

Report

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Report to:	Performance and Review Scrutiny Forum
Date of Meeting:	18 May 2010
Report by:	Executive Director (Finance and Information Technology Resources)

Subject:	National Diagnostic - Finance Review
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ Provide details of the findings of the National Diagnostic Finance Review and the resulting recommendations for developing the finance function within the Council. The wider structure of support services (Personnel, Policy) is also considered.

2. Recommendation(s)

2.1. The Forum is asked to approve the following recommendation(s):-

- (1) that the work undertaken on the Review is noted
- (2) that the recommendation to retain the existing finance structure across Resources, pursue the potential for efficiencies to a level of 8% per annum and totalling £1.3 million over 3 years being pursued is endorsed (section 8)
- (3) that the overall approach to devolved support services is noted, along with the opportunity for future savings.

3. Background

- 3.1. South Lanarkshire Council's expenditure exceeds £1 billion each year, it holds assets at the same level, all of which need to be managed, funded and controlled. The finance function has been key to our success as an organisation since 1996. Annual financial audits and the Best Value review confirm that it performs strongly, directly supporting the delivery of frontline services.
- 3.2. The National Diagnostic review undertaken across year 2008/09 identified that the number of finance staff within the Council appeared to be high in comparison to other councils, at a level of 210 full time equivalent (FTE) members of staff with a total budget of £5.3 million. The figure of 210 FTE translates to 2.2% of the workforce, in comparison to a Scottish average of 0.9%. For this reason finance activity within the Council was identified within the report to the Executive committee (Efficient Government – National Diagnostics Project, 25 February 2009) as a category 2 priority appropriate for further review, the purpose of which was to identify scope for efficiency savings.

- 3.3. Since 1999, following a Best Value Review, the structures and responsibilities for Finance within the Council have been clearly defined. In broad terms, Heads of Support Services, who have financial responsibility for their devolved budgets, report directly to their directors. They have 'dotted line' responsibility to the Executive Director (Finance and IT Resources) who retains overall responsibility for recruitment, training and professional development.

4. Undertaking the Review - Approach

- 4.1. In September 2009 a review of the Accounting and Budgeting Section within Finance Services concluded and was reported (Performance and Review Forum September 2009; Finance and IT Resources Committee October 2009). The outcome of this review acknowledged the key role of Accounting and Budgeting in the financial management of the Council and recommended the incorporation of the Financial Performance Section within Accounting and Budgeting. The Accounting and Budgeting section shares a series of common activities with the finance sections in Resources.
- 4.2. The second stage of the review led by a cross-Council Review Group, focussed on the devolved finance function, comprised all Heads of Support within the Council's Resources, the Head of Finance (Finance and IT Resources) the Heads of Personnel and Administration (Corporate Resources), led by the Executive Director, Finance and IT Resources.
- 4.3. The group first examined in detail the baseline information available. This involved an analysis of the current position: numbers of finance employees and their levels of budget; and a time analysis exercise to identify the activities carried out by these employees.
- 4.4. It was acknowledged that the environment faced by councils at this point in time is changing more rapidly than at any time since local government re-organisation in 1996. The pace of this change is driven largely as a consequence of financial issues, with unprecedented reductions in government grant income a certainty from 2011. The impact of this change and its financial nature are a crucial factor in this review. In particular, the role of the finance function in leading and managing this change, is recognised
- 4.5. Trade unions have been involved throughout the review process and have had a place on the Review Group.

5. Findings Exercise – National Diagnostic Data

- 5.1. Using the initial data identified in the diagnostic (210FTES) each Resource refined the information to identify the true number of finance operatives. The purpose of this was to remove the data relating to non-finance (operational) staff, therefore ensuring that the Review addressed only relevant employees. As a consequence of this exercise a revised number of Finance employees for each Resource was established totalling 164.6 (1.56%). These figures over Resources, in comparison to the original 210, are shown as Appendix 1.

