

Financial Management Review of South Tyneside Council

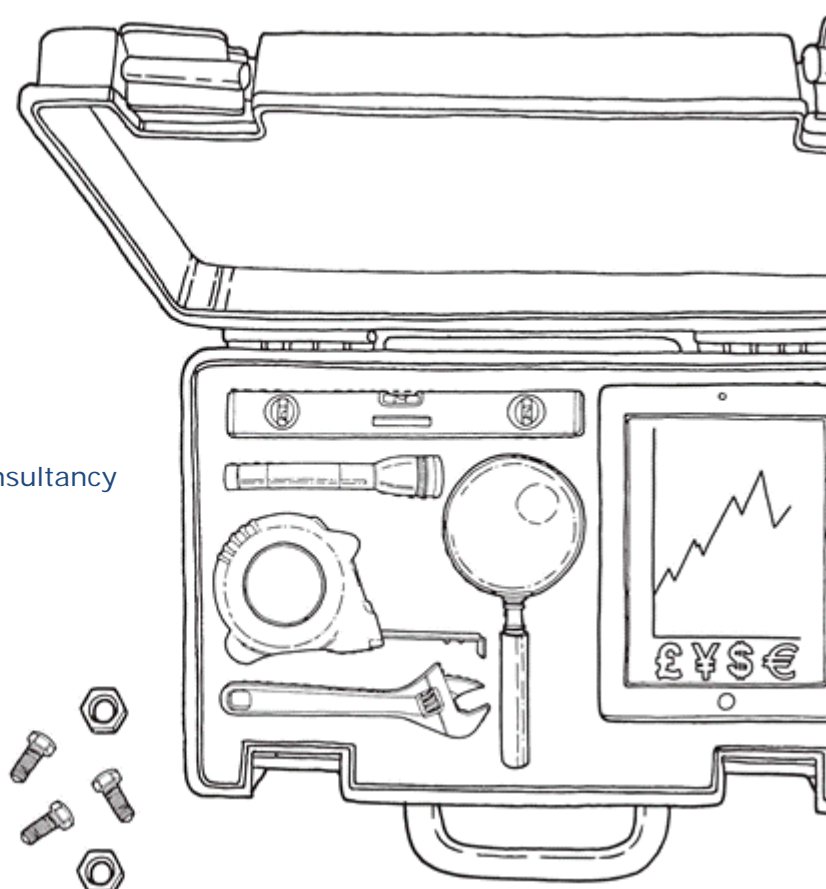
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Executive Summary

South Tyneside Council commissioned CIPFA to undertake a review of financial management across the authority. The review is based on CIPFA's FM Model, a diagnostic toolkit specifically designed to assess an organisation's financial management, and involved gathering data through an electronic survey, a review of key documentation, one-to-one interviews and benchmarking with other authorities. This report examines the financial resilience of the authority and how effectively budget holders and finance work together.

Financial Resilience Review

Medium Term Financial Plan

The longer-term sustainability of the Council's financial position is dependent on identifying sufficient savings to address the projected gap between net revenue expenditure and funding between 2022-23 and 2026-27. The existing MTFP 2022-23 to 2026-27 estimates that some £7 million of reserves will need to be utilised over the period, but this is dependent on achieving savings of nearly £29 million, many of which have yet to be identified. If budget pressures in 2022-23 were to increase by £2 million to reflect increased inflation, the required use of reserves over the period would increase to £15 million. This gap would grow considerably larger if council taxes are not increased each year over the period or if central government does not uplift the revenue support grant.

Closing the likely budget gap is predicated on the identification and achievement of further savings.

Levels of Debt

Borrowing increased over the previous decade to fund an ambitious development plan and comparisons with the Council's statistical neighbours show that the Council has one of the highest levels of gross external debt per head of population.

The Council has rightly recognised that such levels of increase in its borrowing cannot continue and it is important that the future capital programme maintains a reasonable balance between infrastructure development, asset management and maintaining sufficient revenue funds to maintain core services.

Reserves

Existing and projected levels of reserve are reasonable. There are three key reserves, amounting to some £24 million in March 2022, that are equivalent to over 17 per cent of anticipated net revenue expenditure in 2022-23.

Given the level of uncertainty we identified in our scenario modelling, however, it would be prudent for the Council to consider building such reserves further. Whilst this may not be practicable in 2022-23 given existing inflationary cost pressures, the Council might consider replenishing the sums drawn from the Future Funding reserve in 2020-21 and 2021-22 over the remainder of the medium term (2023-24 to 2026-27).

Financial Management Review

Overall Assessment

Using CIPFA's five-star rating system, South Tyneside was rated as two-star, albeit on the cusp of a three-star rating. This represents a reasonable performance in comparison to other authorities – most score between a one and a three.

There is a good, close working relationship within the finance team and between the Director of Business & Resources, the Council leadership team and Members. There remains a firm handle on the overall financial position, and core transactional services appear to operate well.

Furthermore, there is collective agreement on the aim to build a more collaborative working culture across the Council.

A 'current snapshot' of the Council's star ratings across the different management and financial management dimensions is set out below.

Current Snapshot	Management dimensions			
	Leadership	People	Process	Stakeholders
Financial management styles				
Delivering Accountability	***	**	***	****
Supporting performance	*	*	**	**
Enabling transformation	****	*	**	***
Overall	**			

Looking first at the vertical columns, the higher scores in the 'stakeholders' and 'process' columns reflect the strengths we highlighted above. The lower scores in the 'people' category (in common with many other organisations) does not refer to the calibre of individuals, but rather to the need for a financial competency framework to identify what skills are required across the Council, and to the limited staff rotation or other opportunities for career development within the finance function.

Turning to the rows on management styles, the Council scores relatively strongly in the 'delivering accountability' style. This style is most closely related to the traditional role of finance and reflects the reliability of its core transactional services and accounts preparation. The weaker score for 'supporting performance' reflects the absence of finance business partnering and the perception amongst some budget holders that they do not feel empowered to manage their budgets proactively.

Improvement Target

The finance function within South Tyneside Council has been pared back considerably as part of the large-scale cost reductions required to mitigate historic funding cuts. This operating model is no longer sustainable over the longer term and Officers have recognised the need for wider financial ownership across the Council. This report sets out the issues and recommendations to be addressed in order for the Council to modernise its approach to financial management and to attain the targets specified.

Change Management Programme

The improvement plan sets out the need for a change management programme in relation to financial management that is organisation-wide. If fully implemented, it would improve the star ratings achieved by South Tyneside Council.

