Public Sector Corporate Services VfM Indicators

Finance

2013/14

City of London Corporation

compared with

With Other London Boroughs

Preface

The UK Audit Agencies (Audit Commission, NAO, Audit Wales, Audit Scotland and Northern Ireland Audit Office) combined together to develop a set of indicators to measure the value for money of support services across the public sector. KPMG, with CIPFA as a partner, was appointed to undertake the research and development work and the Audit Agencies published their report in May 2007.

The functions covered by the VfM indicators (Communications, Finance, HR, ICT, Legal, Estates Management and Procurement) have been identified by the Government as a priority area for securing efficiency improvements and releasing resources for use in delivering front-line services. Although the Audit Agencies were keen for public sector bodies to use the indicators, they decided not to offer a benchmarking service themselves. CIPFA has therefore undertaken to provide this service to the public sector.
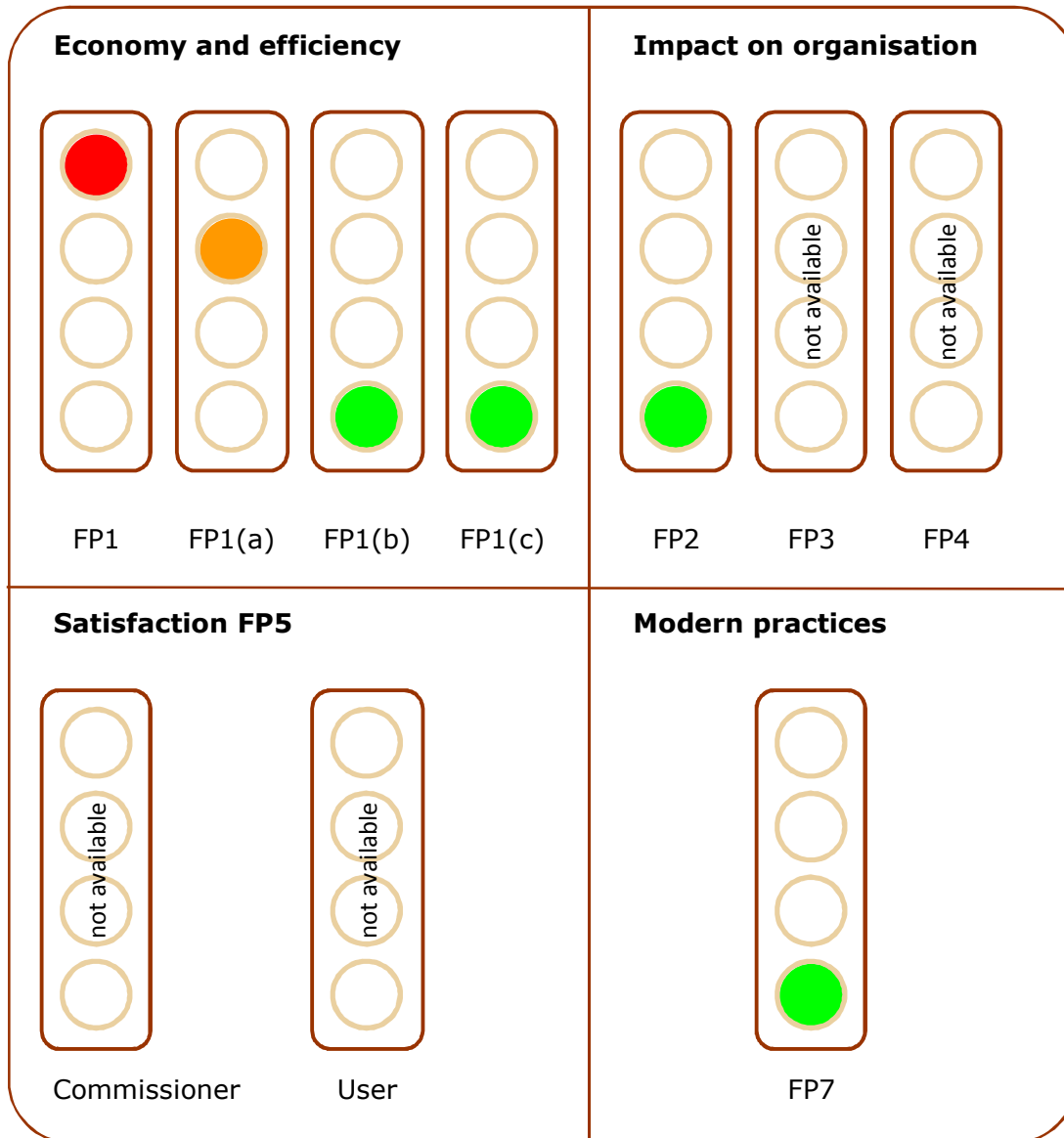
I hope that you find the enclosed information useful, and more importantly that you use it in the spirit in which it is intended; this is a tool to help you take a view on the value for money provided by your corporate support services, and provide some pointers as to how they might improve.