- 5.2. The main findings from the analysis of the data are shown at Appendix 2a and 2b and can be summarised as follows:

Based on an analysis of Net Spend for Revenue and Trading Services excluding Capital (Appendix 2a)

- ◆ Education Resources have the lowest costing finance section, 0.13% as a percentage of net spend
- ◆ Housing and Technical Resources have the highest costing finance section, 3.42% as a percentage of net spend
- ◆ Moving all Resources to match the lowest costing section as a percentage of net spend (0.13%) could generate savings of £1.855m. Moving to the average (1.01%) could generate savings of £0.428m.

- 5.3. Based on an analysis of Gross Spend plus Gross Income for Revenue, Trading Services and including Capital (Appendix 2c)

- ◆ Education and Housing and Technical Resources have the lowest costing finance sections, 0.09% as a percentage of gross spend plus gross income including capital
- ◆ Enterprise Resources have the highest costing finance section, 0.28% as a percentage of gross spend plus gross income including capital
- ◆ Moving all Resources to match the lowest costing section as a percentage of gross spend plus gross income including capital (0.09%) could generate savings of £1.035m. Moving to the average (1.19%) could generate savings of £0.381m

- 5.4. However this information should be treated with caution as it does not necessarily reflect the differing nature of each Resource eg, trading services, transfer payments (housing benefit).

- 5.5. National Directors of Finance Performance Indicators were also considered. Comparing South Lanarkshire Council to other similar sized councils showed that South Lanarkshire Council was slightly above average in terms of the number of qualified staff in comparison to spend with £15.8m of spend for every qualified member of staff, compared with the average of £16.9m, Appendix 2c. A move to apparent levels of qualified staff similar to Glasgow City Council, could result in a reduction of 9 qualified staff members and a saving of £360,000

6. Findings – Time Analysis

- 6.1. As a separate task, the group also carried out time analysis work on the data looking at the job profiles and duties of varying grades across the Resources to identify commonality of tasks.
- 6.2. The significant finding from this was the data relating to Heads of Support Services, some of whom spend a significant proportion of their time on non-financial tasks. A summary of this is included as Appendix 3 to this report.
- 6.3. While it was anticipated that a significant element of time would be spent on non financial duties there were variations across Resources. Community, Enterprise and Social Work Resources had 43% to 46% of time spent on non financial duties. Housing and Technical Resources had 26% of time spent on non financial duties. Education Resources had no time spent on non financial duties however this is a result of short term senior management arrangements. This became significant when examining structures.

- 6.4. Variations in work across the finance teams included Enterprise Resources carrying out payroll work and Social Work Resources carrying out community care financial assessments.

7. Structure Options

- 7.1. Most of the time in this review was spent considering structure options for the delivery of finance
- 7.2. Two options were identified for moving forward the finance function within the Council:
- ◆ Centralised model – under this model all finance staff within the Council would report, via the Heads of Support Service, to the Executive Director of Finance and IT Resources.
 - ◆ The status quo, with efficiencies applied against the existing model
- 7.3. There are clear benefits in considering a centralised model:
- ◆ The finance function as currently led by the Executive Director, Finance and IT Resources, has a proven track record of delivery in terms of the financial management of the organisation.
 - ◆ There was no doubt from the discussions through the Review Group, that efficient financial control could be delivered through a centralised model. Enhanced efficiency through this model would come from the potential to reduce the numbers of support service sections across the Council. For example, one finance support service function could serve two Resources, using the same model through which both IT and Procurement services are currently delivered. This would provide initial savings of £200,000, with the potential for additional over time as economies of scale were realised.
 - ◆ Within the workloads of a number of Resources, tasks relating to the capital programme feature significantly. Given that the scale of the capital programme is likely to diminish in the period 2011/12 to 13/14, this is likely to free capacity within support service functions. This could be transformed into efficiency savings through the centralisation and amalgamation of support functions.
- 7.4. However a move away from the current structure could be viewed as a high risk strategy. The current approach relies heavily on both the financial and general management expertise of the Heads of Support Service, for the effective operation of Resources. Removal from the Resource structure of this support is likely to expose the Council to significant risk. While this approach would be difficult at any time, introducing this change at a point in time where the Council is implementing a wide-reaching efficiency programme carries a considerable burden of risk. This was an over-riding concern on the part of the Resources.
- 7.5. With regard to the change agenda currently being embarked on by the Council, rather than implementing a restructuring of the finance function as a 'stand-alone' exercise, there may be benefit in allowing operational re-structuring to happen, before tailoring the finance function to the re-structured organisation.
- 7.6. Taking the factors above into account, the standards of performance sought by the Council should also be considered. In order to remain a top performing council we need to retain an effective finance function. The levels of accountability and scrutiny on the Council's financial arrangements are rightly heavy given the value of our