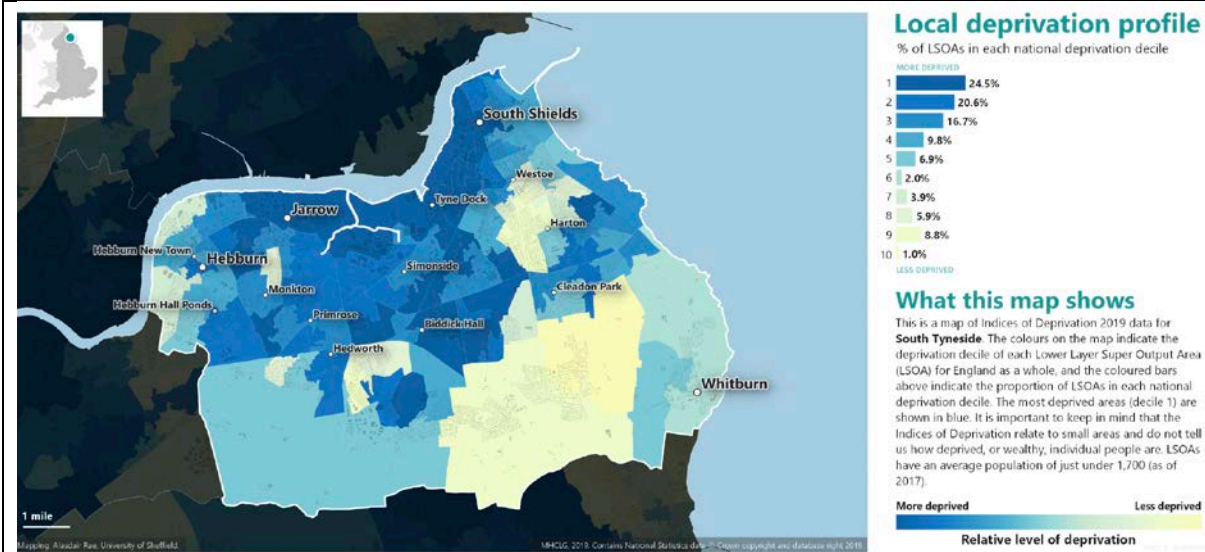
The key components of such a change management programme include:

- Redefining the financial management responsibilities and accountabilities of budget holders
- Specifying the finance offer to the organisation and the expectations placed on budget holders
- Establishing a more strategic approach to financial management based on the finance business partnering model
- Producing a financial management competencies framework to identify the skills required organisation-wide
- Encouraging staff rotation within the finance function to strengthen resilience and career development opportunities
- Strengthen the function of the Audit Committee through refreshing the independent membership
- Evaluate progress in addressing the behavioural/cultural issues inherent in any change programme of this nature and, if necessary, use such information to support a business case for a financial system that offers better opportunities for self-service.

Introduction

South Tyneside Council is the local government authority for the metropolitan borough of South Tyneside, Tyne & Wear. The area covers 64 km² and it is split into 18 council wards, each represented by three councillors. With an estimated population of nearly 151,000 in mid 2019, it is relatively small in size compared to other metropolitan councils. Nevertheless, according to the 2019 Index of Multiple Deprivation, it has a relatively high level of deprivation, with 45 per cent of its LSOAs in the first two deciles (see figure 1), compared to 41 per cent for its statistical neighbours¹.

Figure 1: The local deprivation profile for South Tyneside, 2019



Source: DLUHC analysis of IMD data

An ageing population and the challenges arising from the Covid pandemic have further increased the pressures on the Council's health and social care services. Whilst we understand that the Council promptly established support hubs and other measures in response to the pandemic, the demands on Children's services are increasing. In addition, there is expected to be an increased demand on adult social care as the numbers of residents aged over 85 years old is expected to rise. Following a change in leadership in 2021, the Council has therefore re-focused its priorities on community issues as well as economic recovery and regeneration.

Significant past reductions in central government funding have meant the Council has previously had to make large scale cost reductions. Grant support from the Government has reduced by 64% in cash terms since 2010 and the Council have delivered efficiencies of around £180 million. It was evident from our discussions that the finance function has been pared back considerably as part of these cost reductions and this has constrained its capacity to provide much more than its core responsibilities in recent years.

¹ Burnley, Durham, Gateshead, Halton, Hartlepool, Knowsley, Middlesborough, North Tyneside, Redcar, Rotherham, St Helens, Sunderland, Tameside, Walsall, Wolverhampton

The increased demand pressures together with past cost reductions put an added emphasis on the need to secure value for money. Accordingly, the Council's Officers and Members are committed to embedding a collaborative culture across the Council so that innovations can be harnessed and resources utilised more effectively. As part of this cultural change, CIPFA was invited by the Council to review its approach to financial management. In particular, to examine how effectively budget holders and finance work together and to offer guidance and advice on how it can be improved.

About this Report

This report was prepared for the Director of Business & Resources in South Tyneside Council. It highlights the key results from CIPFA's Financial Management Review.

The report covers two key aspects:

- **A financial resilience review** – an assessment of the financial sustainability of an organisation and its ability to withstand financial shock.
- **A financial management review** – an assessment against best practice and other organisations who have also been reviewed using the FM model to identify issues and create an improvement plan that can be tracked.

This report sets out the findings in respect of each element. It highlights key observations, issues and recommendations on the proposed improvement target, along with an Improvement Plan that has been agreed with the Director of Business and Resources.

The review was conducted between March and May 2022. CIPFA examined the following data:

- **Electronic survey** – 64% overall response rate (53 out of 83).
- **One-to-one interviews** – 35 interviewees from the Council and other key stakeholders.
- **Document review** – the documents covered: background information, such as the annual report; organisational structure and governance arrangements; the MTFP and other plans and strategies; the financial management framework and monitoring arrangements; inspection, audit and risk management; HR policies, staff surveys and other documents.

Financial Resilience Review

Key Findings

Financial resilience describes the ability of local authorities to remain viable, stable and effective in the medium to long term in the face of pressures from growing demand, tightening funding and an increasingly complex and unpredictable financial environment.

Our review focused on three key aspects:

- The robustness of the MTFP
- Levels of debt
- The adequacy of reserves

Each of these areas is explored in more detail further on, however the key findings are summarised below.

Summary	Key points
<i>Robustness of the MTFP</i>	
Given the potential financial pressures the Council might face, the MTFP could be clearer in setting out the future challenge	<ul style="list-style-type: none"> • The MTFP relies on unidentified financial savings to show a balanced position from 2022-23 to 2026-27. • Subsequent inflationary increases and demands on social care are likely to create additional pressures on the Council's forward financial outlook. • Closing the likely budget gap is predicated on the identification and achievement of further savings. However, the majority of such savings likely to be needed over the period of the MTFP have yet to be identified.
<i>Outstanding Debt</i>	
Levels of outstanding debt are relatively high	<ul style="list-style-type: none"> • Borrowing increased over the previous decade to fund an ambitious development plan. • The Council has rightly recognised that such levels of increase in its borrowing cannot continue and it is important that the future capital programme maintains a reasonable balance between infrastructure development, asset management and maintaining sufficient revenue funds to maintain core services.
<i>Level of reserves</i>	
The Council may need to plan to replenish reserves in subsequent years if the inflationary	<ul style="list-style-type: none"> • Whilst the extent of usable Reserves are reasonable, they are likely to come under pressure as inflation spikes in 2022-23 and 2023-24. • The potential pressure to call on reserves in this period means that they may need to be replenished in future years. As a consequence, existing plans to utilise some Reserves between 2023-24 and 2026-27 should be kept under constant review and

The robustness of the MTFP

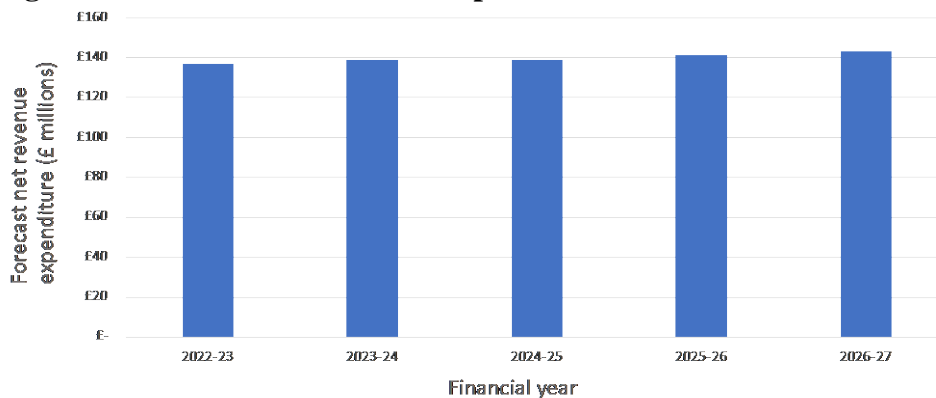
Existing CIPFA guidance highlights the importance of clarity and robustness in financial information. Members need openness, honesty and clarity, and a core skill for chief financial officers is the ability to talk to the political leadership and senior service colleagues about what is and is not possible. Significant items should be separated out rather than lumped together, and context needs to be provided for estimates and projections.

