

EIT TASK AND FINISH FINAL REPORT

Finance

1. BACKGROUND

1.1 Role of the Finance Service

The Corporate Director of Resources has a statutory role as the Chief Finance Officer covering the management of finances within the Authority. This role has been summarised as follows in the Cipfa document 'the role of the Chief Financial Officer' and key principles are:

- A key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest;
- Must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy;
- Must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively;
- Must lead and direct a finance function that is resourced to be fit for purpose;
- Must be professionally qualified and suitably experienced.

The Finance Service is the key mechanism in supporting the Director of Resources in discharging this role.

There is going to be increased pressure on Councils in the coming years to maintain a balanced medium term financial plan and having robust financial management arrangements will be crucial. This needs to be considered during the consideration of options.

2. BASELINE

2.1 Service Performance

The Council has robust financial management arrangements in place and prudent financial management has meant the Council can have a managed approach to dealing with the difficult financial position relating to the current economic climate. It is important that this review ensures that the financial performance and position of the Council is not put at risk through any change.

The culture within the Council and within the Finance Service has meant that financial management is integral to the overall management within the Council. Finance staff work extremely closely on a wide range of subjects with Service Managers, from routine budget monitoring advice to developing complex funding solutions to major projects. This relationship is crucial and again needs to be considered.

The service has been integral to and led the Council's approach to the external use of Resources Assessments. Stockton has been consistently high

performing in this area and at the final Use of Resources assessment, we were one of the two top performing Councils in the country.

Our reputation for financial management is very strong among finance colleagues and we have advised many organisations on our approach and mechanisms which have delivered success. There is no complacency however, and the Council needs to adapt its financial services to the changing financial climate, and deliver efficiency savings whilst at the very least retaining the strategic financial advice to Members and Senior Officers, as well as the financial management arrangements which have served us well to date.

2.2 Structures and Budget

The Finance Service is currently delivered by the following teams:

Financial Management – CESC
 Financial Management – DANS
 Corporate Accountancy
 Assets, Capital and Projects
 Financial Planning

The service is currently delivered by 63.45 employees. The costs and funding of the service is outlined below:-

| | |
|-----------------|----------------|
| | £ |
| Service costs | 2,910,000 |
| External Income | <u>866,000</u> |
| Net Costs | 2,044,000 |

The Resource Allocation to the service is £1,877,000 which means the service already has an efficiency target of £167,000.

In order to meet this efficiency target and in light of the impending EIT review, the service has for a period of time not filled vacancies and operated with a number of vacant posts. The current levels of vacant posts are 5.7 (9%) which equates to £278,000 (the majority of these posts are at either Accountant or Senior Accountant level). A summary of posts by job title are shown below:-

| | Establishment | Vacancy | Current Position |
|--------------------------------|---------------|---------|------------------|
| Finance Managers | 5.6 | 0 | 5.6 |
| Accountants/Senior Accountants | 27.9 | 5.2 | 23.7 |
| Technicians/Senior Technicians | 27.65 | 0.5 | 27.15 |
| Clerks | 1.3 | 0 | 1.3 |
| | 63.45 | 5.7 | 57.75 |

Based on the Resource Allocation, this review will aim to save £276,000 and resolve the current efficiency target. It is anticipated the current vacancies would contribute to these savings.

2.3 Activities and Functions undertaken

The Finance Service Supports the Council's Director of Resources in carrying out the statutory duties as the Council's Chief Finance Office in the stewardship and

management of the Councils Resources and ensuring the Council has a robust financial management mechanism and medium term financial plan,

The Service is delivered in the following way:

Financial Management and Support to Services. Financial support teams linked to each Service Group, provide all financial management support for Services. The Services covered include:

- Strategic Financial advice to Members, Corporate Directors, Heads of Service
- Setting and management of the Budget and the Medium Term Financial Plan (including projections of future funding)
- Identification and Assessment of Financial Impact of Policy, legislation and organisational changes
- Developing long term financial strategies and plans and aligning these plans to performance and activity within the service
- Provision of financial management and support to managers to enable effective budget monitoring to be undertaken
- Influencing the Efficiency agenda in Services Group
- Maintenance of the Implementation of the Financial Management System.
- Closure of Accounts.

