

Committee(s): Efficiency and Performance Sub Committee	Date: 06 November 2013
Subject: CIPFA VFM indicators 2011/12	Public
Report of: The Chamberlain	For Information
<u>Summary</u>	
<p>This report outlines the movement in the CIPFA Public Sector Corporate Services VFM Indicators for Finance between 2011/12 (the latest available statistics) and 2010/11. It also outlines the CIPFA VFM Indicators for HR, Legal Services and Democratic Services.</p> <p>The comparator base used is London Boroughs and large Metropolitan Councils/Unitary Authorities.</p> <p>Overall Finance, HR and Legal Services score well on embedding modern practices and on impact in the organisation. However, all three departments are relatively high cost compared to the local authorities in the comparator group due to the nature of our corporate structure, the mix of work undertaken and the strategic prioritisation of activities that local authorities have cut back on, such as training. The Democratic Services benchmarking Club report highlights the large number of Members in the City, and the consequent large number of formal committees. The printing costs of Committee reports are high, although staff costs per Member and training costs per Member are well below the average.</p> <p>Going forward, the Chamberlain is focused on securing further efficiencies through process re-engineering and system improvements, improving the financial management information to service users, ensuring appropriate professional development of staff and considering how to benchmark costed activities as part of the service based reviews.</p> <p>The Comptroller and City Solicitor's focus on improving efficiency is mainly through better demand management, but also exploring possible shared service arrangements where practicable.</p> <p>The Director of HR is focusing on a number of areas going forward, including ways to buy cheaper through the PP2P HR category board and the use of the CLPS, doing things differently for instance merging some training services with IS, and reviewing the return on investment in training to ensure we can demonstrate value to the organisation.</p> <p>The Town Clerk's Department is working to reduce the number of reports that are printed, and encouraging a more succinct writing style, to further reduce the number of printed pages produced. There are plans to produce a more comprehensive training programme, which may increase the overall spend per member.</p>	
Recommendation:	
That Members note the report.	

Main Report

Background

1. Members have previously been presented with the CIPFA Public Sector Corporate Services VFM Indicators for the Finance function 2010/11 and were keen to be updated with changes in data in this area. Comparators were difficult to establish last year with so few London Boroughs submitting data. This year participation is much improved with the following bodies included in the comparator base: Barking, Barnet, Hackney, Harrow, Havering, Lambeth, Newham, Redbridge and Waltham Forest.
2. The CIPFA Finance data for 2011/12 is now available and is presented in Appendix A. The report has been analysed and compared with the previous year's submission to monitor changes and identify any areas of continuing concern.
3. This year we have also submitted returns for HR, Legal Services and Democratic Services, which include data for 2011/12. These reports are set out at Appendices B, C and D. The Comptroller and City Solicitor, the Director of HR, and the Deputy Town Clerk have been consulted as part of the analysis.

Finance

4. The Public Sector Corporate Services VFM Indicators for Finance Services in 2011/12 compare the City Of London Corporation data with nine London Boroughs. The key messages from the analysis are:
 - Although the City still appears expensive on elements of the economy and efficiency indicators the position has improved from last year;
 - Many of the secondary indicators around the efficiency of the Finance function remain as positive as they were in 2010/11, however an increase in the number of credit notes raised warrants further investigation;
 - Best practice organisations ensure that the totality of their spend is allocated against outputs, supported by key metrics which measure performance with clear lines of accountability. The City, like the majority of the comparator group, has not attempted to align spend to outputs and it remains a key challenge to put in place a comprehensive suite of KPI's linked to fully costed outputs; and
 - Modern practices are well embedded compared to other authorities, although a number of these have slipped since 2011/12 and will need to be invigorated as part of the service based review.
5. Indicator FP1 relates to the cost of the finance function in relation to the size of the organisation as measured by the resources being managed. On that basis the City of London finance function is calculated to cost 1.8% of the overall organisational spend. This is an improvement on a figure of 1.9% for 2010/11 however this is still a 'red light' in CIPFA terms as it compares unfavourably with an average of 1.2%. As was set out in last year's report, the unique Committee structure of the City means that the City is always likely to

be significantly more expensive than local authority comparators. However, it is recognised that two of the main financial systems are no longer fit for purpose and replacement/upgrades to the Manhattan and Oracle systems are needed to allow efficiencies to be realised in the Finance team.