CIPFA would be more than happy to come and discuss with you potential opportunities for you to improve your services, building on the information in this report. Please do not hesitate to contact us at vfmindicators@cipfa.org if you would like to discuss this or any other matters further.

John Parsons
Benchmarking Manager

RESULTS ON ONE PAGE

The Audit Agencies developed an approach to considering Value for Money for Corporate Services which had four dimensions. The overall results are shown below:

Economy and efficiency

FP1	FP1(a)	FP1(b)	FP1(c)
🔴 red	🟠 amber	🟢 green	🟢 green

Impact on organisation

FP2	FP3	FP4
🟢 green	not available	not available

Satisfaction FP5

Commissioner	User
not available	not available

Modern practices

FP7
🟢 green

Notes:

- A green light indicates performance in the best quartile; a yellow light indicates performance between the median and best quartile; an amber light indicates performance between the median and worst quartile and a red light indicates performance in the worst quartile.

- For the purposes of this report, high cost and low productivity are considered poor. However, we accept this is a generalisation and that in some circumstances organisations can choose to invest more in functions because they have under invested in the past or because they want to place particular emphasis on a function.

- Full descriptions of the indicators are shown in the remainder of this report.

- The FP7 indicator shown for modern practices was optional for organisations using the CIPFA Financial Management Model.

Section 1 - ECONOMY AND EFFICIENCY

FP 1 Cost of the Finance function

Rationale and expected impact on behaviour
A standard and commonly used indicator that seeks to establish whether the costs of running the finance function are in proportion to the resources that are being managed. Measurement of the total cost of the finance function as a percentage of overall spend allows management to monitor closely the finance cost of their organisation and could be used to track trends across any given time-frame.
Measurement of the cost of transaction processing and business decision support enables organisations to understand the resources devoted by finance on 'value added' activities as a proportion of finance cost.
Over time, organisations should expect to reduce expenditure on transaction processing as a percentage of the total cost of the finance function. Similarly they should expect to increase the percentage of the total cost of the finance function spent on business decision support.

