

Council

A Shared Finance and Procurement Service

27 February 2012

Report of Head of Finance and Procurement

PURPOSE OF REPORT

To propose that the principle of sharing finance and procurement functions with South Northamptonshire be adopted as part of the Cherwell District Council policy framework.

This report is public

Recommendations

Council is recommended to:

- (1) Adopt the principle of establishing some shared finance and procurement functions with South Northamptonshire Council as part of the Council's policy framework.

Executive Summary

Introduction

- 1.1 The Shared Management Team business case requires 15% - 25% savings to be made through further shared working between the two councils. These targets have been included in the respective medium term financial forecasts.
- 1.2 In November 2011 Joint Arrangement Steering Committee (JASG) asked for work to be done to identify potential areas for joint working and associated savings within the Resources Directorate. A proposal was requested at the January 2012 JASG meeting.
- 1.3 The current costs of the 4th tier across the finance and procurement teams equates to £476,626, so following on from the business case which was approved in relation to a shared management team – potential reductions of between 15% to 25% in this area are expected. Therefore a target of at least £91,000 to £115,000 was sought.
- 1.4 The following 3 options were presented to JASG on 26 January 2012:
 - Option1 - No joined up functions – each council's finance and

procurement functions to run independently.

- Option 2 - Join all functions in one location and harmonise financial systems in one major restructure.
 - Option 3 - Review function by function, and consider joining services/locations that deliver benefits to support JMT, add resilience, minimise impact on key deliverables, ICT changes and deliver adequate financial savings.
- 1.5 Option 1 was dismissed as it would not deliver financial savings, and operationally would not allow the Head of Finance and Procurement to provide a support function that would benefit the JMT.
- 1.6 Option 2 was dismissed as the risks were considered too high and performance could not be guaranteed with the amount of change and turmoil this would create. Adverse impacts on the closing of the 2011/12 annual financial statements, annual billing process, processing of invoices, payroll and procurement processes could not be guaranteed. It would also impact on the creation of the recently approved shared ICT team and create additional risk and impose on the change freeze.
- 1.7 Option 3 was seen as the proposal that would bring the most impact to JMT in a timely manner, deliver the required savings and allow a further review once the full impact of the Local Government Resource Review (LGRR), Welfare reform and Localism was known. This would also allow for the shared IT service to be implemented and the full benefits of technology could be considered in a later review of the finance and procurement function.

Proposals

- 1.8 The options were reviewed by JASG and they have endorsed the formulation of a business case based on Option 3 which indicates that there are both financial benefits for both councils from such an arrangement, and significant opportunities to benefit further, in the future, by exploiting best practice and sharing infrastructure to further streamline how applications support service delivery at both councils.
- 1.9 The savings are generated by reducing staffing by 4.3 FTE and a reduction in non pay budgets as a result of eliminating duplication and reducing software licence costs within the payroll function.
- 1.10 There are clear benefits to be gained from a shared Finance Team by both organisations in terms of increased resilience, consistent policies and procedures, best practice across the two authorities, efficiency and effectiveness.
- 1.11 Moving to a fully shared team is an obvious route to ensure that we achieve resilience of service, sharing of best practice and consistent procedures wherever appropriate. In practice however, the councils are different and require certain functions to remain as is. The key principles underlying the proposed option 3 are:
- 1) Recognition of the key priorities of each council and differences in some service provision.

- 2) Awareness of the change within the local government horizon and impact it may have on finance structure.
 - 3) Centralisation, simplification and standardisation of procedures and technical tasks.
 - 4) Maintaining strategic teams to support Directorates to assist budget managers and provide strategic and service specific advice.
 - 5) Professional, commercial support to key elected members and corporate projects.
 - 6) Minimal disruption, strong governance, compliance and ability to support the organisation through change programme and service redesign.
 - 7) Consideration of changes to ICT infrastructure.
 - 8) An initial reduction in the cost of the finance establishment, a reduction in non staffing budgets by avoiding duplicate expenditure and procurement opportunities.
 - 9) It is anticipated that further reductions in this service could be realised pending the outcome of the LGRR, understanding the impact on local revenue and benefits service of welfare reform, and the benefits that ICT standardisation and harmonisation will bring.
- 1.12 The proposed staff reductions represent approximately 6% of employees in this area. Any costs associated with displaced employees can be funded by the CDC change reserve. Given the number of posts at risk, potential vacancies and reduction in hours it is forecasted that payback will be within the required MTFS timeframes for both councils.
- 1.13 The business case will be subject to consultation with staff, a scrutiny review by the Resources and Performance Board and will be presented to the Executive in April 2012 for consideration and agreement.

