
LONDON BOROUGH OF BROMLEY
ORGANISATIONAL IMPROVEMENT

To: Cabinet
Date: 13th May 2011
Subject: *Aligning Policy & Finance -The Finance Division*
From: Richard Hills, Organisational Improvement Team

1. Reason for Report

Following the endorsement of the suggested approach to Aligning Policy & Finance presented to Cabinet in April it was agreed that the first three divisions to be reviewed would be *Finance, Public Protection* and *Transport*.

This report provides Cabinet with the high level service information (phase 2 of the methodology) for the Finance Division. However, because this report has been driven by the Portfolio Holder for Resources, as well as the Chairman and Vice-Chairman of E&R PDS and proactively supported by the Finance Director this report goes further than the initial remit to make some suggestions as to specific areas within the Finance Division where future savings could be achieved.

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3. Recommendations

- 1) That cabinet note the breakdown of the Finance Division and use it to assist in their challenge of the service
- 2) That cabinet consider the initial areas for exploration as set out in section 7 of this report taking into account the summary conclusions

4. The Role of a Local Authority Finance Director & Finance Division

The role of the Finance Division is to ensure the effective management and control of the Council's financial affairs. Qualified finance officers are in post to ensure the integrity of the Council's financial framework through strategic financial advice and the provision of financial services.

In meeting these obligations there are a number of core statutory duties to be followed with guidance provided by CIPFA including the '*Role of the Finance Director*'.

The Chief Financial Officer in a public service organisation:

Is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the authority'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 authority's financial strategy; and

must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

To deliver these responsibilities the Chief Financial Officer:

Must lead and direct a finance function that is resourced to be fit for purpose; and

Must be professionally qualified and suitably experienced.

The Chartered Institute of Public Finance & Accountancy

Set out in Section 151 of the Local Government Act 1972 requires that every Local Authority shall "*make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs*"

The Local Government Act 2000 goes further advising that the finance director will have an important role in management of the local authority in particular by:

- Contributing to corporate management in particular to the provision of professional financial advice
- Maintaining financial administration and stewardship
- Supporting and advising members and officers in their respective roles
- Providing financial information to the media, members of the public and the community

To do this all Finance Director's have a Finance team in place to assist them in delivering many of the core activities required to adequately fulfil these duties to Members and the residents of Bromley. These include:

Budget Monitoring	Procurement
End of year Accounts	Reconciliation
Exchequer services	Government returns
Revenues & benefits	Running and maintaining financial systems
Insurance	Treasury management & Pensions

Over and above this is the day-to-day financial support and advice given to budget holders, departmental management teams, Directors and Members on a whole host of issues concerning finance.

5. Bromley's Finance Division – Budget, Staff (FTE) & Functions

The Finance Division currently employees 108 FTE and has a net controllable budget of £9.79 million.

This is broken down in the tables below:

Table 1: Budget for the Division

	Control & Co-Ord/Technical	Financial Mgt	Procurement	Revenues & Benefits	Exchequer-Payments & Income	General Mgt	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Employees	410	1,844	292	461	1,275	154	4,436
Transport		0 8	3	2	16	0	29
Supplies and Services	35	225	21	2,028	49	57	2,415
Third Party Payments		0 1	183	6,029		00	6,213
Transfer Payments		0 0		0 18,775		00	18,775
Income	Cr 2	Cr 205	Cr 87	Cr 21,736	Cr 2	Cr 45	Cr 22,077
Controllable Budget	443	1,873	412	5,559	1,338	166	9,791
Insurance		0 0		0 0		01	1
Capital Charges/Financing		0 0	60	0		00	60
Non-Controllable Budgets		0 0	60	0		01	61
Recharges In	192	851	170	2,265	439	119	4,036
Total Cost of Service	635	2,724	642	7,824	1,777	286	13,888
Recharges Out	Cr 634	Cr 2,732	Cr 717	-6,944	Cr 1,775	Cr 325	Cr 13,127
Total Net Budget	1	Cr 8	Cr 75	880	2	Cr 39	761