The following are specific to the CESC team:

- Financial monitoring of Schools
- Interpretation of school funding legislation
- Development of funding models for schools
- Management of the School funding formula for schools
- Specialist Financial Advice to Schools Forum
- Management of Financial support to schools (Bursary / Trading area)

Asset & Projects

This team are also responsible for strategic asset management and capital strategy development across the Council. The team was established 2 years ago to increase the focus on Capital management and project support and the role has recently increased to include strategic asset management from within CESC. From a Finance perspective, the following functions are covered:

- to provide strategic financial advice to Corporate Management Team and members to enable them to determine spending priorities in relation to capital
- Provide Financial support and advice to feasibility studies and business case developments on capital and infrastructure developments.
- Develop funding options and assess options for future capital developments.
- Align financial strategy and capital strategies
- Capital Resourcing Strategy / Capital Receipts Planning
- Development, control and maintenance of Capital Programme (Project Briefs / PIDS / etc.)
- Financial support and challenge to projects within the Capital programme.
- Financial Support to Capital Projects
- Development of Capital Programme
- Monitoring and Management of Capital Programme

Corporate Accountancy

Team is responsible for all aspects of Technical accountancy and external reporting:

- Technical Financial Advice
- Adoption of Accounting Codes of Practice, Standards and Principles
- Preparation of Statement of Accounts
- Management of the Closure of Accounts Process
- Financial legislation
- Completion of Returns and statistical information
- Control and Reconciliation of the Accounting Systems
- Maintaining Corporate Medium Term Financial Plans
- Maintain the Councils asset register / asset management system
- Management and Control of HRA

Financial Planning

Financial Planning undertake the following:

- producing, reviewing and maintaining the Council's Medium Term Financial Plan, consolidating information from Service MTFP's;
- Assessing impact of legislative change
- Modelling, influencing and projecting future allocations of resources from Government and Council Tax
- to provide strategic financial advice to Corporate Management Team and members to enable them to determine spending priorities.

Treasury Management - covers the management of the Council's investments, cash flows and borrowing. Since the Credit Crunch, the Icelandic Banking crisis and the consequent publication of the Audit Commission's report "Risk and Return" and the "Local Authority Investments Report" from the Local Government Select Committee, Treasury Management has become a very high profile area of the Council's activities subject to a great deal of scrutiny from both inside and outside of the Council. The activities of the section seek to manage three competing areas of risk, in order of importance

- maximise security of funds;
- ensure sufficient liquidity of funds; and finally
- ensure a rate of return.

VAT - by providing a comprehensive VAT service that service seeks to ensure that

- the Council's VAT liability is minimised;
- all VAT due to the Council is recovered promptly;
- penalties and interest imposed by Her Majesty's Customs and Excise are avoided;
- sound financial advice is provided to officers on all matters relating to VAT; and
- the Council is classified as "low risk" by HMRC with regard to taxation matters.

3. CHANGES IMPACTING ON FINANCE SERVICES

3.1 There are a significant number of issues within the organisation and affecting the organisation which will impact on the level and type of financial support required in the future. These will need to be considered when determining the financial management arrangements in the future and the level of Resources required to discharge these functions. These include:

- Potential significant reductions in spend across the Council through reduced revenue and capital funding following Comprehensive Spending review.
- The stewardship role of the Councils Corporate Director of Resources will require an increased focus to ensure that the scarce financial resources are well managed and the Council continues to have a robust medium term financial plan.
- Reduction in levels of grant claims and payments due to reduction in grants and rationalisation of arrangements
- Changes in organisational structure following EIT and other reviews
 - Facilities Management
 - Adult Services
 - Communications
 - Admin Review
 - Procurement Review
 - TVU
- Transfer of Housing Stock will mean the Council no longer administers Housing Revenue Account (One member of staff will TUPE at the time of transfer)
- There will be number of developments which will increase complexity of financial support, e.g. Partnership budgets
- There are a significant number of initiatives ongoing as part of the Council's efficiency programme which will require financial direction and support. The Service will need to :
 - Participate in and influence the reviews to identify potential savings
 - Work with managers to develop action plans to deliver savings in line with MTFP
 - Monitor the programme to ensure savings are delivered
- There are a significant number of Legislative and Policy Changes that will affect the Council, the majority of which will require financial advice and support.
- The Council is exploring a range of alternative funding and service delivery models as part of the efficiency programme, including partnering and these will inevitably have elements of financial complexity.
- Given the reduced levels of capital funding available and the Councils regeneration priorities, there will be an increased need to explore alternative

investment methods with partners such as Asset Backed Vehicles and joint ventures.

