

EAST SUSSEX FIRE AUTHORITY

Panel Meeting Policy & Resources
Date: 25 July 2019
Title of Report: Provision of Finance Support Services
By: Assistant Director Resources / Treasurer
Lead Officer: Duncan Savage, Assistant Director Resources / Treasurer

Background Papers: None

Appendices: None

Implications

CORPORATE RISK	✓	LEGAL	
ENVIRONMENTAL		POLICY	
FINANCIAL	✓	POLITICAL	
HEALTH & SAFETY		OTHER (please specify)	
HUMAN RESOURCES		CORE BRIEF	
EQUALITY IMPACT ASSESSMENT			

PURPOSE OF REPORT To consider the future arrangements for the provision of finance support services.

EXECUTIVE SUMMARY The service level agreement with East Sussex County Council (ESCC) for the provision of finance support services ended in March 2013 and services have continued under a letter of agreement since that date. A new collaboration agreement and service specification has been developed that clearly sets out how the partnership will operate in future.

Alternative options for the provision of these services have been considered but none is assessed to provide the same scope and quality of service as that provided through the current partnership with ESCC / Orbis.

Following a review of the finance function by CIPFA which concluded that the service provided by ESCC and the relationship with ESCC were both good, and business case

to support an internal Finance Improvement Plan is being developed. This will seek to ensure that the service is fit for purpose and meets the changing needs of the business. This includes closer liaison with Orbis to ensure that we benefit from their development of SAP our finance system.

The Service is planning to transition FPS administration and pension payroll from ESCC / Orbis to another public sector provider who can provide better service quality at a reduced cost.

RECOMMENDATION

The Panel is recommended to:

- a) agree that finance support services continue to be provided by East Sussex County Council (ESCC) for an initial period until 31 March 2022 with an option to extend for two further years;
- b) delegate authority to the Assistant Director Resources / Treasurer to agree the detail of the new collaboration agreement with ESCC;
- c) note that the Authority is intending to seek an alternative public sector provider for Fire Pension Administration and Pension Payroll; and
- d) note that, in accordance with ESFA Contract Standing Orders (CSOs) 7.2, the Treasurer, after consultation with the Monitoring Officer, Procurement Manager and the relevant Member, has approved a waiver of CSO13.7-13.8 with regard to the provision of Finance Support Services and also for the provision of Fire Pension Administration and Pension Payroll.

1. INTRODUCTION

1.1 East Sussex County Council (ESCC) has provided finance support services to the Authority since its establishment in 1997. An initial service level agreement (SLA) ran out in March 2013 and since then the services have continued to be provided under a letter of agreement. Lengthy discussions have led to the development of a new Collaboration Agreement and an associated Schedule of Services, which set out more clearly the basis of the relationship and the nature of the services provided under it. The proposed agreement covers the following services:

- Transactional services:
 - Accounts Payable
 - Accounts Receivable
 - Payroll

- Pensions Administration & Payroll
- Financial Accounting System (SAP)
- Professional Services
 - Leasing
 - Treasury Management
 - Banking
 - Final Accounts
 - Statutory Returns
 - Tax advice
- Internal Audit

The Authority also accesses external treasury management advice and actuarial services through ESCC. A separate contract is in place for the provision of external tax advice through PSTax.

1.2 Finance Support Services are delivered in close collaboration with a number of internal teams:

- Finance, Risk & Insurance (Resources) – Finance Manager (x1fte); Management Accounts (x2fte); and Financial Administration (x2.5fte). There is also a Risk and Insurance Officer but these services are provided through the Fire and Rescue Indemnity Company (FRIC)
- Payroll & Pensions (HR&OD) – Payroll & Pension Manager (x1fte); Payroll (x2fte)

There is also some interaction with the Procurement Team as SAP provides our core P2P functionality.

1.3 Treasurer and Deputy Treasurer services were also provided by ESCC, until 2013 when these roles were brought back in-house and now form part of the role of the Assistant Director Resources / Treasurer.

