

4. FINANCIAL SERVICES REVIEW

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The purpose of this report is advise the Committee of one of the outcomes of the Financial Services Review and to seek the Committee's views on the proposed approach to creating efficiencies.

BACKGROUND

A review of the Council's financial services has been undertaken over the last 12 months. A report has been circulated for comment and submissions received from the organisation at large and specifically from the Financial Services Unit which is most directly impacted by the review outcomes. The submission process will most likely lead to some changes to the overall proposal but will not impact on the issue raised in this report.

The report suggests a range of improvements that can be made to processes and systems and supports a restructuring of the Financial Services Unit to simplify the reporting structure and amalgamate similar transaction processing functions.

The improvements suggested will, under the approach applied in the review, take some time to implement and therefore savings will also be staggered over a longer time frame. The key to achieving ongoing savings is through support for the principal change manager, in this case the proposed Transactions Manager.

The alternative was to mandate the improvements and drive through changes in a 'top-down' process. This alternative approach may well achieve savings in a quicker time but will cause significantly greater disruption to core financial processes. On balance it was considered more practical to apply a risk-conservative approach.

Even though this is a slower approach, it is likely to achieve at least the same level of savings as a more direct top-down approach would.

OUTSOURCING OPTION

A key part of the review was focused on the range of banking services the Council receives. The following is an extract from the report:

The Council contract for the provision of banking services is 9 years old and since it was signed the market for these services has developed considerably as has the level of competition for local authority work. It has become obvious through discussions with a variety of market providers in the review process that the Council should update and upgrade its contract.

The report went on to highlight specific issues around the remittance processing process currently provided for in-house:

From the market provider perspective remittance processing is sophisticated and largely automated, based on the processing of large volumes of cheques. For example Westpac Trust process in excess of 60M cheques each year through their processing centre. This volume allows significant investment to be made in automation that in turn drives down the per item processing cost. The volumes at the Council do not justify investment to be made in automation so the processes remain manual. No matter how efficient the manual processes they cannot compete on price with automated processing.

Remittance processing is largely based on rates payments with the Council still receiving approximately 25% of payments by cheque through the post (some 130,000 per year).

The report went on to state that:

*Remittance processing will be outsourced with the Banking Request for Proposal (RFP) – this has an **estimated** (worst case) impact of reducing Full Time Equivalent (FTE's) in the Customer Centre by 1.5 and the Operations Team by 2.0 (a total of 3.5 FTE's indicating savings in the region of \$120,000). It should be noted that the actual reduction in FTE's will flow directly from the banking RFP process.*

The report highlights that it will take an estimated six months to go through the banking request for proposal process and to put in place new processes. It is anticipated that any reductions in staff numbers will be handled through natural attrition processes over a period of time.

It is noted that submissions have challenged that this level of savings can be achieved. The actual level of savings achieved will be dependent on the bids made through the RFP process and the level of savings shown is purely indicative.

CONCLUSION

This report has been provided to inform the Committee of a specific approach being applied in the Financial Services review and to highlight the potential impacts of a proposal to outsource a function currently provided in-house. The Financial Services review has concluded that, in terms of managing risk and overall change management, a staged approach to process improvement is warranted with savings to be achieved over the next 1-3 years. In addition the review has concluded that there is more immediate justification for the outsourcing of the remittance processing function with direct savings opportunity in the region of \$120,000.

Chairperson's

Recommendation: That the information be received.