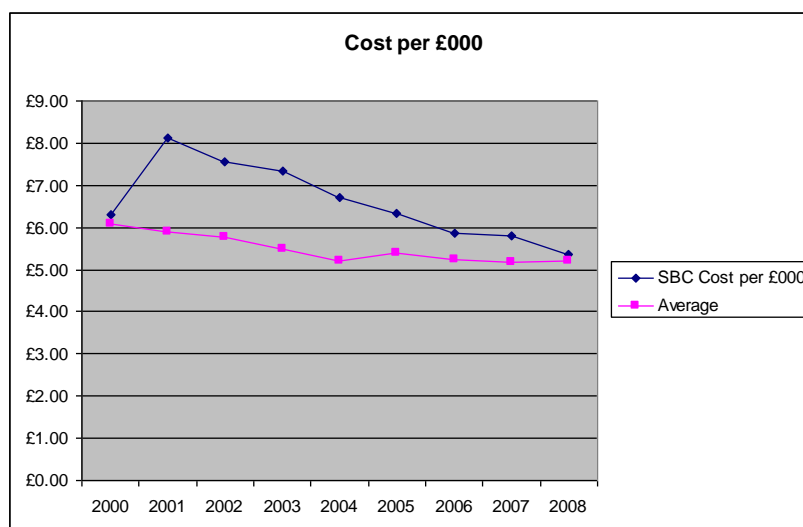
- The Council is the Accountable Body for the newly formed Tees Valley Unlimited and this will require financial support and advice. This could incorporate a role in providing financial advice in relation to feasibility projects and major schemes developed by the organisation.
- There are proposed changes in the management of Social Care, incorporation of Public Health role and possible partnership working.
- Service changes such as increase partnering will have a direct link to financial support requirements, and depending on lead organisation this could be either an increase or decrease in workload.

4. ANALYSIS OF CURRENT SERVICE

In order to assess and understand the current performance of the service, discussions have been held with Corporate Directors, some Heads of Service and Senior Finance Staff. Workshops have also been held involving all Finance Staff and despite the obvious concerns over the outcome of the review, it is to their credit that many of the suggestions and points outlined emanated from the workshop sessions.

4.1 Financial Analysis

The Finance service has been benchmarking costs and making reductions in costs for a number of years. The latest information available is based on 2009 comparator information and this showed that Stockton's costs were slightly above average when compared to 85 Unitary Authorities (£5.36 per gross revenue turnover, compared to £5.19). These costs were based on 2008 figures, and costs of other Authorities ranged from £8.75 to £3.50 per GRE. It should be noted this could be strongly influenced by size of Authority and these costs exclude the costs of supporting Schools which is directly chargeable to the Schools. The table below demonstrates that the costs of the service have reduced significant compared to average costs over recent years:



Since 2008 the service has taken a responsibility for supporting Xentrall and JSU/TVU. The current costs of the service excluding Schools, is £2,705,000. Applying a reduction of £443,000, the costs of Stockton's service, would be £2,262,000 which equates to a current comparative cost of £4.48 per GRE, well below the current average.

4.2 Heads of Service Roles and Responsibilities

Although the majority of the functions undertaken by the Heads of Service is clear, there is currently sometimes duplication associated with the Council's Medium Term Financial Plan. In order to clarify the position, in future:

- The Head of Finance, Procurement & Performance will deal with the National Funding position and the impact on the Council's resources, overarching policy changes and consultations (e.g. CSR, RSG changes), as well as Treasury Management and VAT.
- The Head of Finance & Assets will use this information in conjunction with service expenditure planning, pressures and developments and deal with the Council's MTFP financial direction.

4.3 Current Team Structure

The current team structure has served the Council well and there are significant benefits of links with Services. There is a view that key relationships between Finance and Services (at Corporate Director and Head of Service level in particular) need to be retained in order that there is an understanding of service issues which will enable strategic financial support and advice to be integrated with Service management.

There are however a number of areas where there is potential duplication and overlap between the teams and there could be opportunities for exploring different models of providing financial support, whilst retaining the service links (e.g. consolidate financial monitoring and budgetary control into one or two areas, and this will be explored). This could also help with standardisation of approach and procedures outlined below.