Table 2: Staff (FTE) across the whole Division

Team	FTE
Finance Director	1
Financial Management & Financial Systems	37
Control & Technical	7.79
Procurement	5
Payments & Income	44.15
Revenue and Benefits	13
Total	107.94

Management grades run at 25% of the total FTE mainly due to the cost of fully qualified accountants. This percentage continues to fall ever since the management overheads exercise lead by the Chief Executive including the deletion of the Assistant Director of Exchequer and Revenues and the recent retirement of the Director of Resources who was the previous Section 151 officer. The deletion of another management post is current going through consultation. Cost per FTE was the lowest of the 15 London Boroughs benchmarked by CIPFA.

Table 3: Functions across all the teams that make up the Division

Finance Team	Functions
Management Accounting Teams (Revenue Budget turnover £650m)	<p>Budget monitoring</p> <ul style="list-style-type: none"> ➤ Bi-Monthly Budget Monitoring - including DMT reports, Committee reports, signed off statements ➤ Budget Estimates - staffing budgets, running expenses, income projections, budget options, full year equivalents, supplementary estimates, growth bids ➤ Preparation of Financial Control Budget and divisional Budget books ➤ Closing of Accounts at year end- sundry debtors, creditors, holding accounts, Oracle and general ledger reconciliations, Stock Control, Balance Sheet, Income & Expenditure account, report to Committee ➤ Capital Budget Monitoring, support to budget holders around capital bids for capital programme, capital returns to external bodies eg TfL <p>Financial advice and support</p> <ul style="list-style-type: none"> ➤ Financial considerations in Committee Reports ➤ Support to budget holders/DMT around budget options, Invest to Save bids ➤ Training for Budget Holders ➤ Production of 4 year Financial Forecast - each department ➤ General Financial advice around Financial Regulations ➤ Informing corporate projects and working groups ➤ Pooled Budgets (ACS) <p>Reconciliations</p> <ul style="list-style-type: none"> ➤ Job creation, deletion & amendment forms ➤ Reconciliations of staffing numbers on EBM ➤ Contract tendering evaluations, PQQ's ➤ Reconciliation of all systems EBM, Rent Accounts, Parking, Confirm, Mortgage Accounts, Cash Book etc, ➤ Reconciliation of Schools Accounts ➤ Updating of EBM, Oracle and any other financial systems <p>Gov returns</p> <ul style="list-style-type: none"> ➤ Statutory Revenue Estimates - RA's ➤ Complete all Grant Claims - interims and final including reconciliation of ledger accounts ➤ Government Return - RO's (Revenue Outturn Reports)

	<ul style="list-style-type: none"> ➤ CIPFA Stats ➤ Financial FOI information/ requests
Financial Systems	<p>Providing technical support to financial systems</p> <ul style="list-style-type: none"> ➤ Examples invoicing, cheque processing BACS, Purchase Orders, income collection, financial reporting ➤ Database Support e.g., Care Charging, Trade Refuse, Closing of Accounts, Income Management. <p>Managing Financial Corporate Systems (including monitoring)</p> <ul style="list-style-type: none"> ➤ EBM – Employee Budget Monitoring ➤ FBM – Financial budget monitoring ➤ Budgets Estimates Systems. ➤ IPROC Procurement System management ➤ Interfacing uploads for other IT systems e.g. Care First, Payroll, Confirm etc ➤ Procurement Card Uploads ➤ Bank reconciliations ➤ DD Collections <p>Income generation £25k</p> <ul style="list-style-type: none"> ➤ Oracle Support to Bexley
Control	<p>Reconciliation</p> <ul style="list-style-type: none"> ➤ The council bank account (payment and income transaction values of in excess of £1 billion per annum) ➤ Co-ordination and reconciliation of various council wide functions relating to completion of the council's budget, closing of accounts and budget monitoring ➤ Monitoring and reconciliation of 18 key control and holding accounts including payroll and Liberata council tax, NNDR, payments and debtor accounts ➤ Monitoring and reconciliation of general fund and earmarked reserves (total £64m in 2009/10), general grants and NNDR redistribution (£76m in 2009/10) <p>Production</p> <ul style="list-style-type: none"> ➤ Production of council's annual statutory financial accounts, including external audit and public inspection ➤ Completion of key statutory returns e.g. <i>Council Tax Survey, Revenue Collection Statistics, Business rate returns, whole government accounts</i> <p>Administration</p> <ul style="list-style-type: none"> ➤ Collection fund relating to business rates, council tax and GLA element of council tax (value £253m in 2009/10) ➤ Maintenance of former London Residuary Body fund (ex-GLC properties), including annual distribution to London Boroughs (fund value £0.7m in 2009/10) ➤ Payment of Levies to other authorities (£2m in 09/10) <i>Environment Agency, London Pensions Fund Authority, London Boroughs Grants Committee and Lee Valley Regional Park.</i> <p>VAT:</p> <ul style="list-style-type: none"> ➤ Completion and submission of council's VAT returns to HMRC (approximately £24m per annum) ➤ Provision of strategic and operational advice on VAT issues ➤ Minimise risk to the council arising from exceeding partial exemption limit

