

Business Plan Performance 2008-09 Corporate Finance

Directors Summary

The Icelandic crisis has dominated much of the discussion about Finance last year, therefore it is probably best to deal with this issue before discussing the performance of the rest of the section.

There is no escaping the fact that £3.3M was deposited in the Heritable bank for 30 days on 1 October and this breached all KCC policy and procedures. At a management level the global and UK conditions were recognised, meetings were held with external advisers as late as 29 September and internal discussions centred around “safety at all costs”. Having reviewed over 12 months of transactions, we can evidence this was a relatively isolated incident and the appropriate management action has been taken. The detailed reviews (by PWC, Arlingclose and management) support the view that this was human error and that the core process was not “broken”. It is highly regrettable that such a breach should have occurred at a time of such significance and clearly other councils with breaches of some 70% of all such transactions before this date have escaped public censure.

The disagreement with the Audit Commission on its discredited report “Risk and Return” is to be regretted but ongoing. The correspondence has been strong and demonstrates the weakness of the Commission’s claim – namely the entire collapse of the Icelandic banking system was “common knowledge”.

Despite this issue, the Finance Function has again been judged to be highly performing function with a score of 4/4 from the Audit Commission. This is our only sub organisation inspection to have this highest maximum score. The comments in the recent Audit and Inspection letter is littered with words that describe this function as “effective”, “strong”, “best practice”, “robust”, “targets have been exceeded”, “adept” etc.

There has been a strong lead from Finance to emphasise the importance of financial strategy and planning and indeed we have experienced another year of well managed budgets despite the economic crisis. It is all too easy to underestimate the organisational impact of having to revise budgets mid-year to deal with unanticipated financial crisis. We feel that the culture of openness and communication has been effectively established and this places us well for entering into the next stages of managing a tough medium term position. While no particular credit is claimed by Finance, it is excellent that members, non financial managers and finance professionals reportedly all feel involved and part of the debate.

The financial accounting and management activity remains strong and this is evidenced by the lack of any real surprises as the accounts are closed, with the 9th consecutive underspend. Robust relationships with directorates have also been key to this and it is hoped that we continue to finely balance the need to challenge with the need to support Managing Directors.

A revised Superannuation Investment strategy was safely implemented this year, with a significant allocation to new Alternative asset classes. Implementation was suspended because of the huge uncertainty in financial markets. While absolute returns were poor, our performance was above the Local Authority average. The move to hold cash this year has been very positive, saving the Fund some £40M.

Pensions Administration have had a hard year and struggled to meet targets in the earlier part of the year due to the changes in the Local Government Pension Scheme (LGPS). This was tackled head on and we are pleased to say that performance was successfully retrieved.

It has been a year of consolidation for procurement and exchequer. It has taken some time to get to grips with even basic supply information but we should now be poised to take advantage of this. This will be a key part of our future financial strategy as we shift from “managing suppliers” to “developing suppliers” and in effect manage the whole supply chain leading to our service delivery. This will be a key action for 2009/10, as will the continuing work “backing Kent business”.

Given the national reductions in base rate and the Icelandic issue, the Treasury function has obviously suffered an income reduction. This has been more than compensated for by other savings, not least the continued appetite for debt refinancing. Savings from 2 restructuring deals have been welcome additions, saving some £16M over the medium term. This area will show a healthy return for the year despite the economic conditions, which also reflects the continued slippage in the capital programme.

While Finance regrets the continued slippage, it is not in a position to fundamentally alter this. We will continue to highlight and probe but it is the Director of Finance’s view that this issue must be tackled at source. Given the shape of the capital programme it would be sensible to direct accountability at Highways and Property functions initially.

Risk management continues to improve and this is now a “staple” for Governance & Audit as well as Policy Overview Committees. This is well embedded in the development of our Audit Plan and also individual Business Plans. We are pleased that risk management is now a core part of the business and again there is an opportunity to make an important step change in our approach. We will be seeking to ensure that identifying and actions to manage risk are “normal day to day” actions across the board rather than something managers do separately (though it is important to note some managers such as KASS are already there).

Insurance have had a good year in that we again made good savings from negotiating a new contract. The close relationship we have with our business that stands us in good stead when we have claims against us. Because of the closeness, staff are highly motivated to protect every single penny of KCC money. We want to ensure a future regime that “rewards” good risk and other management – without playing shops.

Internal Audit has consolidated good performance this year and in particular we

are delighted at the externalisation of the specialist IT audit work to PWC. This is clearly an area of high risk and it is comforting this is now being very well audited. The key issues for Internal Audit in the new year will be to raise their game beyond compliance and proactively add value to the organisation.