spend and assets. There is a persuasive argument for not taking a course of action at this point which carries a risk of diminishing the Council's performance.

8. Efficiency/Improvement Targets

- 8.1. As at March 2010, we are planning for a 12% real terms reduction in grant income across the Council. A 3 year efficiency plan, for finance services was therefore produced assigning a target to each Resource as shown in the table attached (Appendix 4)
- 8.2. Based on the fact that some functions within the Council are likely to be protected in an efficiency exercise, 8% savings per annum are being considered in other areas. This is the level which will be considered for finance savings, leading to an overall target of 24% over 3 years. Based on savings targets (shown in Appendix 4) of £482,000 per annum, the target efficiency totals £1.4m over 3 years. These efficiencies will emerge as Council priorities are identified
- 8.3. In considering how, if the current approach to finance within the Council were to be maintained, this level of efficiency will be achieved, the Review Group identified a number of areas where savings in the costs of finance activity should be sought. These can be summarised under the following themes:

Trading Services: at present the Council operates with five statutory trading organisations, as defined by the Local Government Act 2003. There is a significant burden in terms of financial administration costs in operating these trading services. The Review Group was also aware of other local authorities which are in the process of moving away from a trading services based structure. It is believed that efficiencies could be secured from reviewing the Council's approach in this area.

Potential Structure Changes: structural changes which are likely to impact on the organisation over the coming years will be reflected in the development of the finance function.

Scaling Down of the Capital Programme: Outwith schools and roads, the capital build programme from 2011/12 is likely to be minimal. This should facilitate reduced finance input across the Council

Review of the Number of Qualified Staff Within the Organisation: Directors of Finance performance indicator benchmarking information point toward SLC having a higher proportion of qualified staff per £m of spend than other, comparable councils. If SLC were to move into line with those other Councils, the number of qualified staff would drop by 8. However, there are a number of factors which require clarification, principally the definitions used by other councils in compiling this statistic. Nonetheless, there is scope to review the numbers of qualified finance professionals within the organisation and the tasks carried out by those staff.

Gains available though iProcurement implementation: the implementation of this system should bring efficiencies in the processing of transactions and in recording commitments.

Potential Improvements to Budgetary Control Processes: A review of the practices around the processes employed at a corporate level and within Resources will be carried out. This will be progressed through work to be carried out by the 3 Year Budgeting Group.

9. Conclusion

- 9.1. Having considered the options identified above in sections (7) to (9), the recommendation of the review is that the Structure remains unchanged at present, but that options for efficiencies are sought from the finance function across the Council (including Finance and IT Resources) to a level of 8% per annum.
- 9.2. It is acknowledged that over the coming years this will be revised to reflect the developing structure of the Council and that the other themes identified in section (8) of this paper should be pursued in securing these efficiencies.