FP1 Finance function cost as % of organisational running costs

|	City of London	Average	LQ	Median	UQ
	1.6%	1.0%	0.7%	1.0%	1.1%
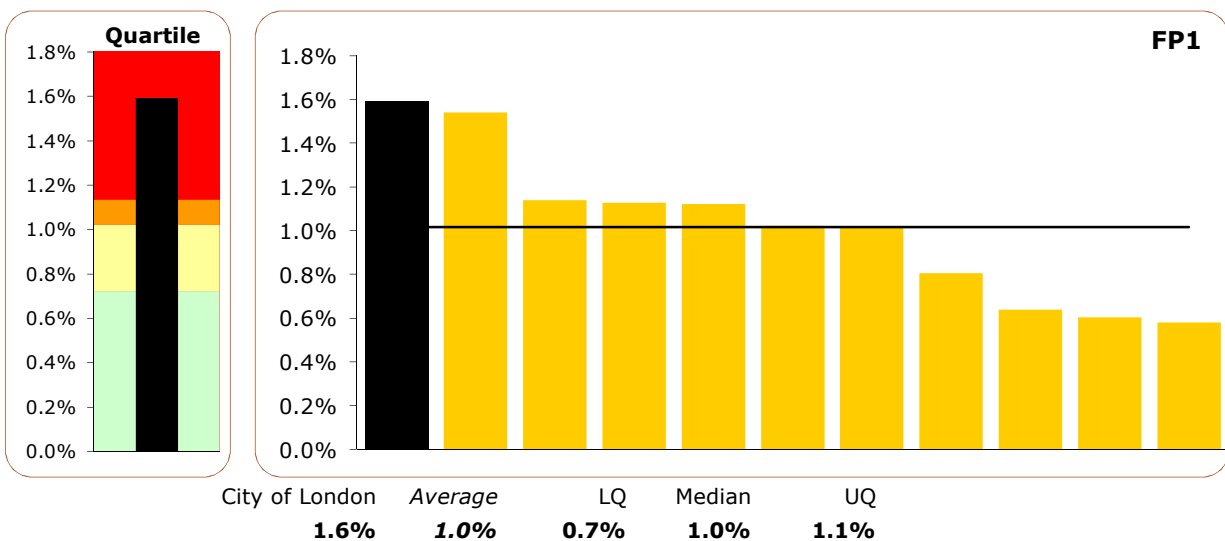
Cost of Difference

This shows the monetary value represented by the difference in percentage from the median (and lower quartile). Favourable variances are shown as negative figures.

| From median (£'000)	**£2,783**	From lower quartile (£'000)	**£4,265**

Economies of Scale

This chart investigates the relationship between cost and size of the organisation. There is some indication that very small organisations tend to use a higher proportion of their resources on the Finance function.
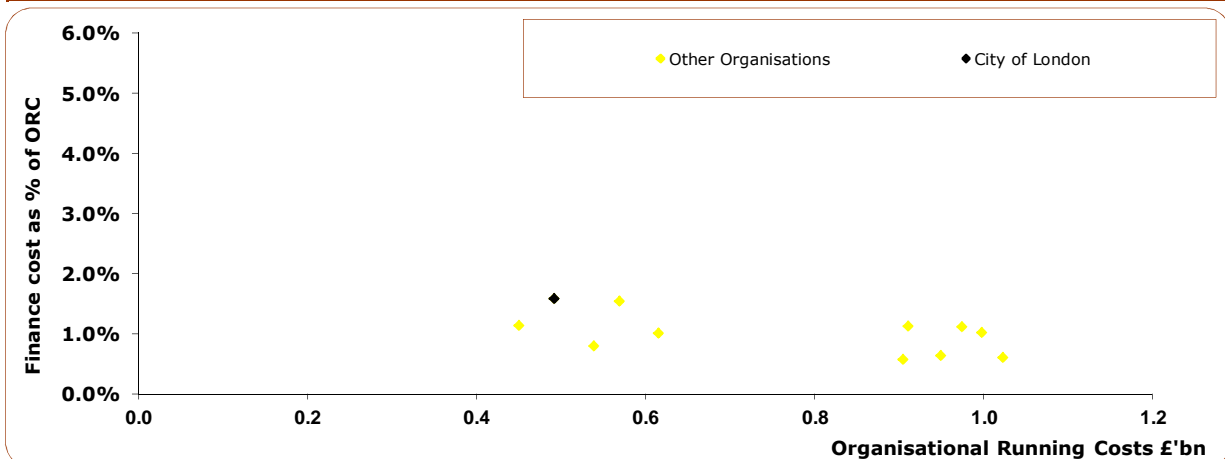
FP1(a) Transaction processing cost as a percentage of finance function costs