Beyond the normal key areas of Finance, this year has probably seen more active intervention by the Director of Finance in services than ever before. This has ranged from the debate on capital receipts to invent and implement the PEF2 concept, to more fundamental involvement in service areas.

With Districts we are delighted to have delivered our first joint council tax leaflet though Districts are working towards more horizontal integration of finance activity in general.

We are all pleased to have our first 2 trainee accountants become fully qualified, since the scheme was relaunched. This scheme is producing high quality Kent accountants that will stand us in good stead for the future. We are on track to launch the sister scheme for school leavers.

Overall we have managed the business marginally within budget (with an underspend of just over £100K). On average we have managed with some 8 posts less than budgeted, although this has mainly been in Insurance so there is no real direct impact on budgets.

In terms of the next few years the key challenges will be ensuring the council's overall financial strategy withstands the challenges, repositioning the procurement function, launching a new Treasury Strategy and ensuring the Council's risk management continues to evolve.

Brief Description of Core Activities

Corporate Finance is responsible for planning, managing and reporting upon the Council's financial resources, in liaison with both Members and senior management, in accordance with the Council's Financial Regulations. To achieve this we have identified 6 Strategic Objectives:

- Participate in the development of both service and corporate policy, providing a lead role in the development of medium term planning and optimise Kent's share of external funding resources.
- Develop a strategic approach to ensuring value for money in the delivery of the Council's services.
- Promote strategic risk management across the Council and contribute to good corporate governance.
- Maximise the opportunities to use information technology to improve financial management and the effectiveness of business processes.
- Lead improvements in KCC's procurement practice in line with the Procurement Strategy.
- Develop the people who work in the function and our people management practices to provide a world first class finance service.

Operating context

Corporate Finance delivers the Chief Finance Officer's statutory responsibilities, as set out in various Local Government Acts (in-particular S151 1972 Local Government Act and S114 1988 Local Government Finance Act). Also the Accounts and Audit Regulations 2003 and the Local Government Pension Scheme Regulations.

Budget & Final Outturn Information

Table 1 sets out the number of full time equivalent staff (FTE) and the original budget as approved in the business plan and the final approved cash limit and spending as per financial outturn.

Service Unit (from Business Plan)	Business Plan		Actual FTE	Financial Outturn	
	Planned FTE	Original Budget (Net) £000s		Cash Limit (Net) £000s	Actual Spending (Net) £000s
<u>Finance</u>					
County Finance	9.1	1,439.0	8.1	1,241.2	1,526
Internal Audit & Risk	31.5	612.8	24.5	678.9	673
Financial Services	100.3	1,013.8	102.2	1,127.1	1,040
Accounting & Budgeting	24.0	1,705.9	21.9	1,883.7	1,586
	164.9	4,771.0	156.7	4,930.9	4,825

What was achieved/not achieved (Core Activities)

- Retained top level rating, Level 4, on the Use of Resources block of CPA.
- New Pension Fund investment strategy developed.
- Top performing large Pension Fund for Property 2004/07 IPD / Real Estate Gazette prize.
- Implementation of the new Local Government Pension Scheme from 1 April 2008.
- Procurement reviews covering all major areas of spend.
- Fraud awareness and risk mapping training provided across the Council.
- Further development and integration of medium term financial planning with service planning under the auspices of Policy Led Budgeting.
- Successful public consultation on Council Tax and budget issues, including a full day workshop with the public, plus a business consultation forum and informal and formal trade union consultation.
- Delivered further income generation as part of the budget.
- Evaluated and disseminated to partners the new proposals for Local Area Agreements and the funding arrangements for Area Based Grant worth in excess of £60 million.
- Worked successfully with our new external auditors in producing the Statement of Accounts and substantially audited accounts were presented to the June Governance & Audit Committee, in accordance with the Government timetable.
- Improved our management of Value for Money (as recognised by the Audit Commission).
- PricewaterhouseCoopers appointed to provide IT internal audit services.
- Established the Financial Management Development Programme for Members and senior managers.
- On track to deliver within budget for 9th consecutive year.
- 1st qualified accountants from new Graduate Trainee Scheme.
- Developed and delivered PEF2, which was approved by County Council in September 2008.
- New insurance contract negotiated.

