contributors to a good score overall are areas that are heavily prescribed for the sector as a whole. These include financial accounting and reporting, and the fixed assets that the latter disclose.

3.56 Cabinet, acting in conjunction with GARM Committee, and the Lead Member are responsible for the agreement and approval of risk management policies and plans and have ultimate responsibility for it. In accordance with best practice, this committee is made up mostly of non-executive board members. The Risk Management Strategy includes the detailed responsibilities of managers with respect to Risk. An annual Risk Appetite Statement is produced separately, prepared in line with best professional practice in corporate governance

as reviewed by the Financial Reporting Council [FRC] further to the requirements of the UK Corporate Governance Code [2010]. While all the basic components of risk management seemed to be in place, we found that risk management itself did not seem to be well embedded and with more to do perhaps in the form of refresher training or similar.

- 3.57 Harrow Council sets out in its Statement on Internal Control (included in the annual accounts) the elements of its risk and control framework and the steps that it takes to ensure its effectiveness. The Council has approved and adopted a Code of Corporate Governance which is consistent with the principles of the CIPFA/SOLACE Framework ‘*Delivering Good Governance in Local Government*’. Responsibility for assisting the authority in developing an appropriate overall control environment and effective internal controls lies with the Corporate Director of Resources and the Assistant Chief Executive.
- 3.58 Underpinning the process to ensure effectiveness is the work of Internal Audit on key controls and Annual Assurance Statements. Senior management self-assess their governance arrangements annually as part of the Management Assurance exercise, as an indication of how well staff implemented the Council’s policies and procedures during the financial year. The 2010-11 Management Assurance exercise confirmed that 77% of the areas of assurance covered by the process were working well across the Council.
- 3.59 An important question supporting the statement ‘the organisation operates proper and effective internal audit’ includes the question – “Does internal audit have adequate resources and suitably qualified staff including a professionally qualified Head of Internal Audit, and skills in IT and contract audit, to deliver its work programme.” Our evidence challenges an affirmative position on most of these requirements, essentially the Head of Internal Audit, is not professionally qualified; the Internal Audit of key financial systems are being carried out by Auditors who have not been professionally trained in accounting although we have been advised that such staff possess extensive external experience. We also had some difficulty in securing assurance on the strength of the assessment of Risk Scoring that should be fundamental to Internal Audit Planning. On organisational impact we understand that the Internal Audit Team is well regarded within the organisation with Team Members having significant operational experience.
- 3.60 Effective control is also achieved through accessible, up to date, effective guidance and policies that Staff can refer to regularly. We found that access to items such as the Financial Regulations, and manuals or guidance for using the financial system (SAP) was not sufficiently clear. The latter point is particularly unhelpful given the level of complaints about SAP.
- 3.61 Harrow’s strength in this area is in demonstrating that it is able to manage the overall budgetary position in a volatile environment, while at a lower level work is still required to consolidate actions taken to strengthen budget ownership and accountability.

Performance	PR12	The organisation’s medium-term financial planning process underpins its strategic priorities.	
	PR13	The organisation systematically pursues opportunities to reduce costs and improve value for money in its operations.	

	PR14	The organisation systematically pursues opportunities for improved value for money and cost savings through its procurement and commissioning.	
	PR15	The organisation pursues value for money through active management of its fixed assets.	
	PR16	The organisation works with other bodies to drive better service performance and/or reduce costs.	

- 3.61 For the Performance style of Process financial management, there are five statements with a broad theme of VfM. Scores here are remarkably consistent, and similar to those of other organisations.
- 3.62 Statement PR12 builds upon the issues dealt with at L2 and PR8.
- 3.63 The 2012-13 Corporate Plan and MTFs are mentioned earlier in this Section of this report; here it is appropriate to comment on the content of the Budget report as an aid to planning. The Report to Cabinet includes a brief resume of some of the likely changes in key cost drivers such as demand for Adult services, to provide a backdrop for the following statement of the Council Tax strategy and the implications for Harrow. We are pleased to see the link with the Corporate Plan through the statement of Council Priorities here.
- 3.64 The MTFs provides a summary budget statement for the three years from 2012-13 to 2014-15. In our opinion the financial detail provided to support the Corporate Plan should be more detailed. It is our opinion that 3 years is too short a period for such a plan, and a longer period would give confidence and help in planning by partners and other stakeholders.
- 3.65 The scenario outlined by the Budget report is clearly challenging for the Council, particularly as it prides itself on being a caring authority. A balanced budget for 2012/13 has been achieved though obviously after some considerable discussion and quite close to the required deadline. It is unlikely however that this scenario will ease in the short term, and some hard decisions will need to be taken, and new ways of providing services for minimum costs identified. This scenario will demand some new skills in finance to ensure that all opportunities can be grasped to keep costs under control and to ensure innovative approaches to service delivery can be exploited.
- 3.66 PR 13 looks at the approaches and techniques used by Harrow to identify where savings may be made as well as driving through those improvements. Several initiatives for reducing costs have already been mentioned, such as the introduction of Lean. Some areas, such as Housing have already realised savings and reinvested to improve the service provided. And Harrow has introduced specialist staff, in areas such as Housing and Procurement, to refresh the skills available in-house, and to pursue opportunities to reduce costs and improve VfM. Harrow is also a member of a number of CIPFA Benchmarking Clubs. These include:-