Conclusion

- 1.14 The investigation of the options indicates sharing a number of finance and procurement functions is of benefit to Cherwell District Council, both in reduced revenue costs, and in terms of economies of scale in the future.
- 1.15 That the principle of establishing a shared debt recovery, procurement and corporate finance function be included within the policy framework of Cherwell District Council, subject to the Executive establishing that the shared functions is in the interest of the Council.
- 1.16 That whilst initially the shared functions will be established with South Northamptonshire Council, this does not preclude the Council establishing a shared finance or procurement function with more than one partner in the future.

Key Issues for Consideration/Reasons for Decision and Options

- 2.1 The Shared Management Team business case requires 20% savings to be made through further shared working between the two councils. Without some sharing of functions then opportunities for this kind of savings generation by finance and procurement will be severely inhibited.
- 2.2 Cherwell District Council is already well-placed to take advantage of future opportunities but by sharing, gains additional financial benefits from reviewing system requirements and processes. For example, the financial systems at the two councils are the same, but operate very differently. They are both in need of upgrade. By having a joint corporate finance function the system upgrade could generate licence savings and standardised reports which will benefit the Joint Management Team and build on best practice.
- 2.3 The following options have been identified. The approach in the recommendations is believed to be the best way forward.

Option One Adopt the principle of sharing some finance and procurement functions with SNC as part of the policy framework.

Option Two Do not adopt the principle of sharing any functions within finance and procurement across the two councils. This is not recommended for the reasons set out in 3.1 above.

Consultations

Joint Management Team	Every member of Joint Management Team was consulted as part of the business case development
Joint Arrangements Steering Group(JASG)	This group considered the options presented as part of the business case development
Finance and Procurement Staff	All staff “in scope” are being consulted on the shared service functions proposed.

Implications

Financial: There are clear financial benefits to Cherwell District Council from implementing a number of shared functions. The draft business indicates a saving in the region of £150,000 to be shared across the 2 authorities. Up to 60% of this could be attributed to Cherwell and result in a £90,000 reduction in the cost of this support function. This saving is subject to agreeing cost allocations. Any redundancy costs can be met from the change revenue reserve.

Comments checked by Martin Henry, Director of Resources, Tel: 0300 0030102.

Legal: The section 113 agreement between the Councils enables shared services to be established. Adoption of the principle of such a shared service as part of the policy framework enables the final business case to be considered and approved by the Executive.

Comments checked by Kevin Lane, Head of Law and Governance. Tel: 0300 0030107.

Risk Management: There is risk associated with this proposal. There is a moderate risk of service disruption during the period of establishing the shared functions but with a detailed project plan and risk register these risks can be mitigated.

Comments checked by Claire Taylor, Corporate Performance Manager, Tel: 0300 0030113.

HR implications Moving to shared finance functions has some relatively significant HR issues including redundancy and changes to substantive job descriptions.

A joint organisational change policy is in place and will be followed to implement the staffing changes associated with the creation of the shared functions.

Provided the business case remains sound and the organisational change policy is strictly adhered to this should not present significant risk to the council.

There will be a level of disruption associated with change but this will be mitigated by clear project planning and communication.

Comments checked by Stephanie Rew, HR Manager, Tel: 01295 227984.

Wards Affected

All

Document Information

Appendix No	Title
None	
Background Papers	
Report to JASG - 27 January 2012 – proposed business case for Finance and Procurement	
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