6. Given this high level of overall finance spend, Indicators FP1 (a) to (c) seek to show whether the correct proportion of the finance activity cost is allocated between transaction processing, business decision support and the cost of reporting and controls. In 2010/11 City had two red light issues in this area – the proportion of spend on reporting and control was deemed too high and the proportion on supporting business decisions was too low. Both areas are no longer considered red light issues in 2011/12 as a result of the reorganisation following the Strategic Finance Review which appears to have successfully rebalanced the Finance function towards supporting the business.
7. Many of the secondary indicators around the efficiency of the Finance function remain as positive as they were in 2010/11. The cost of Customer Invoicing per customer invoice, the number of Debtor Days, the cost of accounts payable per accounts invoice processed, and the % of invoices paid within 30 days are all within the top quartile of London local authority comparators.
8. However, one area of concern is Indicator FS5 which relates to amount of credit notes raised as a % of total customer invoices raised. This figure was 6.4% in 2010/11 and in 2011/12 this increased to 7.8%. While this is below the London average of 9.1% it is an area that needs further investigation. This statistic indicates the accuracy of invoices raised and we should be aiming to see a year-on-year reduction in the percentage achieved in this area.
9. FS 6 shows the cost of accounts payable to be high when compared to the group. However this is pre- establishment of the City of London Procurement Service, which we expect to make efficiencies in this area. The payroll admin cost per employee also appears high compared to the Group.
10. Indicator FP4 relates to the % of the organisational expenditure for which there are fully costed outputs which are measured by key performance indicators and for which a named individual is accountable. High performing organisations are likely to ensure that the totality of their spend is allocated against outputs, supported by key metrics which measure performance with clear lines of accountability. The City has not attempted to outline spend to outputs in the past and it remains a key challenge to put in place a comprehensive suite of KPI's linked to fully costed outputs. This could be an area that any potential service level review could look at.
11. Indicator FS1 sets out the % of finance staff that are professionally qualified. The City of London figure remains at close to one-third which is below the average of 34.7% however a renewed professional training and development programme has recently been introduced that should see this mix change in forthcoming years. Also a number of final stage trainees are expected to pass their exams shortly which will improve the position.
12. Indicator FS8, the percentage of outstanding debt that is more than 90 days old from the date of the invoice, remains well below the average of 36.9% but has increased from 10.1% in 2010-11 to 12.3% in 2011-12.

13. During 2011/12 no User Satisfaction surveys were carried out as it was a period of significant reorganisation and change. However targeted surveys have been carried out during 2012/13 for CLPS, IS reorganisation and feedback sought from the Strategic Finance Review user group. The results from these surveys have been reported separately to members as part of the on-going project management arrangements.
14. The City also scored very well for using modern finance practices as set out in Indicator FP7 with a score of 8 out of 10. However, a number of these indicators are dropping off and require reinvigoration:
 - A rolling programme of reviewing and benchmarking the organisation's costs.
 - Budget holders can have on-line real-time insight into the status of their budgets using CBIS, but not many use the facility due to the complexities of the system. The Finance Leadership Group has delivered monthly budget bursting to budget holders and is currently refining a 'money dashboard' for senior officers. Better real time management information is a key requirement in the Oracle 12 upgrade.
 - Needs based budgets based on activity levels are prepared for some departments but not for all.
15. Of the indicators not currently embedded, the customer satisfaction questionnaire is referred to above and FMP 10 on a comprehensive development programme for Finance staff, ensuing at least five days of continuing professional development, will be pursued through the department's training committee.
16. The Chamberlain is focused on a number of areas going forward, securing further efficiencies through process re-engineering and system improvements, improving the financial management information to service users, ensuring appropriate professional development of staff and considering how to benchmark costed activities as part of the service based reviews.

Legal Services

17. The Public Sector Corporate Services VFM Indicators for Legal Services in 2011/12 compare the City Of London Corporation data with 23 Unitary local authorities. The key messages from the analysis are:
 - The City appears expensive on the economy and efficiency indicators;
 - The legal services provided by the Comptroller and City Solicitor are very highly regarded; and
 - Modern practices are well embedded.
18. There are four main indicators relating to the economy and efficiency of the legal service and the City of London is in the most expensive quartile for each.
 - The Indicator LS1(a) expresses the cost of the legal services function as a percentage of organisational running costs. The City of London percentage of 0.92% is almost double the average.