- § Adoption Benchmarking Club
- § Children Looked After Benchmarking Club
- § Corporate Services – VFM - Finance

- 3.67 Whilst providing a helpful service perspective and investigative tool, the range of indicators provided are not sufficient on their own to demonstrate overall VfM of the services delivered. Further analysis is required particularly of costs and quality of services aligned to corresponding indicators of performance.
- 3.68 While it is evident that at the senior level of management at Harrow there is an appreciation of the need to demonstrate VfM in overall service delivery. Harrow needs to further strengthen this understanding particularly at lower levels of management.
- 3.69 A review of the Council's total procurement activity was carried out in 2009 and developed in a business case approved by CSB in August 2010. The focus of the business case is the requirement for Harrow's Procurement activities to deliver savings from the supply chain, thereby limiting any need to reduce services to the community. A previous review of Procurement by PwC in 2009 recommended a significant increase in commercial/procurement capabilities and capacities in the Council. The central procurement team of 6 has been complemented by 6 interims; 2 were recruited in 2010/11, with a further 4 in 2011-12.
- 3.70 The Interim Head of Procurement arrived in September 2010 and developed an action plan for Procurement. We understand that the Head of Procurement has identified £4.4 m savings against the initial target of £3.5 m. We understand that there have been difficulties in reaching an agreement on how to take some of these savings out of detailed budgets in the context of existing MTFS savings proposals.
- 3.71 A number of initiatives have commenced to strengthen the Procurement process and significant changes have been made including better contract management and capacity building projects are underway such as "Preparation for Council wide training for all those involved in procurement activity – creation of licensed practitioners". A Strategic Procurement Board (SPB) provides oversight of Harrow commercial activities.
- 3.72 Our review suggests that the procurement activities in Harrow look to be moving towards a much re-invigorated function, with a lot of further potential ahead. It is essential however that all senior management buy into the project, appropriate staff take part in the proposed training programme and relevant updates to SAP, specifically for procurement purposes, are brought into Harrow to sustain the improvements achieved so far.
- 3.73 PR 15 considers the management of assets to achieve VfM. The economic challenges of the last few years, the review of the present Administration's priorities, changes in Central Government policies (and in particular the methodology of deciding and providing funding streams) require all local authorities to look in detail at their assets (and how best to use them) and the services being provided. Harrow prepared a draft Asset Management Strategy for 2011-14 in January 2012. This strategy pulls together into one place all the asset opportunities presently being investigated and under consideration by the Council for the next five year period and summarises risks and targets. Our evidence in this area points mostly to planned VfM initiatives – expectational rather than delivering immediate or secured payback.

- 3.74 Optimising VfM to deliver and secure long term benefits demands clear positive management interventions rather than simply re-profiling activities
- 3.75 One of the Key Objectives in the 2011-14 Asset Management Strategy is to ensure continual review of the condition and maintenance requirements of the Council’s property. Although the Medium Term Financial Strategy does not include targets for the value of asset disposals, rationalisations of services, co-location with other services and sharing services across boroughs, identified in the Corporate Plan, will introduce opportunities to identify and dispose of surplus assets and these are already being recognised.
- 3.76 Statement PR16 takes the issue of managing relationships with other organisations, raised at PR11, and develops it further to look at improvements in performance and/or reductions in cost. In this respect Harrow has supported partner bodies such as schools, and the PCT, and evaluates outputs and outcomes of existing partnership.
- 3.77 However, whilst there are examples of effective collaborative relationships that drive good financial impacts we did detect some challenges with the organisational resourcing of the management of Property overall – HRA and General Fund. For example, Harrow has a small housing stock of some 4,966 properties (as at 31.3.11), yet responsibility for all the related activities is spread across three Directorates, and this necessarily introduces some element of duplication of processes. Harrow has identified the need to restructure this element of its work, but this has yet to be taken forward. Interview evidence points to some internal cultural issues that need yet to be addressed to smooth the transition to a more efficient and effective business model here.