The Council's medium term financial plan shows that net revenue expenditure is expected to increase from £136.8 million in 2022-23 to nearly £143 million by 2026-27 (some 4.5 per cent) – see figure 1 overleaf. Funding is expected to increase at broadly the same rate, albeit with the use of Covid reserves this year and around £1 million of earmarked reserves a year thereafter.

Whilst this suggests that budgets are broadly balanced each year, the figures include a number of assumptions that could be brought out more clearly:

- Net revenue expenditure has been reduced by 'redirections of spending' that average £7.2 million a year. These 'redirections' are savings that will cumulatively amount to over £35 million by 2026-27 and as yet there are no substantive plans for how these will be achieved beyond 2023-24. Savings should be planned over at least three years to allow for any policy changes to be agreed and delivered. This approach is far more likely to hit the financial objectives than trying to plan and implement savings in a single year. Simply quoting a future savings target which is not based in the realities of the authority's operations is storing up risk.
- Funding is also expected to increase by some 4.5 per cent over the five years. Whilst this is a relatively low rate of growth per annum, government has not specified beyond the current year to what extent business rate top up grants or revenue support grant will be increased, or how much it will enable authorities to raise Council tax rates.
- The baseline budgets include pressures that amount to nearly £83 million over the 5 years to 2026-27. Inflation is a key driver of cost increases – some £29.8 million, equivalent to 36 per cent of the total. The MTFP assumptions for inflation typically range from 3 per cent to 5 per cent per annum, depending on the nature of the cost. Gas and electricity prices were forecast to rise by 32 per cent and 20 per cent respectively in 2022-23, before reverting to more typical rates of increase. These rates of increase were reasonable at the time when the forecasts were made, but there is no indication in the MTFP of the risk that such figures might change significantly.

Figure 1: Forecast Net Revenue Expenditure



Source: South Tyneside Council (2022) Medium Term Financial Plan 2022-27

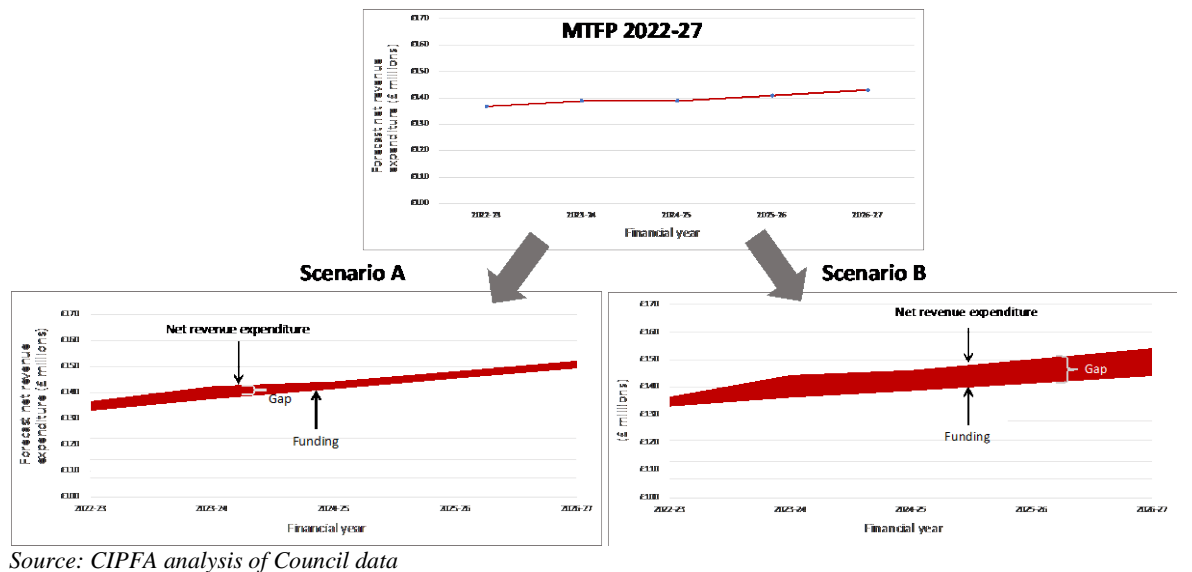
In the circumstances, we examined two hypothetical scenarios to examine the robustness of the MTFP. The scenarios are not intended to be a predictive model of what will happen, but if certain assumptions in the MTFP did not materialise they give an indication of how this might impact on the Council's finances. The two scenarios are:

- **Scenario A:** Added pressures on net revenue expenditure. In this scenario, we examined what might happen if budget pressures in 2022-23 were increased by £2m to reflect increased inflation. Inflation is then expected to return to previous rates for the remainder of the period.
- **Scenario B:** Further added pressures on net revenue expenditure around the social care funding reform and no increases in government funding. This can be seen as a somewhat 'doomsday' scenario, but it does recognise that there is no guarantee over future funding settlements.

We have assumed that all the savings built into the MTFP are delivered in both cases.

With these hypothetical scenarios, a gap emerges between the net revenue expenditure and anticipated funding – see figure 2 overleaf. With scenario A, the required use of reserves grows from £7 million over the period of the MTFP to £15m. Whereas with scenario B the use of reserves over the period would be £36m.