- Indicator LS1 (b) is very similar but compares costs net of income as a percentage of organisational running costs. Again the City figure of 0.81% is almost double the average.
 - Indicator LS5 sets out the cost of the legal function per employee - the City figure of £1,414 is nearly triple the average of £509.
 - Indicator LS8 sets out the cost per hour of providing legal work. The City figure of £1111 is again in the top quartile compared to an average of £65.
19. Clearly by any measure the in-house City service appears to be more expensive than the comparator group of in-house local authority teams. However, the nature and range of legal services required by the City and provided by the Comptroller and City Solicitor are very different from those required by London Boroughs.
 20. Roughly a third of the Department's lawyers are deployed to undertake commercial property work and they are expected to deal on equal terms with partners in City Law firms. Similarly the planning law team deal with complex and high value developments on a day to day basis. The Department also has a much higher number of lawyers specialising in public and administrative, electoral and charity law than the Boroughs due to the City's unique and complex nature. On the other hand, the Department has no specialist lawyers dealing with social services (child protection and adult social care) or maintained schools whereas London Boroughs all have sizeable teams devoted to such areas.
 21. The nature of the work means that the Corporation needs to recruit and retain first class lawyers. The commercial and/or highly technical nature of the work means that the Corporation needs to offer higher salaries than London Boroughs to attract the right talent. Commercial law traditionally has higher salary levels than child protection and social care law.
 22. Our geographic proximity to the major law firms and the nature of the work means that the Department is competing with the City practices as well as local government for the best lawyers. Retaining appropriately qualified and experienced staff is one of the main risk factors on the Department's risk register.
 23. Looking at the drivers underpinning the cost of legal services, the highest cost is employee costs and this is further supported by the LS5 indicator on cost of the legal function per employee. Rates are also high for the cost per hour of providing legal work (LS8). However when compared against known benchmarks, for example the average hourly rate given in the Bromley framework of £85-£280 and the London Boroughs Legal Alliance of £100-£245, the City compares very favourably with a rate of £50-£120. Private sector hourly rates for the type of casework undertaken are in the region of £200 to £400 plus for an experienced practitioner. The Department thus compares very favourably with private practice in terms of value for money and quality.
 24. The City's costs are also driven by its location in terms of the accommodation costs and by the high level of investment in training and development as part of the recharge from HR.

25. Staff numbers have been reduced from 72 in 1989 to 54. Over that time the demand for legal services has increased, particularly in relation to employment, procurement, information law and planning. The Comptroller's focus on improving efficiency is mainly through improved demand management and procurement of external lawyers (when used) through properly tendered framework agreements.
26. The Department is also considering whether opportunities exist for further income generation (above the £600k currently generated mainly from property developers and s106 funds) and areas where shared services might be appropriate. However, opportunities for shared services are limited as it depends on developing excess capacity in the specialist fields practised.
27. The level of satisfaction with the legal service is very high as shown by Indicators LS3(a) and LS3(b). The City also holds the LEXCEL Quality Assurance accreditation and the LS4 indicator concerning use of Modern Practices in the City scores 10 out of 10.

Human Resources

28. The Public Sector Corporate Services VFM Indicators for Human Resources in 2011/12 compare the City Of London Corporation data with eight London Boroughs. The key messages from the analysis are:
 - The City appears expensive on the economy and efficiency indicators;
 - The City invests in employees development, has low sickness rates and staff turnover; and
 - Modern practices are well embedded.
29. There are two main indicators relating to the economy and efficiency of Human Resources:
 - Indicator HRP1(a) sets out the HR cost as a percentage of organisational running cost. The City of London figure of 0.74% is below the average of 0.87%.
 - Indicator HRP1(b) calculates the overall HR cost per FTE. Against this measure however, the City is in the most expensive quartile with a figure of £1,247 compared to an average of £1,032.
30. There are number of factors influencing the high cost of the service. The make-up of the City is unusual in that the HR department has to respond to customers such as COL Police, the Barbican and the three schools who all have differing needs and expectations. Furthermore, there was a strategic decision to keep the level of investment in training and development at a high level, albeit with a significant rationalisation in how this training is delivered.
31. The department is going through a process of change and in 2011-12 was just at the point of unifying HR functions and staff that had previously been held in service departments. This has been followed by a second stage of rationalisation and staffing budget reduction