Transformation	PR17	The organisation’s financial management processes support organisational change.	
	PR18	The organisation works with other bodies to deliver services that better meet the needs of users and customers, balancing quality and cost.	
	PR19	The organisation re-engineers its financial processes.	

- 3.78 For the Transformation style of financial management, there are three statements with similar scores. The statements relate to financial management processes supporting organisational change, re-engineering those processes and working with other bodies to better meet the needs of end users.
- 3.79 Harrow is currently considering new business models for a range of activities and recognises the need to bring in expertise in the form of interim managers to address particular skill needs. The financial regulations are fairly silent on the subject of new activities and innovative financial management approaches with respect to internal controls that need to be addressed. Harrow now needs to address inefficiencies in the application of SAP; to capitalise fully on benefits from proposed new business models, the shortcomings in SAP will need to be addressed.

- 3.80 Achieving Transformational capability is difficult for Public Bodies to achieve. Spending taxpayers' money wisely requires robust stewardship and Governance arrangements – and this is the case at Harrow. However, the ability to effect transformational change is particularly difficult, especially in the short term, without sacrificing the inbuilt strengths achieved in securing strong stewardship.
- 3.81 Statement PR18 takes forward the concept of collaborative working dealt with earlier, but in the context of transformational change. The relatively low RAG Rating for this Statement reflects the early nature of the transformation work in these areas, with benefits yet to be realised. Harrow is exploring collaborative working with the West London Alliance of Local Authorities, and has just agreed a collaborative approach between its legal services department and those at Barnet Council which is anticipated will yield significant savings – we understand that staff from Barnet will be subject to a TUPE transfer from 2 June 2012.
- 3.82 Work is on-going for the 2012-13 Corporate Plan to identify areas for early intervention, and preventative strategies such as Children's Centres, Public Health and Personal Budgets.
- 3.83 The emphasis here is on fundamental reshaping of processes - looking at the required outcomes rather than the present structures for delivery of the processes.
- 3.84 Earlier we referred to Harrow's Lean initiative and we found evidence that this work had yielded significant savings from identified efficiencies. Procurement in Harrow Council is being transformed, and significant initial savings have been identified. This work has the potential to bring VfM through to a wide range of areas within Harrow, particularly as new market opportunities arise.
- 3.85 Finance as an activity has moved towards self-service to reduce transaction costs and provide direct access to budget management screens and other tools to improve individual and functional accountabilities. Moving towards more of a self-service activity allows Finance to release staff to focus more on added-value activities and provide greater opportunities for finance to fully utilise their skills. Not all Directors are yet convinced with the notion that self-service fits comfortably with their role and responsibilities.

Stakeholders Management Dimension

- 3.86 The CIPFA Financial Management Model combines a number of stakeholder elements here including the views of external stakeholders on VfM, financial integrity and their ability to influence decisions on resource allocation.

Stewardship	S1	External stakeholders have confidence in the integrity of the organisation's financial conduct.	
Stewardship	S2	The organisation can demonstrate customers and users of its public facing financial services are treated consistently.	
Performance	S3	External Stakeholders have confidence that the organisation delivers value for money.	
Performance	S4	The organisation can demonstrate its public facing financial services are socially inclusive and track public satisfaction.	
Transformation	S5	Customers and stakeholders can bring influence to bear on key financial management policies, including resource allocation and tax decisions.	
Transformation	S6	The organisation's public facing financial services focus on their customers and users, and recognise and respond to their individual needs.	