Figure 2: The Impact of The Two Hypothetical Scenarios on Net Revenue Expenditure and Funding



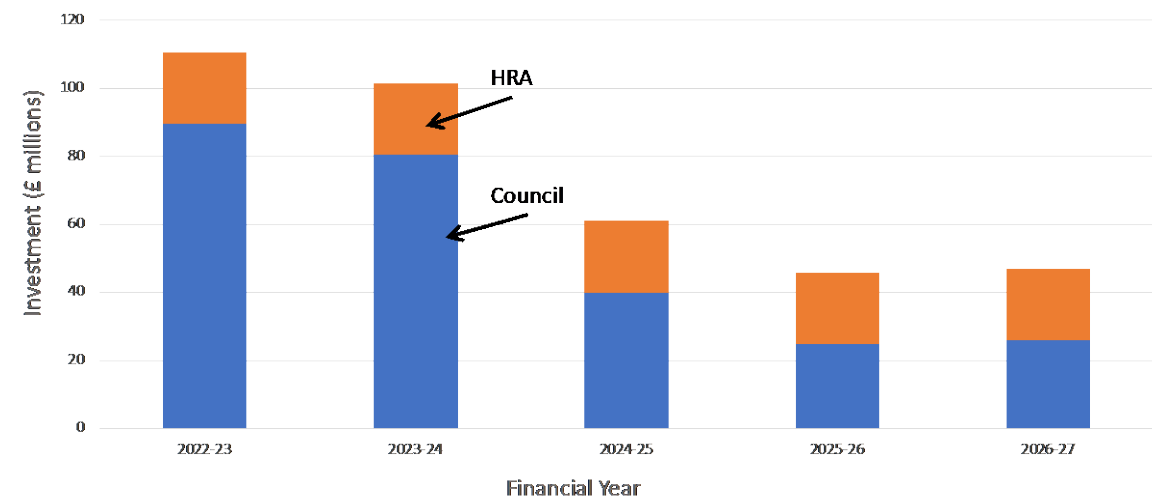
Levels of Debt

South Tyneside Council has pursued an ambitious capital programme focused on its 10 strategic outcomes. Existing plans include:

- International Advanced Manufacturing Park: the development of significant commercial space in collaboration with Sunderland City Council;
- Decent homes: effectively maintaining the existing housing stock as well as plans to build new properties to meet future housing demands;
- The Holborn riverside development to build offices and housing along the south bank of the River Tyne;
- Innovative renewable energy schemes across the Borough
- Regeneration of town centres through growing the existing leisure and retail core complemented by new educational and housing provision

The forward programme anticipates some £366 million of capital investments between 2022-23 and 2026-27, of which 71 per cent is on community priorities for the Council, and the remainder on HRA housing – see figure 3. The programme is financed by a mixture of external funding, Government grants, borrowing and capital receipts from sales of our assets. The Council expects to undertake additional borrowing of nearly £97 million over the same period of which almost half is expected to be internally financed from existing cash balances. It will also redeem around £47m of debt during that period.

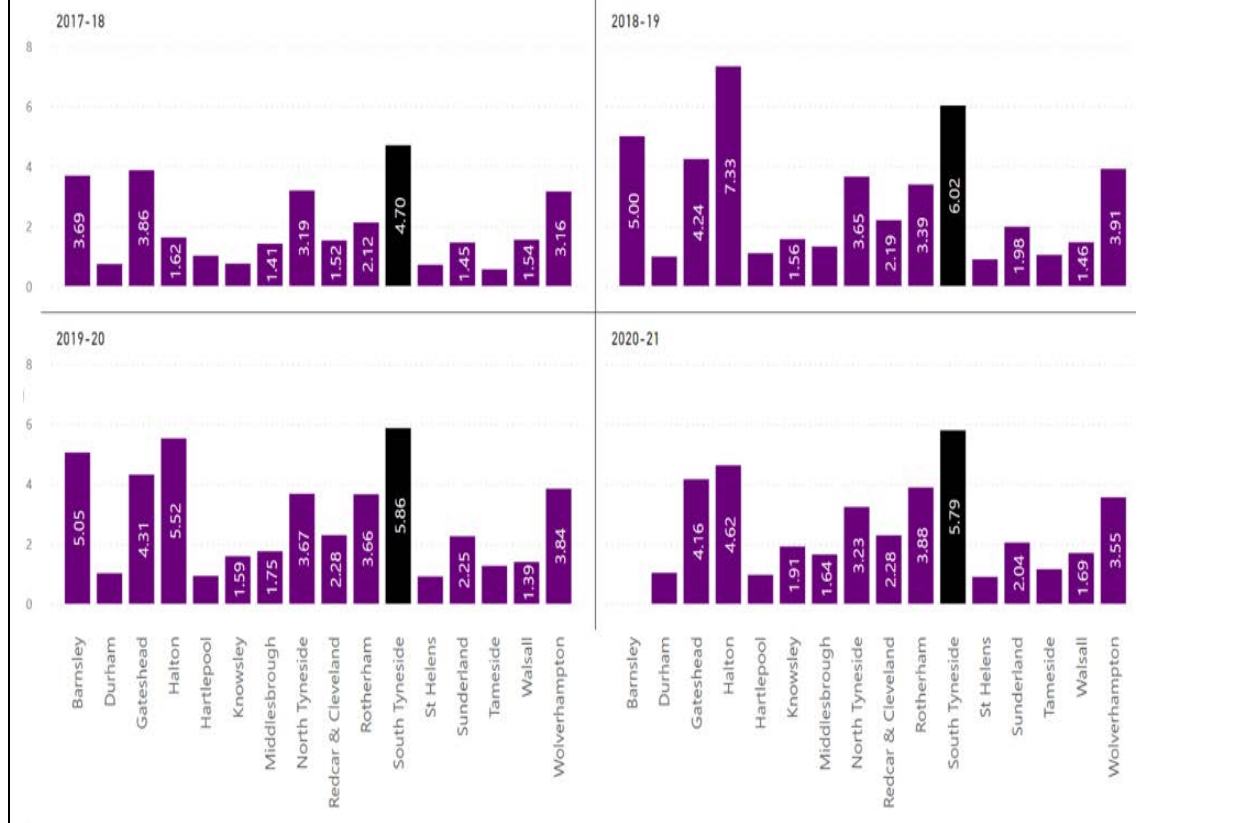
Figure 3: Anticipated capital programme 2022-23 to 2026-27



Source: South Tyneside Council Capital Strategy

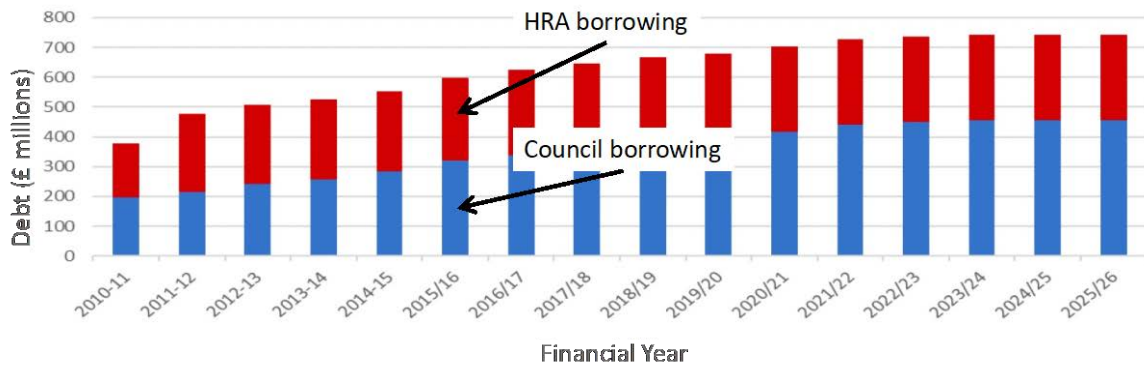
Existing levels of borrowing are relatively high in the Council. Comparisons with the Council’s statistical neighbours show that the Council has one of the highest levels of gross external debt as a proportion of net revenue expenditure. As figure 4 shows, we divided gross external debt by net revenue expenditure. South Tyneside Council had the highest proportion in 3 of the 4 years assessed.