	<p>Specialist technical advice</p> <ul style="list-style-type: none"> ➤ Provision of operational advice concerning accounting requirements, including changes in accounting standards do management accounting teams
Technical	<p>Treasury Management</p> <ul style="list-style-type: none"> ➤ Investments placed in year (turnover) £300m+ ➤ Daily management – loans/investments, counterparty lists ➤ Quarterly reconciliations and reporting to E&R PDS/ Resources portfolio ➤ Treasury management strategy and procedures and government returns ➤ Administer interest on balances – closing of accounts <p>Capital Programme £180m</p> <ul style="list-style-type: none"> ➤ Annual bidding process for new schemes ➤ Budget maintenance ➤ Quarterly monitoring reports to Executive and PDS Committees ➤ Annual Capital Strategy ➤ Administering capital receipts <p>Pension Fund £480m</p> <ul style="list-style-type: none"> ➤ Quarterly monitoring reports to Pensions Investment Sub-Committee ➤ Pension Fund Annual Report ➤ Monthly monitoring of Pension Fund Revenue Account ➤ Pension Fund strategy (inc asset allocation, business plan, benchmarking, etc) <p>Insurances</p> <ul style="list-style-type: none"> ➤ Insurance claims - Handle 450 claims p.a. <i>e.g Public liability, fire& perils, leased cars</i> ➤ Non-claims activities – <i>e.g. advice, accountancy, maintain insurance cover and negotiate renewals, statistics, risk management, Annual report to E&R PDS Committee</i> <p>Banking</p> <ul style="list-style-type: none"> ➤ Monitor banking contract ➤ Maintain over 100 accounts ➤ Maintenance of signatory list ➤ Liaison with HSBC ➤ Administering bank charges <p>Financial advice</p> <p>Provision of advice and financial services re all the above</p>
Procurement	<p>Strategic & best practice</p> <ul style="list-style-type: none"> ➤ The development, dissemination and oversight of best procurement practice within the Council and its partners as appropriate ➤ The establishment and use of a Sustainable Procurement Strategy ➤ Driving savings through a strategic approach to procurement and use of professional procurement tools – spend analysis, gateway reviews, joint contracting, e-auctions etc ➤ Strategies used to achieve a cost saving/ cost avoidance on 3rd party contracts of over £10m in 2011/12 <p>Advisory</p> <ul style="list-style-type: none"> ➤ Overview and advice on the Council’s Procurement Activity, identifying and securing cost and process efficiencies; (for example - Streamlined Processes Projects like I