The team structure will be reviewed, and will reflect the roles of the Heads of Service in paragraph 4.2. This will mean some functions transferring from the Financial Planning section and will be incorporated into a revised structure. This will also assist in the revised role for the Chief Financial Planner, in incorporating the Audit function (see Internal Audit Review).

4.4 Medium Term Financial Plans, Budget Monitoring and Management

The medium term financial plan documentation is currently often utilising spreadsheets and summaries. Not all service MTFP's are currently loaded into Agresso. Improved use of the finance system will therefore be explored to simplify and improve these arrangements.

The responsibility for managing budgets is clearly with Service Managers. The Finance role is to provide information, advice, challenge and support and to ensure that current financial performance is in line with approved budgets and also understand and advise on impacts on future medium term financial plan. This is an area that is resource intensive and although there has been a substantial move to alignment of processes and simplification of approach, this

can be developed further. Distinction is made between high risk and relatively stable budgets, although this needs to be reviewed. The majority of variances identified during budget monitoring exercises are related to high risk areas and these are the areas on which we need to focus going forward. The focus will also need to be on how to mitigate any pressures associated with these variances and their impact on the medium term financial plan.

A common approach and process has been developed for budgets other than high risk, although there are still slight differences in approach across the Council. There is still a view that too much time is spent looking at detailed transactions of small value and that this should be reviewed. Standardisation of this approach will both clarify roles and responsibility, reduce time and effort of staff in these budget areas and also should improve the monitoring through targeting resources at areas of problems.

This process will be influenced by and will utilise the benefit of the upgraded Agresso financial management system. The system has allowed us to significantly reduce manual data extraction and manipulation and release resource to provide advice and guidance. There are some areas where this could be improved (medium term financial plan, budget loading, external reporting, etc) and this will be considered as part of the review and standardisation of processes.

There is a direct impact on the Service through the numbers and complexities of budget structures. Although these have been radically simplified over the last few years, there are still opportunities to rationalise the numbers of budgets without impacting on the quality of financial management.

4.5 Critical Analysis of Other Financial Management Activities

There are a limited number of specific functions undertaken by Finance Staff which add little or no value. Changes in these areas would require discussion and agreement with managers, however if agreed this would obviously increase the potential for cost savings.

The culture of the organisation has allowed us to abolish central support service recharges. We do still operate a number of other recharges which are time consuming, make budget monitoring more complex and move management focus to 'internal money' as opposed to monitoring true costs and income to the Council. Abolition would mean no reduction in quality of service, in fact in some areas this would improve performance. Examples are:

- Technical staff charges
- Highway maintenance
- Fuel
- Insurance Charges
- Etc.

Finance teams continue to process adjustments to the Finance system, often at the requests from managers, which effectively transfer costs from one budget code to another. Often, these are within the same cost centre or service area and are for relatively small sums of money. In future, unless there are exceptional circumstances, it is suggested that Journals will not be auctioned for values below £1000.

There is still time and effort spent on routine work such as suspense account clearance (effectively correcting errors). Work with Managers and Xentrall to improve coding and processing would alleviate this function.

There are a number of Statistical Returns completed to aid service benchmarking. In practice, there is a view that very few of these are actually used, partly to a small number of Authorities being involved. It is suggested that these are critically reviewed and stopped where appropriate.

The Finance Service provide a service free of charge, to a number of community organisations. Others however have their own financial support arrangements and it is suggested that this is considered as part of the arrangements with the voluntary sector.

The Finance teams are currently located in 3 main buildings, in approximately 10 separate offices. This does not lend itself to collaboration or developing a team ethos. Despite this the team have made great strides in developing standardised approaches and sharing knowledge. This would be significantly enhance if the teams were co-located, and it would enable more flexibility and cross-team working, and increase opportunities for cost savings.

There are a number of services which we provide where there could be options to explore potential income streams. One example is services to Schools. We could enhance our financial advisory role as this is an area where we are aware schools are commissioning from other providers.

4.6 Customer Feedback

The service carries out regular satisfaction surveys with service users, mainly budget managers, and the results are really positive. All surveys undertaken since January 2009 have average satisfaction levels ranging from 4.83 to 5 (out of a score of 5). The surveys cover responsiveness of service, satisfaction with advice, guidance and support, etc.