1.4 The Authority agreed in September 2018 to move from a traditional approach to procuring insurance and risk support through the open market, to sourcing these services from the Fire & Rescue Indemnity Company (FRIC) a hybrid discretionary mutual. This has brought annual savings of £188,000 and opportunities to improve our risk management practice.

1.5 The Authority has committed to review all of its support services as part of its efficiency strategy and has expressed a preference for a public / public partnership model.

1.6 Both of the Authority's constituent authorities are founding partners of Orbis along with Surrey Council and source a wide range of their support services, including finance, through this partnership.

2. LEGAL ASSESSMENT

- 2.1 Counsel's opinion has been sought on the proposed arrangement and this has confirmed that under Regulation 12(7) of the Public Contracts Regulations 2015, the Hamburg exception, a competitive procurement process for these services is not required.

3. ASSESSMENT OF CURRENT SERVICE

- 3.1 The current service has provided effective finance support services to the Authority for over 20 years providing the following benefits:

- An integrated service across a wide range of finance related support services
- Effective partnership working between in house and ESCC teams
- Access to specialist skills which the Authority could not retain in house and would be significantly more expensive to source externally
- Resilience where the Authority would otherwise have single points of failure and / or where volumes of activity are low
- Access to external specialist services based on cost sharing / reduced rates
- A public sector ethos
- Charging based on cost recovery
- A flexible response where necessary to short timescales

Independent assurance on the effectiveness of these services is provided through the work of both internal and external audit. In addition the Authority has commissioned the Chartered Institute of Public Finance and Accountancy (CIPFA) to carry out a high level review of the effectiveness of the finance function against its financial management model. The review covered the in house finance team, services provided by ESCC / Orbis and also internal stakeholders such as budget managers. The review concluded that the service provided by ESCC and the relationship with ESCC were both good. It did however identify a range of actions to improve the efficiency and effectiveness of the finance function overall and the Finance Manager is currently developing a business case to support a comprehensive Finance Improvement Plan. The Orbis partnership of which ESCC is a founding partner has its own improvement agenda for finance, based on the establishment of centres of expertise, for example in treasury management, final accounts and pensions. We are beginning to see the impact of these changes on the quality of the service provided to the Authority. ESCC is also seeking to improve its utilisation of SAP to provide efficient finance processes.

- 3.2 There are alternative models of delivering these services and these were explored to establish if there was a better alternative to the current model:

- Bring in house – some fire authorities and small authorities do have in house finance teams however, this approach brings with it a range of risks primarily around lack of resilience and access to specialist skills and loss of economies of scale. There are a range of examples where local authorities with small finance teams have sought to establish shared services in order to address these risks and achieve the benefits listed above, locally for example Lewes and Eastbourne Councils, and Surrey and Sussex Police. In addition we know that

we have experienced difficulty in recruiting to professional support service posts across a range of areas.

- Fully externalise – it is possible to source a number of the services currently provided by ESCC / Orbis from the private sector e.g. payroll provision, internal audit. However we have not identified a provider that would offer such an integrated service and it is unlikely that the outsourcing of finance alone would be an attractive proposition and deliver a cost effective solution
- Alternative public sector partners – there are a number of public sector shared services partnership available, other than ESCC / Orbis. Locally we have monitored particularly the development of the partnership of Surrey, Sussex and Thames Valley Police which is focussed around the implementation of Microsoft Dynamics as an ERP platform and the development of a Shared Service Centre for transactional services. This project has been significantly delayed and the new ERP platform has yet to go live. Although Surrey and Sussex Police have subsequently agreed to combine their finance teams there is also no proven integrated finance service offer which matches what we currently access through ESCC / Orbis.