Figure 4: A comparison of gross external debt as a proportion of net revenue expenditure



As figure 6 shows, this is because levels of debt increased significantly between 2010-11 and 2021-22. The Council has recognised this risk, however, and interviewees explained how some planned capital projects have been cancelled. The additional planned borrowing of £96 million is effectively counter-balanced by the repayments of principal through MRP over the same period. As a consequence, figure 5 shows that levels of outstanding debt are expected to remain largely stable. Furthermore, it is important to recognise that all the borrowing is PWLB, at fixed rates with long maturities and thus relatively low risk.

Figure 5: Outstanding debt

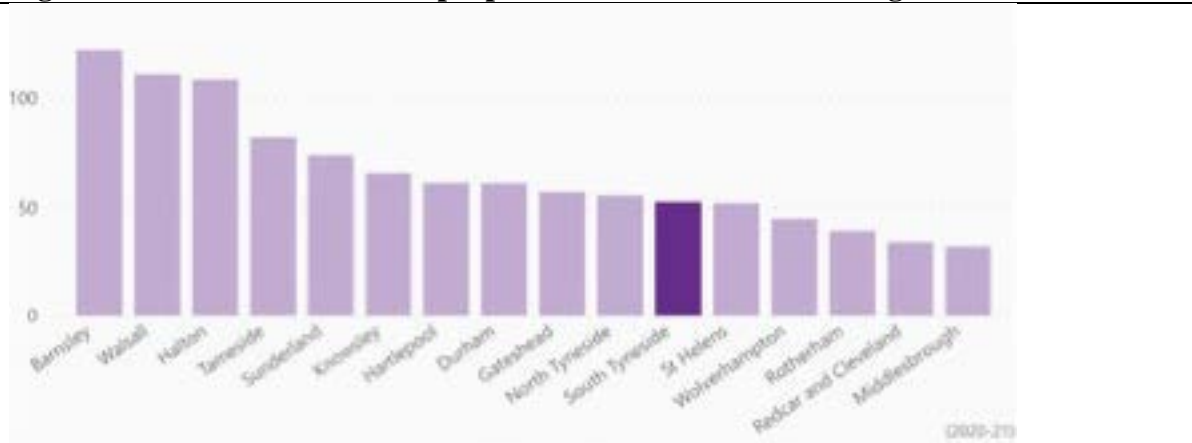


Source: South Tyneside Council

Adequacy of reserves

The Council aims to establish reserves based on financial risk and limit the use of reserves to support on-going spending. On the basis of latest available comparable data, the extent of usable reserves as a proportion of net revenue funding in 2020-21 is slightly below average compared to the Council’s statistical neighbours – see figure 6.

Figure 6: Useable reserves as a proportion of net revenue funding



Source: CIPFA

Analysis of Council data indicates, however that this proportion was unusually high in 2020-21 due to the impact of temporary Government funding related to Covid-19 – see figure 7.

Figure 7: The level of usable reserves as a proportion of net revenue funding



Source: CIPFA analysis

In practice, however, some of these usable reserves are for specific initiatives rather than for general risks and uncertainties, such as inflationary pressures or unexpected events. In discussion with the finance team, we identified 3 key reserves:

- **General Reserve:** All Council receipts and payments (except For the HRA) go through the General Fund and the reserve represents the minimum balance to be retained to meet unexpected events. At March 2022, the balance was £6.3 million.
- **Strategic reserve:** This reserve is for emergency events or issues that the Council might face. The Council policy is to keep this reserve at 2 per cent of the net revenue budget. At March 2022, the reserve was approximately £3 million.
- **Future Funding reserve:** This reserve provides cover against the expected continuing funding pressures over the coming few years. At March 2022, the reserve was approximately £15 million.

Together, these reserves amounted to some £24 million in March 2022, equivalent to over 17 per cent of anticipated net revenue expenditure in 2022-23. The Future Funding reserve is being utilised to an extent, however, as some £7² million is expected to be used between 2022-23 and 2026-27.

Existing and projected levels of reserve are reasonable. Given the level of uncertainty we identified in our scenario modelling, however, it would be prudent for the Council to consider building such reserves further. Whilst this may not be practicable in 2022-23 given existing inflationary cost pressures, the Council might consider replenishing the sums drawn from the Future Funding reserve in 2020-21 and 2021-22 over the remainder of the medium term (2023-24 to 2026-27).

² This excludes the utilisation of Covid funds that have been held in reserve

Financial Management Review

Introduction

Our review is based on CIPFA's FM Model; a diagnostic toolkit specifically designed to undertake a complete self-assessment of the organisation's financial management. It involved data collection through: an electronic survey; one-to-one interviews with staff, Directors and other stakeholders; and, a review of key documentation. Our analysis was based on assessment against our best practice model.

This report sets out the findings of our work, in particular:

- An 'as is' assessment of existing financial management across the Council.
- How the future Target Operating Model might look.
- Key steps required in the transition to the new TOM.

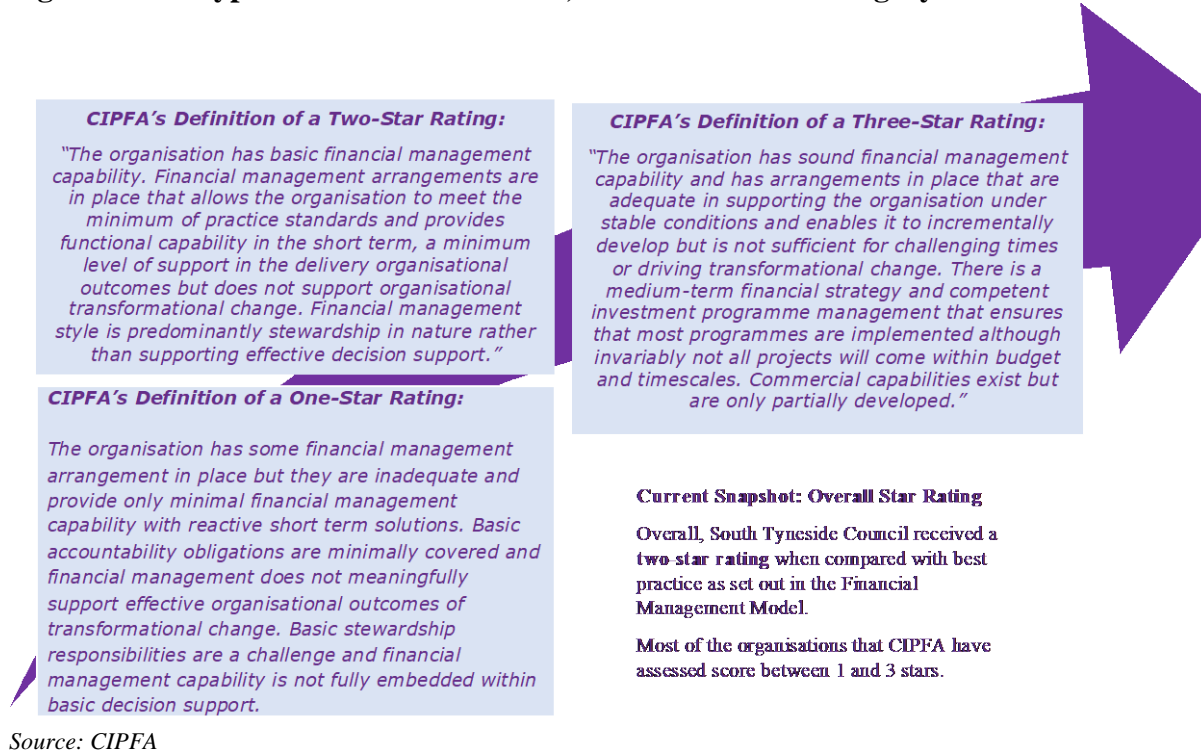
Overall Assessment

South Tyneside Council's financial management was assessed against best practice using CIPFA's FM Model. The current snapshot of the results is shown in the table below.