- 3.87 Harrow scores well within the Stewardship style of financial management. External stakeholders receive assurance in relation to financial integrity from a number of processes and publications. Confidence amongst stakeholders in Harrow's Financial Management is determined to a significant degree by how well the Council discharges its public accountability duties. Harrow Council seeks to engage with the Public and other Stakeholders through a dedicated Consultation Event which allows contributors to provide feedback on Council performance.
- 3.88 The Council now has in place a suite of governance mechanisms, some public-facing, others internal. Such mechanisms should all now be publically delivering levels of required reassurance. The work developing the Council's Risk Management arrangements now provides a visible degree of assurance to the Council itself.
- 3.89 Again Harrow performs well under Statement S2 which encompasses aspects such as the standards of service customers can expect, reports on service performance available externally, clarity of communications, and collation of customer feedback from surveys. Various processes exist to report externally on service performance. The Overview and Scrutiny Committee recommended that the relationship between financial and performance externally reported should be improved.
- 3.90 Performance information on public-facing financial services is collected and monitored monthly in some Directorates, and there are formal quarterly reviews. Our evidence also supports the idea that satisfaction surveys, complaints and other customer feedback is used to improve performance.
- 3.91 For the Performance style of financial management, the RAG Rating is somewhat lower than at the Stewardship level and a little lower than other organisations. Providing assurance to external stakeholders in relation to VfM is a challenge for Harrow because of the complex range of organisations and services dealt with, and its various partnership arrangements.
- 3.92 The External Auditor's (Deloitte) are required to issue a VfM conclusion within their report on the financial statements. Deloitte issued an unqualified VfM opinion and were satisfied that in all significant respects the Council has put in place proper arrangements to secure

economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

- 3.93 Like other Local Authorities, Harrow produces a leaflet included with its annual Council Tax communication in which it explains how the Council will apply the monies raised in local taxes. In addition it seeks feedback via the residents' panel, and interview evidence suggests it builds this into its planning approach for service provision within Directorates.
- 3.94 The Council systematically surveys client groups and engages directly with a Panel of Harrow residents who are invited to provide feedback on Financial Services service delivery. Harrow Officers monitor complaints, and there are provisions for liaison meetings with leaseholders and other groups, that are applied to drive improvements. We understand that Revenue and Benefits staff are provided with extensive Training and the level of service performance reflects the competency of staff. This statement also largely relates to equal opportunities issues in the delivery of financial services and there is evidence of a positive commitment to ensuring equality of access to services. User requirements are met in accordance with the Commission for Racial Equality Guidelines. The Council carries out Impact Assessments and monitors the diversity aspect of questions asked of claimants.
- 3.95 For the Transformational style of financial management, the RAG Rating is slightly higher than that for Performance in contrast to most other organisations. This Statement covers aspects such as obtaining Stakeholder views on spending priorities.
- 3.96 The participative process in Harrow appears effective, accessible and relevant. There is positive evidence that Harrow works hard in gathering views on spending priorities through consultative processes with Stakeholders.
- 3.97 Harrow's rating on Statement S6 is strong, which encompasses aspects such as analysing the customer experience, accessibility of services to suit the customer, and maximising use of electronic services for customers. Customers are provided with a choice of service access channels to obtain the service they require e.g. telephone, internet, in person, and this is combined with a strategy to reduce costs for the customer e.g. the use of Direct Debit payments.

4. Concluding Comments

Survey Completion

- 4.1. The survey completion rate for this roll out of the CIPFA Financial Management Model was 59 per cent, which was only a little above the minimum level of evidence we need of 50 per cent, with 117 out of 198 participants submitting data/evidence.

Interviews

- 4.2. The roll out of the CIPFA Financial Management Model relies heavily on interviews to cover specialist areas (such as internal audit) and to probe further into areas covered by the electronic survey. Generally commitment to these interviews by staff at Harrow Council was excellent. We were able to complete all the scheduled interviews which we have not always been able to do.

Scoring

- 4.3. Our final assessment of the financial management arrangements at Harrow was similar to a number of the other organisations we have worked with. In practice, our assessment in places differed from the electronic survey itself (in some cases higher, in some lower) but this is often the case as, for example, survey respondents may not all be aware of all aspects of the high level activities and processes influencing the Leadership scores, or aware of the degree of interaction with key Stakeholders such as Councillors and the External Auditors (Deloitte).