3.3 ***Fire Pension and Pension Payroll Service*** - There is one part of the service currently received from ESCC / Orbis where there have been ongoing issues with service delivery and quality and that is Firefighter Pension Scheme (FPS) administration and payroll. The Authority has reviewed alternative service delivery models and has prepared a business case proposing transition from ESCC / Orbis to another public sector provider. This transition is supported by ESCC / Orbis who are seeking to exit this market as they can no longer secure the capacity and capability to support what is an increasingly complex service area. This position is reflected across the market where there has been a consolidation over the last two to three years with a small number of suppliers gaining market share. Subject to the approval of the business case by SLT we expect to transition to a new provider before the end of the financial year and deliver an improved service at a reduced cost. The transition will also allow us to address data quality issues in this area that have been identified over the last six months.

4. **OTHER CONSIDERATIONS**

4.1 The Service is currently undergoing a significant programme of transformation with work on ORR / IRMP, the ongoing SCC Project, the bedding in of the service delivery review, significant investment in IT and Estates, and the start of a service wide review of HR processes. All this sits alongside a continuing programme to evolve the Service's culture.

4.2 Any switch of provider / partnership would require not just the transition of staff based services but also the (procurement and) implementation of a new finance system. This is assessed as being an 18-24 month project requiring significant financial investment and has the potential to divert the finance function from supporting transformation and business as usual across the service.

4.3 The version of SAP that ESCC / Orbis currently provides will reach end of life in 2025. Both ESCC and Surrey who also use SAP have commenced a project to review their future options for financial systems. This timescale aligns with the

proposed length of the collaboration agreement which would end (subject to agreed extensions) in March 2024, giving the Authority the opportunity to review its options for finance support services again.

4.4 Business expectations of what finance should provide is increasing, and this is clearly identified in the CIPFA report. The draft Finance Improvement Plan will seek to address this by developing a finance function that is fit for purpose and meets the changing needs of the business and where:

- Managers are empowered to take direct responsibility for managing their resources through high quality finance advice and support
- There is effective strategic finance input to the Authority’s strategic planning processes
- There is sufficient finance capacity to support the service’s transformation programme with the focus of the team shifting from transactional to value added activities
- There are efficient and effective systems and processes that support managers to manage their resources

5. **FINANCIAL ASSESSMENT**

5.1 The actual expenditure with ESCC on the provision of finance support services for the previous years is shown below:

Service	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/2019 £'000	2019/20 (estimate) £'000
Business Operations	112	108	87	104	106
Pensions	24	30	33	39	40
Finance	73	90	87	49	50
Internal Audit	26	30	19	31	32
IT	47	44	43	37	38
Total	282	302	269	260	266

5.2 Over the last four years we have seen reductions in the cost of the finance support services provided by ESCC which alongside reductions in a budget held to fund enhancements to SAP have realised total savings of £69,000.

6. **CONTRACT STANDING ORDERS (CSO)**

6.1 The proposal to proceed is permitted under CSO section 7.2 which states:
 “Subject to CSO 7.3, the Treasurer may waive any provision of one or more CSOs in relation to a proposed Contract. Except in an emergency, the Treasurer shall consult the Monitoring Officer, the Procurement Manager and the relevant Member of the Authority before making a decision.”

- 6.2 Any waiver of a CSO must be reported to the Authority and this paper satisfies that requirement.

7. CORPORATE RISK

- 7.1 ESFA and ESFRS cannot operate without the provision of the finance support services provided by ESCC / Orbis. Service provision has continued since 2013 based on a letter of agreement, but the implementation of a new collaboration agreement and agreed service specification will provide a firmer basis for the partnership to continue and reduce the risk to both Authorities.

8. CONCLUSION

- 8.1 Whilst there are alternative options for the provision of finance support services, at this stage none is assessed to provide the same scope and quality of service as that provided through the current partnership with ESCC / Orbis. The implementation of a Finance Improvement Plan will deliver service improvements to meet the business' changing needs without the scale of investment and potential disruption to service that any change of provider / partner is likely to entail, at a time when the Authority has other more important strategic priorities to deliver. It is therefore recommended that a new agreement should be put in place with ESCC / Orbis for a period of three years with an option to extend by a further two years.