City of London	Average	LQ	Median	UQ
28%	**28%**	**20%**	**26%**	**32%**
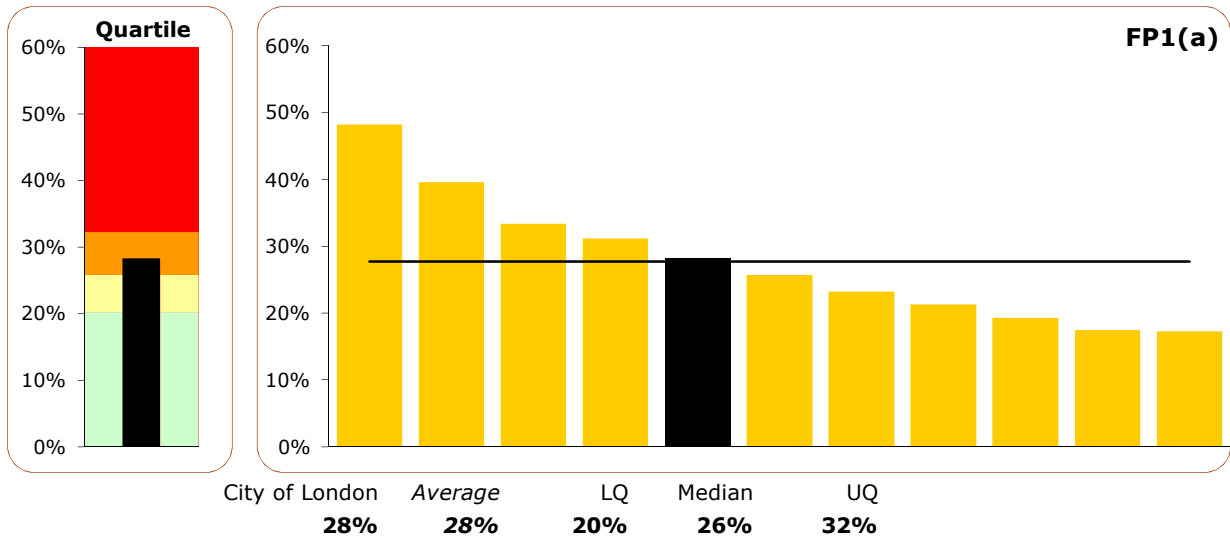
FP1(b) Business decision support cost as a percentage of finance function costs

City of London	Average	LQ	Median	UQ
43%	**37%**	**33%**	**38%**	**42%**
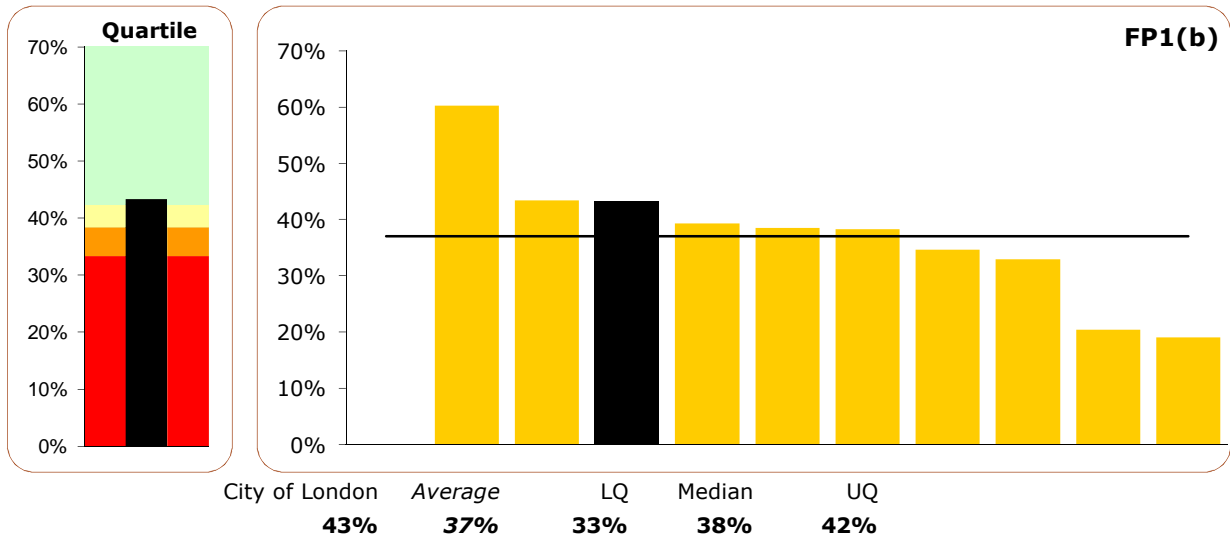
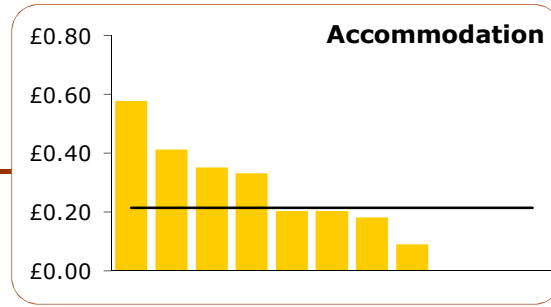## FP1(c) Cost of reporting and control as a proportion of finance function costs