Key Performance Indicators & Activity Levels

Indicator	2006/07 Actual	2007/08 Actual	2008/09 Target	2008/09 Actual/ Est	▲ improving ▶ not improving ▼ deteriorating
BVPI 8 Payment of Invoices	93.94%	93.9%	100%	92.8%	▶
Revenue and Capital Budgets prepared to statutory and corporate timetable	100%	100%	100%	100%	

Indicator	2006/07 Actual	2007/08 Actual	2008/09 Target	2008/09 Actual/ Est	▲ improving ▶ not improving ▼ deteriorating
Respond to Government Consultation Papers in a timely and appropriate manner	100%	100%	100%	100%	
A minimum of £2m of external funding secured for Kent	£4m	£5.1m	£2m	£5.8m	
Treasury Strategy approved	Approved	Approved	Approved	Approved	▶
Corporate Revenue / Capital budgets delivered within budget	Within Budget	Within Budget	Within Budget	Within Budget	
Return on investment of short term cash balances to exceed benchmark rate (LIBID)	Benchmark Target 4.63% Average perf 4.98%	Benchmark Target 4.72% Average perf 5.21%	Benchmark Target 3.69%	Average perf 4.07%	▲
Budget Book published by 31 March	31 March 2007	31 March 2008	31 March 2009	31 March 2009	
Regular monitoring reports to Cabinet to specified timetable underpinned by Directorate monthly reports	100%	100%			
Final accounts approved by 30 June, signed by 31 July and published by 30 September	30 June 2006	29 June 2007	27 June 2008		

Indicator	2006/07 Actual	2007/08 Actual	2008/09 Target	2008/09 Actual/ Est	▲ improving ▶ not improving ▼ deteriorating
Monitor performance of individual fund managers and provide quarterly reports to Superannuation Fund Committee on investment performance	100%	100%	100%	100%	
Superannuation report and accounts produced and reported to the September Committee Meeting with no adverse audit opinion	30 Sept 2006	14 Sept 2007	30 Sept 2008	12 Sept 2008	▶
75% of the Council's total debit is less than 2 months old	67%	75.7%	75%	77.6%	▲
Retirement benefits paid within 15 / 20 (for 2006/07 and 2007/08) working days of all paperwork received	96%	98.5%	95%	95.5%	▲
Dependants benefits awarded within 10 / 15 (for 2006/07 and 2007/08) working days of all paperwork received	96%	96.8%	95%	97.9%	▲
Estimates of benefits provided within 25 / 20 (for 2006/07 and 2007/08) working days of request:					▶

Indicator	2006/07 Actual	2007/08 Actual	2008/09 Target	2008/09 Actual/ Est	▲ improving ▶ not improving ▼ deteriorating
-Redundancy / Efficiency	91%)) 96.6%)) 95%)) 94.8%	
- Ill Health	94%)))	
- Voluntary	90%)))	
Pensions correspond-ence – full response within 10 / 15 (for 2006/07 and 2007/08) working days	73%	96.8%	95%	94.3%	▶
Percentage of monthly VAT returns produced within 3 days of month end	100%	99.3%			
Deliver Finance Group budget within cash limit	Within budget	Within budget	Within budget	Within budget	
Internal Audit - Average client satisfaction score	-	93.3%	70%	97.3%	▲
Internal Audit - % of available time spent on direct audit work	-	80.2%	80%	87.5%	▲
Internal Audit - % of draft reports completed within 10 days of fieldwork (was 15 days in 2006/07)	-	96.7%	90%	92.1%	▲

Benchmarking Information

Corporate Finance participates in a full range of CIPFA benchmarking clubs with reporting to Corporate Finance Management Team and then as follows:

Accountancy	- to Finance Strategy Board
Debtors / Creditors	- to the Head of Financial Services
Internal Audit	- to Governance & Audit Committee
Pensions Administration	- to Superannuation Fund Committee
Treasury Management	- to Governance & Audit Committee

Details are available on request and inform our internal performance and budget discussions.

Performance Against Projects/Developments / Key Actions

Year end monitoring		
Task Complete Number / (%)	Part complete and being carried forward Number / (%)	Red Tasks Number / (%)
19(70%)	8(30%)	0

Explanation for incomplete developments being carried forward, or those not started

Actuarial tender	Tender, interview and appoint	Part done & ongoing
Efficiency savings from 2 tier working	Options for savings	Part done & ongoing
Develop role of risk management team	Revise risk approach	Part done & ongoing
Oracle iProc roll out	Roll out plan developed and implemented	Part done & ongoing
Develop role of Strategic Procurement Unit	Resourcing and input to cross cutting issues	Part done & ongoing
IIP Profile	Evaluate performance and develop action plan	Part done & ongoing
Equality and Diversity Action Planning	Plans and audits undertaken	Part done & ongoing
AAT Programme	Review current position and implement new scheme	Part done & ongoing

External Evaluation*Internal Audit*

The External Auditors have carried out a triennial review of Internal Audit which was reported to the March 2009 Governance & Audit Committee. They have, as appropriate, relied upon our audit work as part of their external audit of the Authority.