Committee: Efficiency and Performance Sub Committee	Date: **27th January 2015**
Subject: CIPFA VFM indicators 2013/14	**Public**
Report of: The Chamberlain	**For Information**

Summary

This report outlines the CIPFA Public Sector Corporate Services VFM Indicators for Finance between 2013/14 (the latest available statistics) and also compares movements to the previous submission for 2011/12. It also outlines the CIPFA VFM Indicators for HR and Legal Services. The comparator base used is other London Boroughs.

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 other 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 other local authorities have cut back on, such as training.

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 the results of the recent user satisfaction survey.

The Comptroller and City Solicitor focus on improving efficiency is mainly through better demand management, but also exploring possible shared service arrangements where practicable.

The Director of HR is focusing on a number of areas going forward, including ways to buy cheaper through the HR procurement category board and the use of the City Procurement Service, doing things differently for instance merging some training service with IS, and reviewing the return on investment in training to ensure we can demonstrate value to the organisation.

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 Finance function 2011/12. In 2011/12 the following bodies were included in the comparator base : Barking, Barnet, Hackney, Harrow, Havering, Lambeth, Newham, Redbridge and Waltham Forest. The comparators in 2013/14 were Barnet, Hackney, Haringey, Harrow and Newham.

2 The CIPFA Finance data for 2013/14 is now available and is presented in Appendix A. The report has been analysed and compared with the 2011/12 submission to monitor changes and identify any areas of continuing concern.

3. We have also submitted returns for HR and Legal services, which include data for 2013/14. These reports are set out at Appendices B and C. The Comptroller and City Solicitor and the Director of HR have been consulted as part of the analysis.

Finance

4. The Public Sector Corporate Services VFM Indicators for Finance Services in 2013/14 compare the City Of London Corporation data with Other Unitary local authorities. 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 2011/12;

- 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.

Table 1 – Key Finance Statistics

Indicator	Description	2013/14	2011/12
FP1	Cost of Finance function in relation to size of organisation	1.6%	1.8%
FS1	% of staff professionally qualified	22.8%	35.6%
FS5	Credit notes as % of invoices	6.7%	7.8%
FS8	% of outstanding debt more than 90 days old	11.0%	12.3%

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 1.6% of the overall organisational spend. This is an improvement on a figure of 1.8% for 2011/12 however this is still a 'red light' in CIPFA terms as it compares unfavourably with an average of 1.0%. The 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. Replacement/upgrades to the Manhattan and Oracle systems are being implemented to allow significant efficiencies as outlined in the Service Based Review 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 2011/12 City had two amber 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. In 2013/14 as a result of the successful embedding of the reorganisation following the Strategic Finance Review, both of these issues have moved into the green. The percentage spend on transaction processing is very marginally higher than the London average which has pushed that indicator to the Amber in 2013/14, however significant cost reduction measures are proposed in this area as part in the Service Based Review.

7. One area of concern previously was 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%. It has now fallen back to 6.7% in 2013/14, below the London average of 7.5%.

9. FS 6 shows the cost of accounts payable to be high when compared to the group. The City has invested in 3rd party consultancy support during the last 36 months to assist with the transformation of procurement including centralising the function from 18 departments. The service is now transitioned fully to City resource only. This coupled with greater compliance, higher levels of PO for easy matching, e-Invoicing and a greatly reduced amount of suppliers contracted should see this cost reduce significantly. Indicator FS9(a) show the % invoices for commercial goods & services paid by the organisation within 10 days of receipt (CoL figure is 60.6% compared with the average of 68.6%). This lagging metric is primarily down to a historic culture of not raising Purchase Orders (PO). The implementation of No PO No Pay on 1st April 2015 should see performance increase significantly. It should be noted that in instances where a PO is raised we have a 80% payment with 10 days performance level. Indicator FS9(b) shows the % invoices for commercial goods & services paid by the organisation within 30 days of receipt (CoL figure is 88.6% compared to the average 90.0%). Again, this lagging metric is primarily down to a historic culture of not raising Purchase Orders (PO). It should be noted that in instances where a PO is raised we have a 95% payment with 30 days performance level.