Current Snapshot	Management dimensions			
	Leadership	People	Process	Stakeholders
Financial management styles				
Delivering Accountability	***	**	***	****
Supporting performance	*	*	**	**
Enabling transformation	****	*	**	***
Overall	**			

Details of the typical attributes found in authorities with a one, two or three star rating are found in figure 8 overleaf. South Tyneside Council's is on the cusp of a three-star rating. We have assessed it as two-star, however, because it is critical that the initial work to build a more collaborative approach across the Council becomes embedded and that other improvements, such as the management of the business case process, are fully delivered. Further details of the assessment against each of the FM Model statements is set out in Appendix 1.

Figure 8: The typical attributes for a one, two or three star category



Current Snapshot: High Level Assessment

Analysis of the 'current snapshot' reveals that:

- South Tyneside Council is strongest in the 'Delivering Accountability' style, demonstrating robust 'fundamentals' in terms of overall financial budget management and sound financial accounting. This style is the one which is most closely related to the traditional role of finance and reflects the well-organised, thorough approach of the existing Finance leadership team. There is a strong grip on the day-to-day finances and accounting functions, and a strong level of trust/respect amongst the Members and Officers we consulted.
- The Council was not strong in in the 'Supporting Performance' style. This aspect of the model focuses on whether finance is responsive to its customers, and committed to improving performance, efficiency and effectiveness. The finance function in South Tyneside demonstrated a positive relationship with each Directorate, and survey respondents were appreciative of the support provided. Much of the strategic support, however was dependent on the availability of the senior leadership in the finance function. Many of the budget holders we interviewed described the Oracle system as difficult to use and so relied heavily on the finance team for basic information and, as a consequence, most of the finance resource time is spent on routine operational issues.
- Furthermore, whilst there is a three-year medium term financial plan, it does not provide a sufficiently strategic outlook. Much of this is due to the one-year government settlements and the need to re-refresh the Council's strategy.

Nevertheless, the savings required in future years are effectively a 'balancing item' rather than a set of tangible proposals that can be delivered.

- 'Enabling Transformation' refers to the extent to which the Council's finance function is strategic and customer-led, outcome focused and proactive in managing and instigating change. With the change in leadership and the absence of a revised Council strategy yet, there is inevitably a degree of pragmatism in how the finance team has aligned its approach with the future objectives and vision of the Council. Nevertheless, there was clear evidence that the capital programme is beginning to shift more towards people services and some existing development proposals have been stopped or put on hold.
- In relation to the management dimensions, the column on 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. It was very clear from the interviews that the Director of Business & Resources, Chief Executive and Council Leaders are driving the need for greater financial awareness across the Council. The planned change away from finance being simply a 'gatekeeper' that determines where resources are used to a more collaborative operating model where budget holders are empowered to make their own decisions will take time. For example, the existing approach to budget allocations is currently perceived to be centralised and so some staff are not necessarily taking sufficient ownership of their budgets. In order to change this perception, there needs to be a formal delegation to Directors who should then be able to delegate to their Heads of Service and other managers as appropriate.
- The Council is weakest on the people dimension. This aspect covers the competencies and the engagement of staff. The low score does not represent a criticism of any individual; indeed we were impressed with those we met. It does reflect the consequences, however of a finance function that has been pared back considerably. Not only does the small size of the finance team mean that there is an absence of financial business partners and a high dependency in the technical accounting team on a few individuals, but it is also building pressures for the future. We found little evidence of staff rotation, limited opportunities for career development due to the relatively flat structure, and an ageing workforce that weakens future sustainability. Interviewees explained that it is difficult to recruit at present, leaving the function vulnerable if some staff choose to leave.
- The 'Processes' dimension refers to the organisation's ability to design, manage and control its financial processes. Budget holders are critical of the Oracle system, but core processes operate reasonably and the Council has been able to process transactions and deliver a set of accounts as required. The aspects where the Council scored lower reflect the need to improve the financial management of the capital programme, although the finance team have recently introduced a post to improve oversight in this area, and a lack of transparency in the cost savings required over the MTFP. Whilst improvements are being made, we consider that it is difficult for Members to see the true extent of savings that might be required each year, whilst several budget holders raised concerns that they had inherited budgets where past savings had been agreed but not delivered.
- Finally, the governance arrangements in place are reasonable but would benefit from strengthening. The change in leadership (Officers and Members) is building a

more collaborative and supportive environment within the Council and interviewees were appreciative of what the finance function has achieved and of the support provided by the finance team. There was an impression, however, that sometimes it has been difficult to get full transparency on issues and interviewees noted that they feel they have had to 'dig' for information. Whilst the onus is on Officers to provide such information – and there was recognition that this is improving, Members would also benefit from further training on how to challenge and scrutinise issues.

Key Strengths

While the issues and recommendations that follow inevitably focus on those areas where improvement is required, it should be noted that we received many positive comments during the course of our work. Our work highlighted the following key strengths:

- There is a good, close working relationship within the finance team and between the Director of Business & Resources, the Council leadership team and Members. Furthermore, there is collective agreement on the aim to build a more collaborative working culture across the Council.
- The finance team has demonstrated commitment and professionalism in how it has maintained financial control within the Council despite significant staffing reductions to meet efficiency savings. Core transactional functions such as, payroll, income management, accounts payable, bank reconciliations, and council tax collection appear to operate well.
- There remains a firm handle on the overall financial position, and our analysis shows that useable reserves as a proportion of net revenue expenditure had increased between 2017-18 and 2020-21.
- Timely preparation of the financial statements with a clean audit opinion, providing external stakeholders with evidence of the integrity of its financial conduct and performance.
- A commitment amongst the Finance leadership team to raising performance standards and securing value for money. The risk-based approach to budget monitoring, for example, enables the Council to focus on key areas with the limited resources available.

Improvement Target

There is an appetite for change amongst Members and Officers across the organisation. Participants identified the aspiration for a more collaborative environment whereby issues are openly considered and there is collective agreement on how they might be addressed. This change in culture will take time to embed, and finance will have a crucial role. Budget holders recognise their obligations and responsibilities in the need to manage their resources effectively, but we heard a number of comments that their budgets did not align wholly with their responsibilities, that they had to work around historic/legacy savings that had not been delivered, and perceptions that, as the capital programme was prioritized at the business case rather than outline business case stage, it was biased towards regeneration and economic development as the benefits could be more readily quantified.

The introduction of finance business partnering, and greater use of existing powers for the Senior Leadership team to delegate as appropriate to their Heads of Service and beyond is a crucial first step in helping to support the new collaborative culture. Such a change will involve setting out a clear operating model, however, for how budget holders and finance will need to work together in future. There needs to be a clear specification of roles and responsibilities, a clear understanding on what information is required and where the data will come from, and sufficient training to support the new approach. If it becomes apparent that such a model cannot be developed without a new finance system, then this work should provide the evidence needed for such a business case.