	<p>Proc; identifying e auction opportunities and contracting strategies such as those in SEN Transport</p> <ul style="list-style-type: none"> ➤ Pursuing a proactive management interface, in conjunction with commissioning requirements, on social care contracting arrangements; ➤ The provision of advice on and input to corporate management arrangements; <p>Managing contacts and contract negotiations</p> <ul style="list-style-type: none"> ➤ Managing full gateway reviews and contract re-negotiations and identifying new ways to procure a contract – i.e. joint contracting arrangements ➤ The provision of expertise and/or management of complex and sensitive projects (exemplified by the link through to Adult Social Care contracting) ➤ The Management of certain corporate contracts – energy, agency staff, mobile phones, MFD printers ➤ The Council’s approach to contracting activity, in common with most other London Council’s, is based on a model which devolves much day to day activity to the service areas where client and budget responsibility sit,
<p>Exchequer Services – Payments & Income</p>	<p>Payments</p> <ul style="list-style-type: none"> ➤ Debt management in partnership Liberata ➤ Making payments to suppliers/customers ➤ Paying 80,000 invoices p/a <p>Financial assessments</p> <ul style="list-style-type: none"> ➤ 3500 assessments of care services clients & provision of welfare benefit advice ➤ 1,100 assessments clients in residential & nursing care <p>Income</p> <ul style="list-style-type: none"> ➤ Raising invoices (income) for all Depts ➤ Generation of income from other Council services e.g. Waste management, cemeteries, Planning, Building Control etc ➤ Raising 14,000 invoices p/a (excludes recurrent invoices and CT) ➤ Recovery of charges for clients placed in temporary accommodation
<p>Revenues & Benefits (Liberata Contract value £6m p.a.)</p>	<p>Management of the Liberata Contract which covers:</p> <ul style="list-style-type: none"> ➤ Benefits – payments £124m ➤ Council tax – £198m (inc GLA) ➤ Business Rates £83m ➤ Pay roll - £135m (gross inc teachers) ➤ Pensions - £20m ➤ General debtors £12.8m ➤ Cashiers transactions £145k

6. Bromley's Finance Division Benchmarking

Performance

PWC submitted their use of resources report to the Audit Commission for 2009/10. Indicative scores give Bromley an overall score of 3 for Use of Resources and a score of 4 relating to Managing Finances. Benchmarking the service as performing strongly.

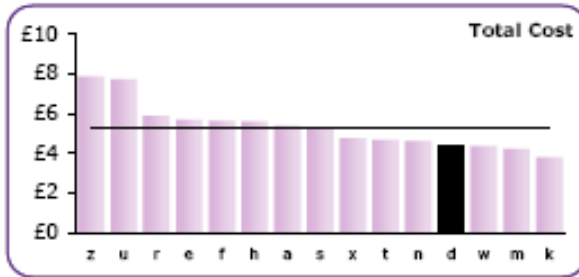
Theme / KLoE	Indicative Score
Managing Finances	4
Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	4 (increase)
Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	3
Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	4 (increase)
Governing the Business	3
Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	3
Does the organisation produce relevant and reliable data and information to support decision making and manage performance?	3 (increase)
Does the organisation promote and demonstrate the principles and values of good governance?	3
Does the organisation manage its risks and maintain a sound system of internal control?	3
Managing Resources	3
Is the organisation making effective use of natural resources? (this KLoE was not re-assessed in 2009/10)	3
Does the organisation manage its assets effectively to help deliver its strategic priorities and service needs?	3
Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?	3

Cost

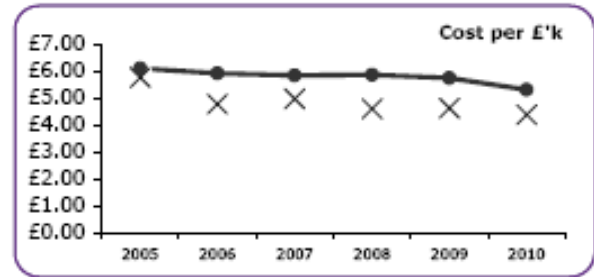
The below graphs summarise the results of CIPFAs Benchmarking report for Bromley 2010. The report demonstrates that Bromley's Accountancy (Management Accounting & Control) costs £4.40 per £'000 gross revenue turnover as opposed to the average of the London comparator group (15 London Boroughs take part) which stands at £5.32 (see charts below). CIPFA also run a wider benchmarking group for unitary Councils (87 took part) across the country where the average cost benchmarks at £4.71.