Finally

- 4.4. It would be our considered opinion that Harrow Council has managed to recover well from a number of financial difficulties in recent years including an overspend on the 2010 Capital Programme and low level of usable Reserves from 2006-07. In many areas of Financial Management the direction of travel is now the right one - within Financial Management operations the Business Partnering approach is working particularly well and there are some obvious technical strengths within the core Finance Function – indeed, our evidence points to a hard-working and competent core Finance Function being in place at Harrow.
- 4.5. Whilst solid progress has been made within financial management in the last year there is much more to do. Although our evidence further points to the financial management arrangements being generally sound there are issues involving accountability and ownership over financial management within the non-finance community. This latter issue may negatively impact on financial management capability and decision making at a time when Harrow is seeking to address the impact of significant fiscal retrenchment. There is also a specific need to further embed VfM within the prevailing culture for Harrow to continue to meet the demands of doing more for less. In practice, it is yet to fully embrace the more advanced styles of financial management that will help it meet such challenges. However, given the level of ambition that has been set by the Chief Executive and the self- challenging

and continuous improvement culture so evident within the organisation, we are confident that Harrow can successfully meet these challenges.

- 4.6. We would also like to take this opportunity to record our sincere gratitude to the many members of Harrow Council's staff who have provided extremely valuable support in the course of our work through liaison, interview or survey participation.

Schedule of Suggested Improvements from the Review of Financial Management at Harrow Council using the CIPFA Financial Management Model

Theme	Required Action(s)	Benefit
<p>1. Financial Management Strategy (Harrow Wide)</p>	<ul style="list-style-type: none"> § Producing a 4 – 5 year Medium Term Financial Plan containing detailed financial data for the first 3 year – including longer term scenario planning § Strengthening the linkage between reporting of Target outcomes and related Resource Utilisation/Financial Performance § Building more precision in the alignment of budgets with Business needs § Strengthening the linkage between Medium Term Financial Planning and Outcome Targets 	<p>Greater understanding across the Council of the resource requirements and constraints</p> <p>Better understanding of the outcomes to be delivered with the resources devoted to individual service areas.</p> <p>Improved reporting ability linking spend with outcomes</p>
<p>2. Culture – Ownership/ Accountability and VfM (Harrow Wide)</p>	<ul style="list-style-type: none"> § Building universal acceptance of ownership and accountability for budgets amongst Budget Holders and Budget Managers across Harrow; § Achieving a consistent approach to the appraisal of Budget Holders re: Resource Management § Introducing monitoring and control measures to identify and promptly address budget behavioural issues such as: optimism bias, overspending avoidance, dramatic year-end fluctuations and unregulated profiling of expenditure § Ensuring managers demonstrate VfM (economy, efficiency and effectiveness) in their decision making for utilising budgets to achieve performance targets § Requiring Budget Holders to demonstrate positive actions taken to secure savings rather than limiting their response to revised budgetary constraints by recalibrating the level of activity and re-profiling delivery 	<p>The movement towards the Finance function becoming more of a “true” business partner and less of a traditional score keeper/regulator will naturally improve ownership issues. This along with the development of operational managers FM skills should lead to a more mature approach being taken in resources management.</p> <p>A more effective working relationship between finance and operational managers should lead to better overall decision making and reduce the risk of managers spending up to budget levels to avoid having budgets reduced in the future.</p> <p>By creating a closer relationship between Finance and Budget Holders and addressing the development needs of both the movement to a culture of ownership and responsibility will develop.</p>

Theme	Required Action(s)	Benefit
	<ul style="list-style-type: none"> § Creating Budgets based on a full understanding of cost drivers and costs across Harrow § Challenging Budget Holders transparently and consistently to deliver VFM (i.e. Economy, Efficiency and Effectiveness) 	
<p>3. Financial Management Competencies for finance and non-finance staff (Harrow Wide)</p>	<ul style="list-style-type: none"> § Developing and implementing formal and comprehensive financial management competency framework for finance and non-finance staff § Taking action at Corporate Leadership Group level to demonstrate support for the importance of financial management skills and build recognition of that importance amongst Budget Holders and their staff § Building statements of required financial competencies into all job descriptions for finance and non-finance staff and obtain evidence of testing of these competencies during the selection process § Developing/updating the appraisal process to ensure staff include financial management objective(s) in annual statement of objectives, appraisal against objectives is evidenced during the year, and incentives and penalties for failure to meet objectives are contained in Finance Regulations/HR Procedures § Assessing extent of variation in current levels of financial management competency of operational staff against level of competency required § Identifying Financial Management competence gaps and dealing with these on a timely basis § Prioritising actions to identify and address key skill gaps to provide increasingly critical value added activities § Developing and implement a cohesive training programme for non-finance staff 	<p>By formalising the operational managers' required Financial Management competencies and appraising their performance against the competencies in these areas it will be clearer to the Budget Holders what is expected of them.</p> <p>Budget Holders will also be clearer about the gaps in understanding and the skills needed to build profile of appropriate financial awareness or other training. Overall setting specific competencies for each Post allows the Department to follow, and demonstrate, a more consistent approach to performance assessment across different groups of staff.</p>
<p>4. Financial Management Information Systems (Harrow</p>	<ul style="list-style-type: none"> § Producing a Standard suite of Reports § Appraising options and taking action to reduce the current significant level of manual manipulation of base data required for reporting 	<p>The objective s here include :-</p> <ol style="list-style-type: none"> 1. Minimising wasted/duplicated effort/ resources; 2. Tackling undue reliance on the Business Partnering/Core Finance relationship;