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.

11. Indicator FS1 sets out the % of finance staff that are professionally qualified. The City of London figure is 22.8% which is below the average of 35.6% however a renewed professional training and development programme has recently been introduced that should see this mix change in forthcoming years. Approximately 17% of Financial Services Division staff are currently training for a professional qualification.

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 30.8% and has decreased from 12.3% in 2011-12 to 11.0% in 2013-14.

13. Note that during 2013/14 no User Satisfaction surveys were carried out however the Chamberlain has recently carried out such a survey and the management team are now considering the findings.

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. Of the two management practices scores not met, one (FMP10) was failed only marginally as the number of days received by Finance staff for continuing professional development falls only slightly below the 5 day requirement. This requirement will be pursued through the department's training committee.

15. The Chamberlain is focused on a number of areas going forward, securing further efficiencies through process re-engineering and system improvements, as set out in more detail in the Service Based Review proposals. From June 2015 we will also be improving the financial management information to service users following the Oracle R12 upgrade in February.

Legal Services

17. The Public Sector Corporate Services VFM Indicators for Legal Services in 2012/13 compare the City Of London Corporation data with Other London Boroughs. 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 three out of four.

- 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 0.85% is almost double the average, but slightly less than the 0.92% in 2011/12.
- Indicator LS1 (b) is very similar but compares costs net of income as a percentage of organisational running costs. Again the City figure of 0.68% is well above the London comparator average of 0.51%.
- Indicator LS5 sets out the cost of the legal function per employee - the City figure of £931 is below the average of £1,107.
- Indicator LS8 sets out the cost per hour of providing legal work. The City figure of £91 is again above the average of £88.

19. 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.

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.

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.

Our geographic proximity to the mayor 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.

20. 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.

21. The City 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.

22. 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 internal demand management and procurement of external lawyers (when used) through properly tendered framework agreements.

23. 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. Note

the Department's agreed Service Based Review proposals include additional income from external clients and legal fees, totalling £220k by 2016/17.

24. The levels 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

25. The Public Sector Corporate Services VFM Indicators for Human Resources in 2012/13 compare the City Of London Corporation data with Other 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.

26. 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 0.57% is below the average of 0.74%.
- Indicator HRP1(b) calculates the overall HR cost per FTE. Against this measure the City's figure of £930 is slightly above the average of £924.

27. There are number of factors influencing the 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 the training and development at a high level, albeit with a significant rationalisation in how this training is delivered.

9. The Cost of agency staff as a percentage of the total pay bill as set out in Indicator HRS2 was 9.9% against an average of 9.1%.

30. There are favourable responses in terms of the Impact of the HR function.

- Indicator HRP3 shows the City to on the average for investing in employees' development.
- Staff turnover, as shown by Indicator HRP4, is 6.8% ; nearly half the London average. However, staff 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 5.6% to be below the average of 8.4%. This is a result of initiatives such as the Sickness Absence Review Group- which was established to support line managers in the formal sickness processes.

- 96% of staff have an annual face to face appraisal compared to an average of 69% across other London Boroughs. Note this statistic is based on staff appraised against total staff, however not all staff are eligible for appraisal (new starters, casual staff etc) which is the main reason this is not 100%.

31. 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 88 days against an average of 63.7. Note the City figure is based on the average days from the time the post was requisitioned to when the person is due to start, as this is what our systems are set up to measure. The London average however is measured from the requisition date to the date the offer for a post is accepted. This is likely to account for a significant proportion of the discrepancy.

32. 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.

33. Note that during 2013/14 no User Satisfaction surveys were carried out.

34. 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. Note the HR department continues to receive Investors in People accreditation, which a number of other local authorities have been unable to maintain.

35. The department is focusing on a number of areas going forward, including ways to buy cheaper through the Procurement HR category board and the use of the City Procurement Service, doing things differently for instance merging some training service with IS, and reviewing the return on investment in training to ensure we can demonstrate value to the organisation.

Background Papers:

36. VFM indicators – economy of finance unit reported to 3rd February 2012 Committee

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