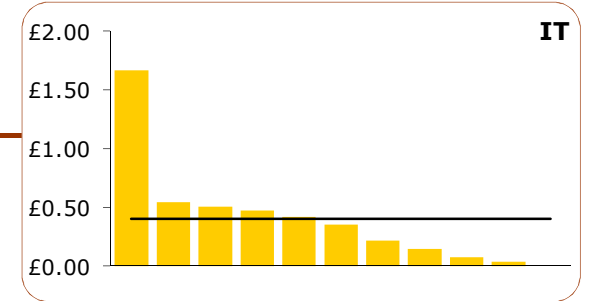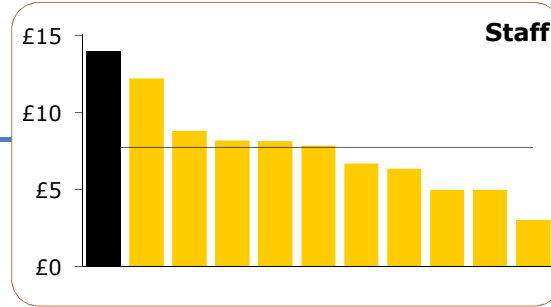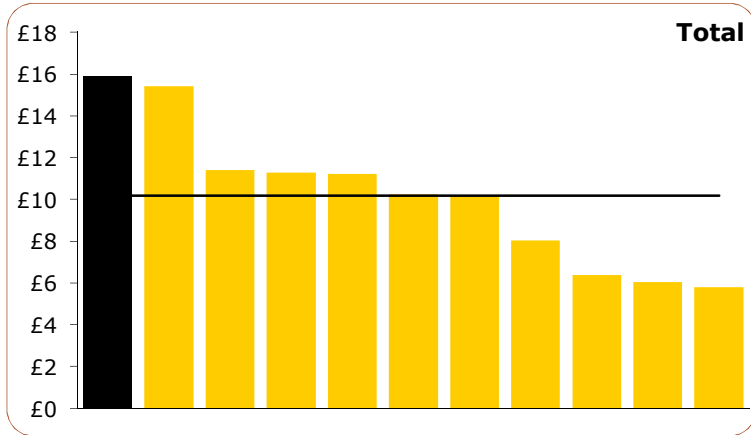| City of London	Average	LQ	Median	UQ
28%	**37%**	**34%**	**37%**	**40%**
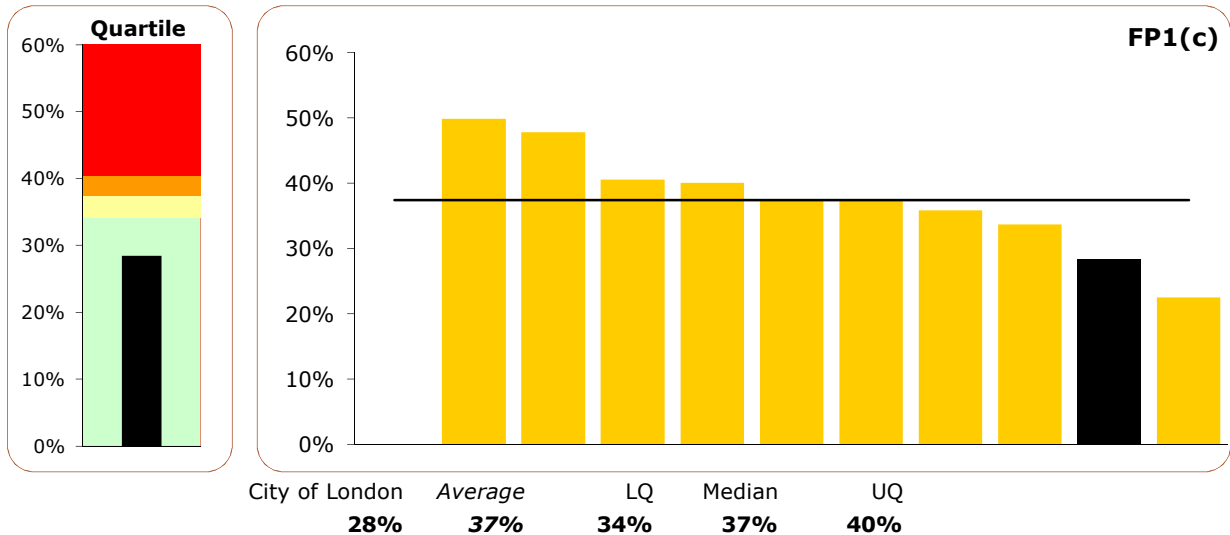
Finance cost/£'000 Organisation running costs 2013/14