Theme	Required Action(s)	Benefit
Wide)	<ul style="list-style-type: none"> § Improving quality of in year information for forecasting purposes § Leading integration programme with other systems § Introducing consolidated real time information – complete picture currently difficult to achieve quickly § Taking steps to help managers make much better use of the SAP system to reduce undue reliance on Finance staff 	<ul style="list-style-type: none"> 3. Improved internal control – minimisation of effort; 4. More efficient system utilisation; 5. Budget Holder accountability enhanced; and 6. Better precision on forecasting.
5. Finance Function Service Standards and Performance Management (Core Finance)	<ul style="list-style-type: none"> § Introducing formal Service Standards and agreeing them with internal customers § Implementing formal Performance Monitoring of the Finance function with internal customers § Utilising Service Standards as valuable benchmark to gain deeper understanding of cost drivers and their sensitivities to demand § Improving clarity of statement of roles and responsibilities § Actively use statement of roles and responsibilities to regulate relationship between Finance and Non-Finance Community 	<p>Provides understanding of quality and quantity/responsiveness of services that internal customers can expect which should clarify role of finance.</p> <p>In clarifying role non-finance users should attain better understanding of how finance can be integrated into their own work and potential for finance to add value to the operational activity.</p> <p>Performance indicators/measures and targets should be used to demonstrate VfM of finance function and progress in move towards more added value output by financial managers.</p> <p>Monitoring progress at a senior level strengthens message that finance matters.</p> <p>Benchmarking will aid understanding of internal usage and comparative costs of financial services across different groups.</p> <p>Over time senior management can review change in usage of finance function and take decisions for further refinement in the function itself (perhaps nature, volume and location)</p>
6. Positioning of Finance – Challenge and Added Value (Core Finance)	<ul style="list-style-type: none"> § Identifying key drivers on Finance Team in supporting Budget Holders and take actions to reinforce roles and responsibilities of Budget Holders and reduce over-reliance § Appraise extent of Finance staff time tied up in reshaping existing data (e.g. using Excel spreadsheets) and providing reactive tactical short term financial solutions, identifying options to address this constraint on Finance § Reducing finance staff focus on detailed work to provide added value financial support such as Financial strategy/Affordability/Business case modelling § Taking steps to strengthen influencing and negotiation skills of Finance staff to address perception that they cannot provide value added input to policy or development issues 	<p>Improvement of finance status, skills and ability to challenge, to achieve greater VfM for the Council.</p>

Theme	Required Action(s)	Benefit
	<ul style="list-style-type: none"> § Assessing, and where appropriate addressing, capacity of Finance to meet concerns that they are able go beyond 'number crunching' § Introducing a programme of career and skill development for the core Finance Team to address lack of experience of innovative business models and new ways of working that is currently limiting their capacity to contribute towards Transformational change § Uprating skills and expertise of permanent staff to reduce reliance on interim staff and associated issues of lack of continuity § Restructuring may offer opportunities to rebalance the skill set § Ensuring recruitment process is cross referenced to competency framework (when developed) and require evidence that recruited staff meet required experience and skills 	
7. Accounting processes (Core Finance)	<ul style="list-style-type: none"> § Implementing more stringent regime of regular monitoring of reconciliations of accounts 	More reliable financial information and reduced risk of fraud or error.
8. Internal Audit (Core Finance)	<ul style="list-style-type: none"> § Ensuring Internal Audit has access to adequate resources and suitably qualified staff:- § Head of Internal Audit is professionally qualified § Providing CCAB qualified resource(s) to assess key Financial Systems § Obtaining additional resources to address issues arising from changes in Finance and introduction of new ways of working § Strengthening the status and robustness of the Internal Audit plan in line with best practice by:- § Clarifying the risk based foundation methodology underpinning the creation and management of the Internal Audit plan within the plan § Including a statement of skills required/reconciliation of audit time to proposed audit tasks within the plan § Identifying areas where compliance with recommendations are variable and raise non-compliance as part of the appraisal process 	Provision of an Internal Audit service that fully meets recognised Best Practice.