It will also be crucial to strengthen the resilience and sustainability of the existing finance team. Those we consulted clearly enjoy the working culture within finance. Nevertheless, there is little rotation of staff across roles, with the inevitable consequences that the risk of single points of failure is starting to arise. We understand that it has proven difficult to recruit to fill gaps, and with limited career development opportunities in the existing 'flat' finance structure this may become a more significant issue if some staff choose to pursue their career elsewhere.

This section of our review sets out how financial management might operate – the transition plan is addressed in the following section. On this basis, it is envisaged that, in 12-18 months, South Tyneside Council could attain the results below, which we have denoted as the 'Improvement Target'.

Improvement Target	Management dimensions			
	Leadership	People	Process	Stakeholders
Financial management styles				
Delivering Accountability	****	***	****	****
Supporting performance	***	***	***	****
Enabling transformation	****	***	***	****

The issues outlined below specify the step changes required to achieve such an improvement target. They are all linked and therefore the accompanying recommendations are interdependent.

Summary	Issues	Recommendation
<i>Finance Business Partnering</i>		
The Finance team supports budget holders through business partnering	The vision for a new collaborative culture to drive improvements in value for money across the Council is dependent on budget holders getting more strategic financial advice and support. In the absence of finance business partnering, this falls too heavily on the senior leaders in the finance team.	<p>Define the Council's approach to finance business partnering and the role of finance business partners in the refreshed approach to financial management. Embed this in the job descriptions for each finance business partner approach, the guidance for budget holders and in specifying what information is required from the finance system.</p> <p>Delineate the job description for the proposed finance business partners from those of the existing finance advisor posts to minimise the risk that these new roles become embroiled in routine transactional work.</p> <p>Provide training and coaching to budget holders and those assigned to a business partnering role so that they understand what is expected.</p>
<i>Budget setting</i>		

Summary	Issues	Recommendation
Re-align revenue budgets and cost codes to reflect managerial responsibilities	Some participants raised concerns that their budget did not reflect their commitments and responsibilities.	Zero-based or activity based budgets take time and can be expensive to implement. Nevertheless, there are concerns perceptions raised that need to be addressed. This should be an early task of the finance business partners – to hold workshops, required.
Revenue budget delegations are de-centralised and formalised	Existing budgets are seen to be determined centrally. Some senior Officers in the Council raised concerns that the allocations might not necessarily reflect their needs or that they had limited visibility of activities. The existing system of budget delegation undermines efforts to encourage budget holders to take ownership. The system is informal and some budget holders did not have details confirmed until they saw the initial outturn reports.	Revenue budgets should be formally delegated to service directors in writing alongside details of performance targets. Directors should be empowered, perhaps on the basis of earned autonomy, to delegate formally parts of their budget to their Heads of Service and, where applicable from Heads of Service to their Service managers.
Capital budgets	There appears to be limited linkage between the capital programme and revenue budgets, and little follow up to determine if benefits were realised as planned. Interviewees queried the transparency of the existing prioritisation process and need for sufficient engagement with lead members. Members commented that the proposed programme is effectively presented to them for final approval in the MTFP with limited prior consultation.	There should be a clear specification of responsibilities between the proposed finance business partners and the existing capital accountant to strengthen the business case process. The planned re-refresh of the Council's corporate strategy represents an opportunity to revise the way capital projects are prioritised. When the proposed programme is reviewed with the Corporate Leadership Team, Lead Members should be notified of the scoring on projects so that they can see how the proposals align with their strategic priorities.

Financial Systems/Self Service

Budget holders can monitor finances through a self-service facility	At present much of the time of the strategic accounting function within the Finance team is spent on the production of financial management reports through the downloading and manipulation of data from Oracle. Budget holders describe the management reporting system as difficult to use.	In line with greater delegation of budgets to budget holders, it may be necessary to procure an appropriate financial reporting solution that facilitates budget holder self-service. Changing systems is disruptive and expensive, however, and the Council does not yet have a strong business case to support such change. The initial emphasis should be on the design and implementation of a suitable finance business partnering arrangement. If the finance system precludes successful implementation, it should provide sufficient evidence to support a business case for a replacement.
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Budget Holder Accountability

Summary	Issues	Recommendation
Budget holders understand and accept their responsibilities	<p>In line with greater delegation of budgets and the development of self-service for budget holders, there is a need to redefine budget holder responsibilities and accountabilities as part of a refreshed approach to financial management.</p> <p>There is little evidence of budget-holders being held accountable for their financial performance as part of their appraisals.</p>	<p>Define financial management responsibilities and accountabilities of budget holders in the refreshed approach to financial management and embed such principles in the job descriptions for each post.</p> <p>Financial performance should form part of the appraisal criteria for all staff with financial responsibilities.</p> <p>This appraisal should include the pursuit of value-for-money as well as budgetary performance.</p>

Organisational Financial Management Responsibilities

There is an SLA for financial management	<p>There is a need for clarity in the respective roles of the finance function and budget holders in relation to financial management in a refreshed approach to financial management.</p> <p>As well as defining what those roles are, an SLA will also help to manage expectations by defining, for example the balance of responsibilities between finance business partners and budget holders in relation to forecasting.</p>	<p>The Council should develop an SLA which clearly sets out: the offer of the finance function to the organisation, including the more strategic advice and support to decision-making inherent in the finance business partnering approach; as well as the expectations on budget holders.</p> <p>Any performance measures should focus on the extent of compliance on each aspect of the roles and responsibilities of each party.</p>
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Financial Management Competencies

There is an organisation wide financial competency framework	<p>There was no evidence of a financial management competency framework.</p> <p>This suggests insufficient emphasis on the importance of financial management responsibilities (vs. core/functional responsibilities) and lack of clarity around expectations and desired capabilities.</p> <p>The lack of a financial management competency framework inhibits the identification of skills shortfalls and the creation of plans to ensure skills gaps are filled.</p> <p>The organisation does not currently possess the key skills required to adopt a finance</p>	<p>A financial management competency framework needs to be developed for all staff with financial management responsibility.</p> <p>This should cover all roles within the finance function in conjunction with the development of the approach to finance business partnering.</p> <p>Competencies should also be developed for budget holders in the context of greater budget delegation and access to self-service.</p> <p>The competency framework should be used as a basis to assess current performance, desired performance and the skills gap.</p>
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Summary	Issues	Recommendation
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business partnering approach and is too heavily reliant on the finance leadership team for some skills, such as the oversight of the airport and other companies related to the Council.

Assurance framework

Strengthen governance arrangements

Whilst there is a reasonable audit plan in place, it is important that the Audit Committee provides sufficient robust challenge and scrutiny.

The Council should consider recruitment of new independent members on the Audit Committee and review levels of training and support to members to increase the level of scrutiny.

Existing assurance arrangements need to be strengthened:

1. The whistleblowing policy lacks an on-line form.
2. The service Directors do not appear to maintain their own risk registers.

There should be a formal process for service Directors to sign statements of assurance for their responsibilities. Associated risk registers should be in place and the whistleblowing arrangements should be updated.

There is a need to strengthen the scrutiny and challenge of partners. There could also be greater reporting on the Council's financial commitments with respect to partners.

Strengthen the oversight of the Council's investment in related bodies, supported where necessary by the finance team.

Financial Management Change Programme

The improvement target is supported by a clear plan on how the changes will be implemented

Prior recommendations will require significant change in behaviours/culture in the organisation.