SECTION 1 - SUMMARY

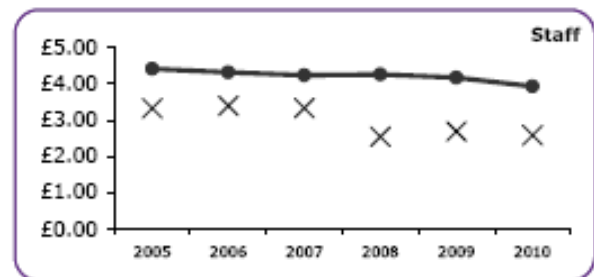
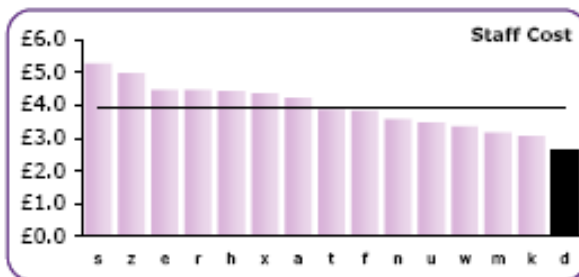
Total Cost per £'k GRT 2010/11
Rows 1-8



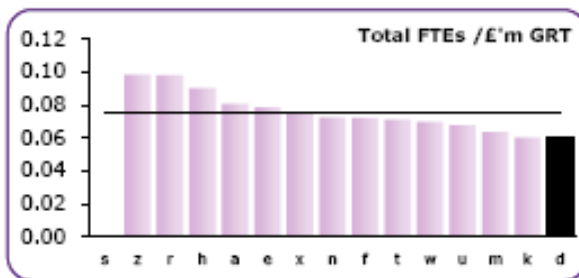
Club Average ●
Bromley X



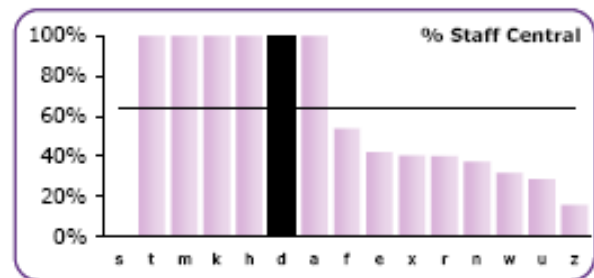
Staff Cost / £'k GRT 2010/11



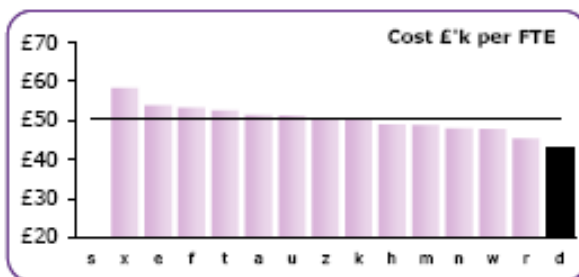
Total FTEs per £'m GRT



% Staff Central



Cost £'k per FTE



Other Team level Benchmarking

1) Revenues & Benefits contract performance - VFM Statistical Review – 23 June 2008

- Housing benefit administration spend of £9.65 per head continues the trend, being below averages of £11.74* and £17.09**. (*Nearest neighbour group average **All London Boroughs)
- Council Tax 2009/10 in-year collection – 5th best in London
- Business Rates 2009/10 in-year collection – 4th best in London

7. Options for further efficiencies?

Phase two of Aligning Policy & Finance is to gather the core information together into an easily digestible format for Cabinet Members so that they can debate and challenge current working practices and identify areas within divisions to target for further savings.

However, because this report has been driven by the Portfolio Holder for Resources, as well as the Chairman and Vice-Chairman of E&R PDS and proactively supported by the Finance Director this report goes further to make a number of suggestions as to specific areas within the Finance Division where options could be investigated and outcomes reported back to Members over the next 12 to 18 months with the savings achieved.