CIPFA Financial Management Model

The CIPFA Model was originally released in July 2004 and describes a model for best practice in financial management within the public sector. An updated version of the model was launched in June 2007, in order to take into account changes to the public sector environment and a further update – Version 3 – was launched in July 2011. Version 3 was 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 Model is structured around 3 styles of financial management:

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

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

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

The styles are intended to be progressive and it is expected that all 3 styles will be present in an organisation exhibiting best practice financial management characteristics. For example, stewardship 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 Model is also organised by 4 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 3 styles of financial management and 4 management dimensions. The organisation’s current financial management position is assessed through comparing its arrangements against 38 statements of best practice as listed in full in Appendix 1, with a set of supporting questions sitting behind each statement.

Each statement is scored from 0-4 with half point increments, which we then turn into a “RAG” rating to establish an overall picture of strengths and weaknesses in terms of financial management. The table below shows how the 38 statements fit into the Best Practice Matrix.

Table 1 – Management Styles/Dimensions Matrix

	Management Dimensions			
Financial Management Styles	Leadership	People	Processes	Stakeholders
Securing Stewardship	L1 - L2	P1 - P2	PR1 - PR11	S1 - S2
Supporting Performance	L3 - L6	P3 - P4	PR12 - PR16	S3 - S4
Enabling Transformation	L7	P5 - P6	PR17 - PR19	S5 - S6

The methodology used to undertake the Review of Financial Management within Harrow Council is described in Appendix 3 below.

Methodology

Introduction

The Review of Financial Management at Harrow Council took place between February and March 2012. The high level stages involved in the Review are set out in further detail below.

Application of Best Practice Statements

Engagement Sessions were held with a cross section of Operational and Finance officials from all areas of Harrow Council. These sessions were held in the Council Offices in Harrow and addressed the methodology, timescales and approach required. This included how contributors should approach their relevant best practice statements and supporting questions, allocating scores as outlined in Paragraph 2.7 above, from 0-4 in increments of 0.5 to the statements as shown below:-

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

Contributors were categorised by attribute into four Web Based Survey Groups as follows:-

Table 3 – Web Based Survey Groups

Group	Survey Groups	Survey
SG1	Strategic Finance	21
SG2	Operational Finance	23
SG3	Directors/Heads of Service	18
SG4	Budget Holders/Operational Managers	114
SG5	Elected Members/External Stakeholders	22
	Totals	198

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 our Review was the assessment of a number of key documents for Harrow Council (including material specifically made available to us as part of this process as well as publicly available material). This served two main purposes; to enable CIPFA Finance Advisory to familiarise itself with the structure, processes and culture of Harrow Council, 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 web based survey. A list of all 35 interviewees is provided in Appendix 4.

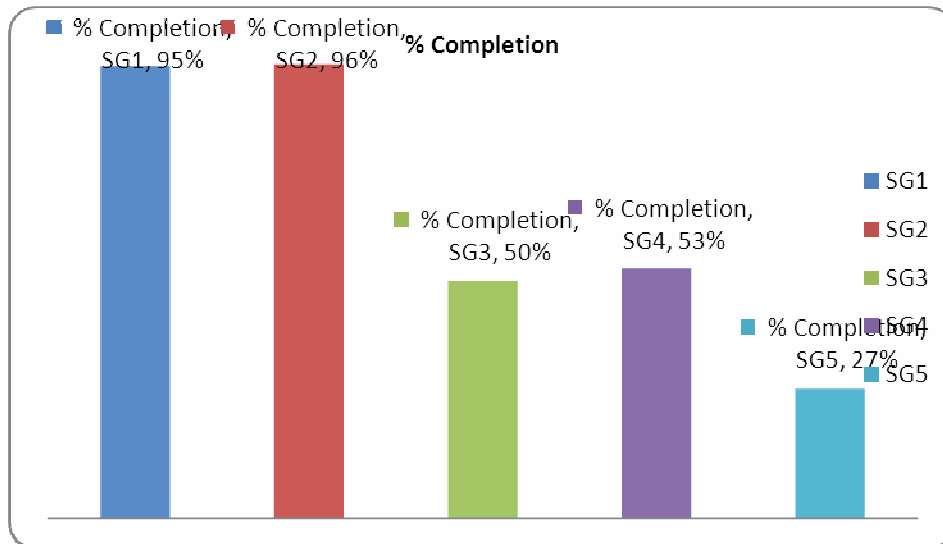
Web Based Survey

A powerful component of the CIPFA Model is its electronic survey functionality, which is hosted on a secure website. 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.