Design change programme that incorporates key recommendations in relation to financial management responsibilities and accountabilities throughout the organisation together with enablers such as the delegation of budgets and the introduction of self-service.

The recommendations are interdependent and will need to form part of a cohesive programme that properly focuses on behavioural change if it is to succeed.

Ensure change programme takes proper account of need for behavioural/cultural change and build in necessary solutions to achieving this.

Improvement Plan

The table below details the steps required to implement the recommendations which have been made. These actions are to be agreed with South Tyneside Council, together with timescales and the appropriate persons to take responsibility.

Actions required	Lead responsibility	Timescale
<i>Change Programme</i>		
1. Design a change programme with an SRO that encompasses the key recommendations.	SR	July 22
2. Prepare a business case identifying resource requirements and anticipated benefits	AF	June 22
<i>Finance Business Partnering</i>		
3. Develop and implement finance business partnering model in the finance function.		
4. Specify how it will work in practice: key performance questions and data needs; reporting arrangements; job descriptions etc	TR	Nov 22
5. Recruit suitable finance business partners		
6. Train business partners and budget holders		
<i>Budget setting</i>		
7. Task the appointed finance business partners with facilitating directorate discussions to affirm that budgets and managerial responsibilities remain aligned, and that there are arrangements in place to support budget delegations with written notifications.	TR	July 22
8. Revise the arrangements for the prioritisation and approval of the capital programme: <ul style="list-style-type: none"> • Enable greater Member engagement • Clarify roles of the capital accountant and finance business partners 		
<i>Financial systems/self-service</i>		
9. Set baseline expectations and monitoring arrangements for the implementation of finance business partnering (see 1) in order to evaluate whether there is a business case need for a new finance system.	TR	Sept 22
<i>Budget Holder Accountability</i>		
10. Embed the need for financial management in the objectives and appraisal arrangements for budget holders.	Finance Business Partners	Oct 22
11. Develop an SLA which sets out the finance offer to the organisation and the expectation placed on budget holders, including key performance indicators.	AF	Oct 22

Actions required	Lead responsibility	Timescale
<i>Financial Management Competencies</i>		
12. Strengthen financial competencies through the finance team: <ul style="list-style-type: none"> • Develop a more 'vertical' structure' to encourage career development • Use the introduction of business partnering to facilitate regular staff rotation between the technical and strategic aspects of finance 	AF	Oct 22
<i>Assurance framework</i>		
13. Strengthen the function of the Audit Committee through the appointment of new independent members	IP	June 22
14. Task service Directors with maintaining their own risk registers and providing regular assurance statements to the MO and CFO	IP	Oct 22
15.		

Appendix

Three Financial Management styles:

Delivering Accountability

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.

Four Management dimensions

Leadership

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

Relationships between the organisation and those with an interest in its financial health; customer relationships within the organisation, between finance services and its internal users.

Rating	Qualifying Scoring	
*****	4.0	World Class
	3.75	Totally evidenced
	3.50	Strong
****	3.25	Highly evident
	3.0	Highly evident
***	2.75	Evident
	2.50	Mostly
**	2.25	Competent
	2.0	Basic
	1.75	Lower than basic
*	1.5	Minimal
	1.25	Weak
	1.0	Weak
	0.75	Inadequate
	0.5	Inadequate
	0	Not at all

South Tyneside Council Scoring by Statement

Leadership			
Delivering Accountability	L1	Financial capability is regarded as integral to supporting the delivery of the organisation's objectives. The CFO is an active member of the board, is at the heart of corporate strategy/business decision making and leads a highly visible, influential and supportive finance team.	****
	L2	The organisation has an effective framework of financial accountability that is clearly understood and applied throughout, from the board through executive and non-executive directors to front line service managers.	*****
	L3	Within an annual budget setting process the organisation's leadership sets income requirements including tax and allocates resources to different activities in order to achieve its objectives. The organisation monitors the organisation's financial and activity performance in delivering planned outcomes.	**
Supporting Performance	L4	The organisation has a developed financial strategy to underpin medium and longer term financial health. The organisation integrates its business and financial planning so that it aligns resources to meet current and future outcome focussed business objectives and priorities.	*
	L5	The organisation develops and uses financial/leadership expertise in its strategic decision-making and its performance management based on an appraisal of the financial environment and cost drivers.	*
Enabling Transformation	L6	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.	****

People			
Delivering Accountability	P1	The organisation identifies its financial competency needs and puts arrangements in place to meet them.	*
	P2	The organisation has access to sufficient financial skills to meet its business needs.	***
Supporting Performance	P3	The organisation manages its finance function to ensure efficiency and effectiveness.	*
	P4	Finance staff provide business partner support by interpreting and explaining performance as well as advising and supporting on key business decisions.	*
	P5	Managers understand they are responsible for delivering services cost effectively and are held accountable for doing so. Financial literacy is diffused throughout the organisation so that decision takers understand and manage the financial implications of their decisions.	*
Enabling Transformation	P6	The organisation develops and sustains its financial management capacity to help shape and support its transformational programme.	*

	Processes		
Delivering Accountability	PR1	Budgets are accrual-based and robustly calculated	***
	PR2	The organisation operates financial information systems that enable the consistent production of comprehensive, accrual based, accurate and up to date data that fully meets users' needs.	**
	PR3	The organisation operates and maintains accurate, timely and efficient transactional financial services (e.g. creditor payments, income collection, payroll, and pensions' administration).	***
	PR4	The organisation's treasury management is risk based. It manages its investments and cash flows, its banking, money market and capital market transactions, balancing risk and financial performance.	*****
	PR5	The organisation actively manages budgets, with effective budget monitoring arrangements that ensure 'no surprises' and trigger responsive action.	****
	PR6	The organisation maintains processes to ensure that information about key assets and liabilities in its balance sheet is a sound and current platform for management action.	****
	PR7	Management understands and addresses its risk management and internal control governance responsibilities.	**
	PR8	Management is supported by effective assurance arrangements, including internal audit, and audit and risk committee(s).	**
	PR9	The organisation's financial accounting and reporting are accrual based and comply with international standards and meet relevant professional and regulatory standards.	*****
Supporting Performance	PR10	The organisation's medium-term financial planning process underpins fiscal discipline, is focussed upon the achievement of strategic priorities and delivers a dynamic and effective business plan.	***
	PR11	Forecasting processes and reporting are well developed and supported by accountable operational management. Forecasting is insightful and leads to optimal decision making.	*
	PR12	The organisation systematically pursues opportunities to reduce costs and improve value for money in its operations.	***
Enabling Transformation	PR13	The organisation systematically pursues opportunities for improved value for money and cost savings through its procurement, commissioning and contract management.	***
	PR14	The organisation continually re-engineers its financial processes to ensure delivery of agreed outcomes is optimised.	**
	PR15	The organisation's financial management processes support organisational change.	**

	Stakeholders		
Delivering Accountability	S1	The organisation provides external stakeholders with evidence of the integrity of its financial conduct and performance, and demonstrates fiscal discipline including compliance with statutory/legal/regulatory obligations.	*****
	S2	The organisation demonstrates that it achieves value for money in the use of its resources.	**
	S3	The organisation is responsive to its operating environment, seeking and responding to customer and stakeholder service and spending priorities that impact on its financial management.	***