10. Other Support Services – Personnel and Policy

- 10.1. While Finance was identified as an opportunity for efficiency through the Diagnostic exercise, the delivery of Personnel and Policy was also considered to ensure all Support Services which are currently devolved were treated consistently (IT and Procurement are already centralised).
- 10.2. At present no change is proposed to the current way of working. Similar to Finance it is proposed that Personnel Managers remain within Resources. Changes have already been made to transactional areas eg, recruitment, as People Connect, the self-service payroll system is developed, there will be potential for vacancies. There are currently 120FTES involved in Personnel with Social Work the highest at 37 FTES.
- 10.3. Policy and Research was briefly examined, using the diagnostic information 97FTES are involved in Strategy and Policy Development and Research and consultation, although this figure comprises proportions of many people's time. Housing and Technical and Social Work Resources have recorded the greatest number of people in this area. Apart from efficiency, there was no drive for change. This area should be included in any future review of Council structures.

11. Employee Implications

- 11.1. In seeking to achieve the required level of efficiency savings from this review it is inevitable that there will be a significant impact on the number of finance posts across the Council.
- 11.2. In managing this impact, the established corporate processes for managing potential situations of redundancy and redeployment will be used. Corporate Resources (Personnel Services) will be involved in the co-ordination of this process and Trade Unions will be involved whenever appropriate.

12. Financial Implications

- 12.1. The overall level of efficiency saving sought will be £1.4m over a period of 3 years, equating to a 24% real terms saving over the period. The target per Resource and profiling over the 3 year period are shown in Appendix 4 to this report.

13. Other Implications

- 13.1. There is a risk that the level of efficiency identified within this report does not accurately reflect the baseline numbers of finance staff or efficiencies already taken through other exercises. This will be managed through the usual procedures employed in the implementation of the efficiency savings process.

14. Equality Impact Assessment and Consultation Arrangements

- 14.1. There is no requirement to carry out an impact assessment in terms of the proposals contained within this report.
- 14.2. Consultation has been carried out with all Resources throughout this review process through the Finance Review Group. Trades Union consultation has also been carried out.

Linda Hardie

Executive Director (Finance and Information Technology Resources)

4 May 2010

Link(s) to Council Values and Objectives

- ◆ Value: Accountable, Effective and Efficient

Previous References

None

List of Background Papers

None

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

Linda Hardie, Executive Director (Finance and IT Resources)

Ext: 4530 (Tel: 01698 454530)

E-mail: linda.hardie@southlanarkshire.gov.uk

Comparison of Numbers of Finance Staff Within the Review to Original Number of FTEs Within Diagnostic

Resource - Original	Diagnostic FTE	Staff per Review	Difference	Note
Community Resources	27.2	17.2	-10	1
Corporate Resources	6.7	2.0	-4.7	2
Education Resources	34.6	9.5	-25.1	3
Enterprise Resources	19.7	14.0	-5.7	4
Finance & IT Resources	49.3	88.8	+39.5	5
Housing & Technical Resources	40.0	17.5	-22.5	6
Social Work Resources	33.3	15.6	-17.7	7
Total	210.8	164.6	-46.2	

NOTES

1) Community Resources – (-10)

Staff numbers reduced as a result of some staff being classed as operational. Where numbers have been reduced the staff have been caught up in either the Admin and Clerical or Customer Contact Reviews. The 17.2 staff left are the main finance staff for the Resource. A further 3 members of staff were removed to reflect the transfer to the cultural trust.

2) Corporate Resources – (-4.7)

All staff with time against finance except 2 individuals have been classed as operational and removed from the original figures.

3) Education Resources – (-25.1)

Cluster Team Officers were originally included within Education Resource's figures. These have subsequently been removed as they were part of a separate review.

4) Enterprise Resources – (-5.7)

Operational staff, especially within Regeneration and Roads, have financial management within their remit. As operational staff however, they have been removed from the Finance Review.

5) Finance & IT Resources – (+39.5)

The original Finance & IT figures from the diagnostic only had 1 member of payroll and 8 members of the audit team. The revised figures account for all Finance staff less those included in the Admin and Clerical Review.

6) Housing and Technical Resources – (-22.5)

Staff numbers reduced as a result of some staff being classed as operational. This relates to staff within Benefits and Revenues. The original figures also included one manager who has now left, following the management review.