1) **Centralisation:** The option to continue to provide key support to departments (through the Heads of Finance posts) but to rationalise the departmental finance service teams that they manage through centralisation. The Finance Director advised that this type of centralisation is now happening across other Local Authorities and although this change could impact on the responsiveness of the service this would help achieve some further staff savings over the next 12-18 months. It would also assist the division in terms of scalability as it responds to the wider scaling back of operations and budgets across the Council.

2) **Outsourcing:** Look to further outsource back office finance processes in Exchequer as part of the Liberata contract. The new contract has the flexibility built in it to take on more of our processing services and we have the opportunity to take advantage of that. Specifically the straight forward payments and raising of invoices, for example trade waste and housing payments. Liberata have already been approached to provide quotations for taking on some of this work and have a better record on debt recovery.

3) **Procurement:** Review Central Procurement. Bromley currently has a small advisory team with only a handful of contracts being procured centrally. Different models for procurement, commissioning and contract management currently exist across the departments. Look at genuine alternatives for centralising procurement activities across the council beyond a primarily strategic and advisory role. The central team have been successful up to now in using gateway reviews, spend analysis and supporting joint contract arrangements to drive down cost but in the current climate we need to go even further investigating the use of private sector expertise on a risk and reward basis to help drive down contract prices and streamline procurement processes throughout the organisation. The Director of Finance with support from the OIP team will be exploring other innovative models being adopted by other London boroughs.

4) **Income Generation:** Investigate income generation through selling our finance expertise, specifically our financial systems, to other Local Authorities. This has already happened on a very small scale with Bexley (income generated £25k) and this could be expanded. However, income is always uncertain and

should not be relied upon to meet savings targets until formal contracts between interested boroughs have been agreed.

5) **Trading Account:** A review of the financial support currently being delivered to schools as a sold service. The schools support service could be moved onto a trading account to make sure it fully covers its costs and so that the service can be easily shrunk or grown according to the demand from Academies (who are not required to purchase financial services from their LEA) at no cost or contribution from Council budgets.

6) **Housing Benefit Appeals:** Investigate the option of handing over appeals to the contractor. The new contract with Liberata which started 1st April 2011 caters for this option. Although there is only a very small saving it does effectively manage our risk by transferring some of the risk for the administration of appeals over to the contractor. With all the cuts to benefits and changes to the payment structures made by the new government from 2013 appeals are likely to increase over the next few years and this would effectively help us plan for that eventuality.

8. Summary

Savings have already been realised across the Division by reducing funded posts from 117 in 2010/11 to 108 which has achieved a saving of £316k (including a reduction in senior management posts) further savings will be realised in year and staff consultation is already underway. Contract savings have also been made on the new Liberata contract which commenced on 1st April 2011 achieving further savings of £995k. This brings the total savings for the Division to date to £1.31m.

As is to be expected the Finance Division are very aware of the budget gaps that Bromley need to fill. The Finance Director has therefore taken a very proactive approach to working with his management team to identify and highlight further areas to make savings.

There is a balance to be struck between the savings we take out of our finance functions as set against the reputational risk that we are prepared to carry. This report therefore stops short of suggesting any outsourcing of our strategic finance functions or of asking for a radical review of the division beyond the central procurement function.

The changes proposed in this report could still impact on current service standards, especially any potential move to centralise departmental management teams. However, in the current economic climate a certain level of risk seems unavoidable and the Finance Division continue to contribute to tough savings targets.

9. Reference Documentation

VFM Statistical Review – Audit Commission 2008

Finance Foundation Strategy Review 2008

Procurement Foundation Strategy Review 2008

CIPFA Benchmarking London Boroughs 2010

CIPFA Benchmarking – Unitary Boroughs 2010

CIPFA The role of the Chief Financial Officer

Use of Resources – indicative scores 2010

Resources Portfolio Plan 2010/11

COE report Finance Oct2010

COE report Procurement 2010

Member presentation by the Finance Director on the Finance Division April 2011