Across a wide spectrum of Financial Management the survey was used to test best practice statements against the actual prevailing conditions and practice within Harrow. 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.

Completion

The overall response rate for the survey was 59 per cent - 117 out of 198 participants submitting data/evidence. The response rate was a little better than our minimum target of 50 per cent. Response rates for each of the Survey Groups are set out in the table below:-



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

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

As well as highlighting Survey Group Scoring our CIPFA Finance Advisory independent assessment of the score for each best practice statement, taking into account the range of evidence gathered from all sources during the review. The key findings of the Review are set out in Section 5.

Interviewees/Meetings

The following people were consulted during the process.

Name	Organisation
Bill Stephenson	Harrow Council - Leader, and Finance Portfolio Holder
Sue Anderson	Harrow Council - Councillor
Susan Hall	Harrow Council - Councillor
Graham Henson	Harrow Council - Councillor
Barry Macleod-Cullinane	Harrow Council - Councillor
Sachin Shah	Harrow Council - Councillor
Michael Lockwood	Harrow Council – Chief Executive
Julie Alderson	Harrow Council – Finance Directorate
Russell Beech	Harrow Council – Children’s
George Bruce	Harrow Council – Finance Directorate
Alex Dewsnap	Harrow Council – Assistant Chief Executive
Susan Dixson	Harrow Council – Assistant Chief Executive
Catherine Doran	Harrow Council – Children’s
Donna Edwards	Harrow Council – Finance Directorate
John Edwards	Harrow Council – Communities and Environment
Bernie Flaherty	Harrow Council – Adults and Housing
David Harrington	Harrow Council – Assistant Chief Executive
Richard Hawtin	Harrow Council – Finance Directorate
Jerry Hickman	Harrow Council – Communities and Environment
Kanta Hirani	Harrow Council – Finance Directorate
Jennifer Hydari	Harrow Council – Finance Directorate
David Lewis	Harrow Council – Communities and Environment
Paul Najsarek	Harrow Council – Adults and Housing
Hilary Obryne	Harrow Council - Children’s
Lynne Pennington	Harrow Council – Adults and Housing
Visva Sathasivam	Harrow Council – Adults and Housing
Fern Silverio	Harrow Council – Finance Directorate

Les Simpson	Harrow Council – Place Shaping
Emma Stabler	Harrow Council – Finance Directorate
Derek Stewart	Harrow Council – Adults and Housing
Steve Tingle	Harrow Council – Finance Directorate
Peter Tolley	Harrow Council - Children’s
David Ward	Harrow Council – Assistant Chief Executive
Karen Watling	Harrow Council – Finance Directorate
Tom Whiting	Harrow Council – Assistant Chief Executive

Harrow Council - Glossary

AAT	Association of Accounting Technicians
AGS	Annual Governance Statement
AMP	Corporate Asset Management Plan
BVACOP	Best Value Accounting Code of Practice 2010-11
ALB	Arms-Length Bodies
CCAB	Consultative Committee of Accountancy Bodies
CRSG	Corporate Risk Steering Group
CSB	Corporate Strategic Board
CIPFA	Chartered Institute of Public Finance and Accountancy
CLG	Corporate Leadership Group
CPD	Continuing Professional Development
ERP	Enterprise Resource Planning
FBP	Finance Business Partner
FEC	Full Economic Cost
FRC	Finance reporting council
GARM	Governance, Audit Risk Management Committee
IASB	International Accounting Standards Board
IIA	Institute of Internal Auditors
IFRS	International Financial Reporting Standards
MTFS	Medium Term Financial Strategy
SECTA	Sector Treasury Services
SPB	Strategic Procurement Board
SIC	Statement on Internal Control
SLA	Service Level Agreement
TMG	Treasury Management Group
VfM	Value for Money