7) Social Work Resources – (-17.7)

From the original diagnostic exercise 11 FTE were identified as part of the Admin and Clerical Review and a further 4.3 FTE were identified as front line Community Care staff. These figures have subsequently been removed from the Finance Review. The remainder of the movement is due to staff being classed as operational and therefore removed from the Finance Review figures.

Finance Review – Analysis of Finance Staff against Net Revenue Spend including Trading Services

Members of Finance Staff

Resource	Staff Identified Through Review (FTE)	£m Net Spend	No of Staff per £m Net Spend	Net Spend £m per Member of Finance Staff
Community	17.2	62.201	0.277	3.616
Corporate	2	19.770	0.101	9.885
Education	9.5	282.131	0.034	29.698
Enterprise	14	50.251	0.279	3.589
Finance & IT	-	12.428	-	-
Housing and Technical	17.5	17.791	0.984	1.017
Social Work	15.6	139.312	0.112	8.930
Total	75.8	583.884	-	-

Cost of Finance Staff as %age of Net Revenue and Trading Services Spend

Resource	Staff Identified Through Review (FTE)	Cost of Staff	£m Net Spend	Finance Staff Cost as %age of Net Spend	Lowest Based on Net Spend (0.13%)	(Saving)	Average Based on Net Spend (1.01%)	(Saving)
Community	17.2	0.559	62.201	0.90%	0.081	(0.478)	-	-
Corporate	2	0.059	19.770	0.30%	0.026	(0.033)	-	-
Education	9.5	0.367	282.131	0.13%	-	-	-	-
Enterprise	14	0.443	50.251	0.88%	0.065	(0.378)	-	-
Finance & IT	-	2.737	12.428	N/A	N/A	N/A	N/A	N/A
Housing and Technical	17.5	0.608	17.791	3.42%	0.023	(0.585)	0.180	(0.428)
Social Work	15.6	0.562	139.312	0.40%	0.181	(0.381)	-	-
Total	75.8	5.335	583.884	1.01%	-	(1.855)		(0.428)

Finance Review – Analysis of Finance Staff against Gross Spend plus Gross Income including Trading Services and Capital

Members of Finance Staff

Resource	Staff Identified Through Review (FTE)	£m Gross Spend plus Gross Income	No of Staff per £m Gross Spend plus Income	Gross Spend plus Income £m per Member of Finance Staff
Community	17.2	260.131	0.066	15.124
Corporate	2	28.055	0.071	14.028
Education	9.5	402.068	0.024	42.323
Enterprise	14	159.894	0.088	11.421
Finance & IT	-	21.209	-	-
Housing and Technical	17.5	649.371	0.027	37.107
Social Work	15.6	205.761	0.076	13.190
Total	75.8	1,726.489	-	-

Cost of Finance Staff as %age of Gross Spend plus Gross Income (Revenue, Trading Service and Capital)

Resource	Staff Identified Through Review (FTE)	Cost of Staff	Gross Spend plus Gross Income £m	Finance Staff Cost as %age of Gross Spend plus Gross Income	Lowest Based on Gross Spend plus Gross Income (0.09%)	(Saving)	Average Based on Gross Spend plus Gross Income (0.19%)	(Saving)
Community	17.2	0.559	260.131	0.21%	0.234	(0.325)	0.494	(0.065)
Corporate	2	0.059	28.055	0.21%	0.025	(0.034)	0.053	(0.006)
Education	9.5	0.367	402.068	0.09%	-	-	-	-
Enterprise	14	0.443	159.894	0.28%	0.144	(0.299)	0.304	(0.139)
Finance & IT	-	2.737	21.209	N/A	N/A	N/A	N/A	N/A
Housing and Technical	17.5	0.608	649.371	0.09%	-	-	-	-
Social Work	15.6	0.562	205.761	0.27%	0.185	(0.377)	0.391	(0.171)
Total	75.8	5.335	1,726.489	0.19%	-	(1.035)		(0.381)