5. OPTIONS

5.1 Outsourcing

A number of organisations have in recent years looked at outsourcing as an option for delivering savings. In the majority of cases, outsourcing arrangements have been large scale 'strategic partnerships' of which Finance was one service included. It is worthy of note however that:

- The Council would still have the statutory functions to deliver as outlined in paragraph 1, and we would be relying on a contractual arrangement to support these requirements.
- The Council is going through significant change through budget reductions, potential changes in health responsibilities, consideration of partnering etc, and this would make it extremely difficult to specify the service required.
- Strategic financial management and advice to members and Senior Officers is intrinsic to the management of the organisation and this element of the

service does not lend itself well to outsourcing. In fact, a number of organisations who outsourced Finance in the past have either retained, or subsequently transferred staff back to carry out the strategic functions required.

At this point in time, given that strategic financial management and advice is going to be more important than ever before, and the finance service needs to be flexible and adaptable, it is recommended that this option is not explored further.

5.2 Partnering

The Council is already committed to consideration of partnering on a range of services, and has of course already established Xentrall to deliver shared services, part of which is the Transactional Finance function. There are aspects of the finance service which could lend themselves well to partnering, e.g.

- Provision of technical accountancy advice and statutory reporting, VAT etc
- Assessment of funding announcements and impact on resources
- Routine financial monitoring information

There are also areas such as the strategic financial management that, as already mentioned, are intrinsically linked to the management and decision making of the organisation that would not lend themselves to partnering.

A key issue if this is to be considered, is the use of the financial management system. It was identified when Xentrall was established, that it would be critical for both organisations to be using the same system and therefore if this option is to be considered, then this would be a key issue. Given the current arrangements, the most obvious partner would be Darlington.

It is suggested that given the level of change in each organisation and the uncertainty around future service arrangements, that now is not the time to explore this arrangement for the Finance service. This could however, be revisited in the future.

5.3 Retain in house provision but re-organise and focus

There are a number of changes to the service that will be required to deliver savings and to continue to manage and support the Council through the difficult financial times. Retaining the Service in house would allow these changes to be made whilst still allowing the flexibility to adapt to changing future requirements. This option would:

- Review the senior management structure and responsibilities, and consider opportunities for merging and aligning teams. This would incorporate some functions currently undertaken by the Chief Financial Planner, which will enable this post to change and take on responsibility for Internal Audit, thus reducing a Senior Manager post from the establishment.
- The emphasis of finance in the future needs to focus on strategic financial advice and support to Members and Senior Officers, maintaining financial stewardship of the organisation and focussing efforts on areas of risk.

- Procedures will be reviewed, streamlined and rationalised to simplify arrangements. Where similar processes are undertaken within teams, then this will be considered within the Senior Managers responsibilities.
- All functions which are considered not to add value, will be reviewed with appropriate officers and stopped.
- Consideration will be given to co-location of the Finance service, which will aid cross-working, improve standardisation and increase options for re-aligning management responsibilities.
- Opportunities for charging for services will be explored.

6. CONCLUSION

There will be an increased focus on financial stewardship and strategic financial advice to Corporate Directors and Members to provide direction and support to the Council through the difficult times ahead.

Given the current position of the Council, it is suggested that Outsourcing and Partnering for all of the service, is not progressed. There may be elements of the service that could be considered for Partnering at some stage in the future.

There are opportunities to clarify responsibilities at Head of Service level and avoid duplication between service teams. The Head of Finance & Assets would take on responsibility for the development, maintenance and upkeep of the Council's MTFP and provide direction and support on associated matters. The Head of Finance & Procurement would retain responsibility for Treasury Management, VAT, National Funding projections and Consultation responses.

Detailed structures need to be developed and changes to the organisation of the service need to be implemented. Processes will be reviewed reducing duplication and removal of functions which do not add value and this would realise significant savings whilst ensuring that the service continues to deliver strategic financial advice and support to the organisation. The focus will be on areas of importance and risk and supporting the role of the Corporate Director of Resources, in ensuring sound financial management arrangements are in place. The review will result in the service being delivered with fewer staff and generate savings of approximately £276,000. It is likely that all vacant posts would be deleted, contributing £120,000 to this saving.

7. RECOMMENDATIONS

The service will be retained in-house and reorganised. Revised, standardised procedures will be adopted and the Finance service focus its efforts on strategic financial advice and direction and support areas of high risk.

Responsibilities of Heads of Service are revised and clarified.

Development of detailed structures and implementation delegated to the Corporate Director of Resources and this will generate savings in the region of £276,000.