32. The Cost of agency staff as a percentage of the total pay bill as set out in Indicator HRS2 was 8.4% against an average of 7.5% however this reflects a period when there was a freeze on permanent recruitment. The cost of recruitment per post filled of £1,460 compares favourably with the London average of £1,712.
33. There are favourable responses in terms of the Impact of the HR function.
 - Indicator HRP3 shows the City to be above average for investing in employees' development.
 - Staff turnover, as shown by Indicator HRP4, is 7.1%; nearly half the London average. However, low staff turnover may not necessarily be a good thing as it can reflect a 'stagnant' organisation so this does require careful monitoring.
 - Indicator HRP5 shows the average working days per FTE lost annually through sickness at 7.1 to be below the average of 8.8; however this has now improved to 6.8 as a result of initiatives such as the Sickness Absence Review Group- which was established to support line managers in the formal sickness processes.
 - 100% of staff have an annual face to face appraisal compared to an average of 76% across London Boroughs.
34. Also within the impact section there are indicators which look less favourable. HRS4 shows the elapsed time from a vacancy occurring to the acceptance of a post, with 87 days against an average of 67.9. However in 2011/12 the City was actively pursuing a policy of reviewing each vacancy as it arose to ensure necessary economies could be secured. This scrutiny process would have delayed usual recruitment times. HR intend to develop a dashboard in the future to monitor such performance indicators.
35. There are a number of indicators which relate to the equality and diversity agenda- HRS10 to HRS13. These indicators are regularly monitored by Establish Committee and so no comment is made in this report.
36. During 2011/12 no User Satisfaction surveys were carried out as it was a period of significant reorganisation and change. Such surveys are planned for the future.
37. The City also scored very well for using modern HR practices as set out in Indicator HRP7 with a score of 9 out of 10. The HR department continues to receive Investors in People accreditation, which a number of other local authorities have been unable to maintain.
38. The department is focusing on a number of areas going forward, including ways to buy cheaper through the PP2P HR category board and the use of the CLPS, doing things differently for instance merging some training services with IS, and reviewing the return on investment in training to ensure we can demonstrate value to the organisation.

Democratic Services

39. The Democratic Services Benchmarking Club report compares the City of London Corporation's data for 2013, with eleven London Boroughs. This data

relates to a different accounting period from the other information used in this report as the exercise to gather it took place at a later date. The key messages from the analysis are:

- The City has 125 members as opposed to an average of around 60 for the other authorities in the survey.
 - The number of formal committees and the number of directors' boards are high, but this is to be expected from the City's service based structure compared to the executive/cabinet structure operated by the comparator authorities.
 - The City generates 2.2m report pages a year compared to an average for the comparator authorities of 1.1m and printing cost per page is high.
 - The staff costs per Member and training costs per Member are well below the average of the comparator authorities
40. The governance procedures are different at the City for a good reason. The City uniquely has businesses as well as residents in its electoral base, and has 125 elected Members.
41. Overall printing costs are high for several reasons. A large number of reports are produced because of the comparatively large number of committees that are serviced, when compared to the Local Authorities in the data set. There is also extensive use of colour in the reports, causing significantly higher production costs than black and white. In addition, the costs of production of the CoL Pocket Book (circa £10k) are included in the City's total.
42. However, when looking at the cost of a standard print job (as defined by CIPFA), the City's cost is the second lowest of the comparator authorities.
43. Some work has been conducted to reduce the number of reports produced and the introduction of iPads and other IS equipment for Members will lead to a reduction in print production over time. Further work is also planned to encourage a more succinct writing style across the organisation, which will further reduce the number of printed pages produced.
44. The total costs per Member are well below average for the comparator group. The City's cost is £2,696 per Member, whilst the next lowest (Richmond) is £15,606 per Member. These figures are skewed, however, by the fact that City Members are not paid allowances. Drilling down into the direct costs element of the data set, IS support costs for members are shown to be significantly higher (£800/Member) than the London average (£172/Member). The figures used for the CoL included the full cost of providing iPads, laptops, and Blackberrys (inclusive of line costs) and broadband connectivity as well as printers and associated running costs. Also within this data set- staff costs look low; this may be because the staff servicing the scrutiny function within Local Authorities would have been included in their totals. Although Member training costs are lower than average, there is a plan to introduce a more comprehensive training programme which may increase the overall spend per Member.

45. A number of the comparator statistics are given in terms of 'per head of residential population' figures, which are clearly not directly comparable with the City. However, using a daytime population of 308,000¹ would make the City the third most populous authority in the survey, just behind Croydon (346,000) and Enfield (312,000) and above Lambeth (285,000). The City has staff costs of £537,000 budgeted for 2013/14 which while not as low as Croydon (£266,000) are better than both Enfield (£680,000) and Lambeth (584,000).
46. The City did not submit data for School Appeals (section 3 of Appendix D), Civic mayor's (or equivalent) Office (section 5), or Overview and Scrutiny (section 6).
47. The City's figure for "Key Decisions – Officers" was the highest in the comparator group. This is likely to be due to different interpretations of what to include in this category. The definition used by the City when submitting data was 'A decision normally taken by Members that is processed either under urgency rules or as a delegation.

Background Papers:

VFM indicators - economy of finance unit reported to 3rd February 2012 Committee

Contact:

Caroline Al-Beyerty
Financial Services Director
caroline.al-beyerty@cityoflondon.gov.uk
Tel. 0207 332 1164

Mark Jarvis
Head of Finance, Unit 4
mark.jarvis@cityoflondon.gov.uk
Tel 0207 332 1221

¹ This is the figure used by HMIC for the City of London Police VFM Profiles