Directors of Finance Performance Indicators

Indicator 7.4 – Professionally qualified employees as a ratio of every £million of net expenditure

Resource	2007/08	Provisional 2008/09
Renfrewshire Council	1:£8m	1:£14m
South Lanarkshire Council	1:£15.8m	1:£16.6m
City of Edinburgh Council	1:£16.4m	1:£18.6m
Scottish Average	1:£16.9m	-
North Lanarkshire Council	1:£20.1m	1:£21.9m
Fife Council	1:£20.3m	1:£28.6m
Glasgow City Council	1:£20.9m	1:£27.7m

Social Work Resources	Community Resources	Enterprise Resources	Education Resources	Housing & Technical
<ul style="list-style-type: none"> - Asset Management - Risk Management - Best Value Reviews - IT – Social work Priorities - IT – Corporate Priorities - Personnel - Training - Health and Safety - Administration - Procurement - I-Procurement - Capital Programme - Projects (design, project management) - Operational and Office Accommodation - Partnership Working – NHS Equipu - Preparations for inspections – SWIA, Care Commission and HMIE - Improve - COSLA Care Home Negotiations - ADSW – Resources - Press enquiries - Complaints and Fol - Community Care 	<p>Finance Section</p> <ul style="list-style-type: none"> - Risk Management (CF/MZ) - Information Management (CF) - Authorised Signatures / Scheme of Delegation - Statistical Returns for Operations - I Procurement (buyer/holds/grin/ reporting) <p>Head of Support excluding Finance (revenue/capital)</p> <ul style="list-style-type: none"> - Projects (design, project management, external funding) - External Funding - Asset Management - Personnel including Fol - Health and Safety - Training - Procurement - ICT - ORB (main contact) - SLL (main contact) - Communications - Policy 	<p>Change Management – Legislative Changes</p> <ul style="list-style-type: none"> - Transport Scotland Act - Planning Act - Disabled Parking Act <p>Change Management – Systems Development</p> <ul style="list-style-type: none"> - EDRMS - Roads Maintenance Management System - Roads Stores and Costing System - Risk Management - Asset Management Planning (introduction of Infrastructure Asset Management in Roads) - Best Value Reviews / Resource Planning - Stores / Stock - Committee Reporting - Corporate/Information Governance - IT Priority Action Plans - Personnel - Training - Health and Safety - Procurement - Office / Depot Accommodation 	<p>Potential Duties Following Management Restructure</p> <ul style="list-style-type: none"> - Personnel - I-procurement and co-ordination of the potential fallout of tasks after implementation of the corporate system - Involvement in procurement tasks after strategic / tactical roles clarified and agreed 	<p>Head of Support Excluding Finance</p> <ul style="list-style-type: none"> - Personnel including Fol - Health and Safety - Training - Procurement / Buying - ICT - Equal Opportunities - Benefits legislation compliance and administration - Benefit Fraud Prevention team - Council tax collection and administration - NDR collection and administration - Sundry Debt - Court Team (evictions) - Customer Service Centre responsibility - Inter/Intranet development - Supporting People allocation and monitoring - Cashiers service including Council income - Money Matters advice service
44%*	46%*	43%*	%*	26%*

Appendix 4

Resource Savings Projections

		8% Saving	8% Saving	8% Saving	
Resource	Cost of Staff	2011/12	2012/13	2013/14	Total
Community	0.559	0.045	0.045	0.045	0.135
Corporate	0.059	0.005	0.005	0.005	0.015
Education	0.367	0.029	0.029	0.029	0.087
Enterprise	0.443	0.035	0.035	0.035	0.105
Finance & IT	2.737	0.219	0.219	0.219	0.657
Housing & Technical	0.608	0.049	0.049	0.049	0.147
Social Work	0.562	0.045	0.045	0.045	0.135
TOTAL	5.335	0.427	0.427	0.427	1.281