For each benchmark two figures are given, the first being the organisation's cost and the second (in italics) is the group average.

Staff
£13.95   *£7.74*

IT
£0.00   *£0.40*

Accommodation
£0.00   *£0.21*

Total Cost
£15.90   *£10.17*

Supplies & Consumables
£0.68   *£0.48*

Outsourcing
£0.00   *£0.25*

Other
£1.27   *£1.09*

Costs 2013/14 (£'000)	
Staff	6,852
IT	-
Accommodation	-
Supplies & Consumables	335
Outsourcing	-
Other	624
Total	**7,811**
Organisational running costs	**491,300**

Finance Cost per £'000 Organisational running costs

2013/14 Actuals
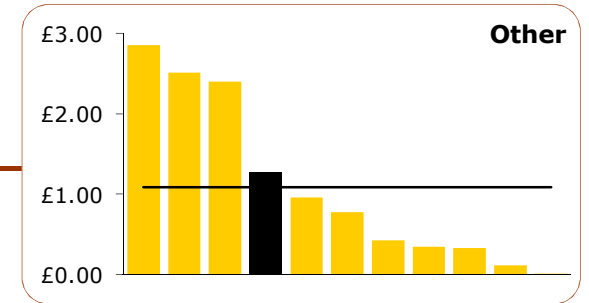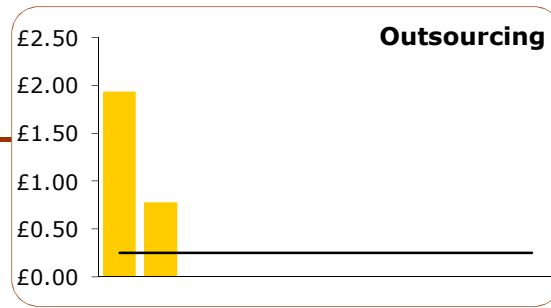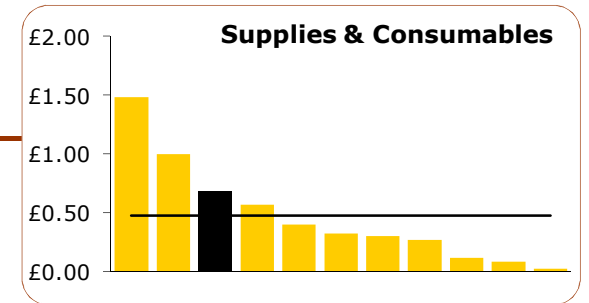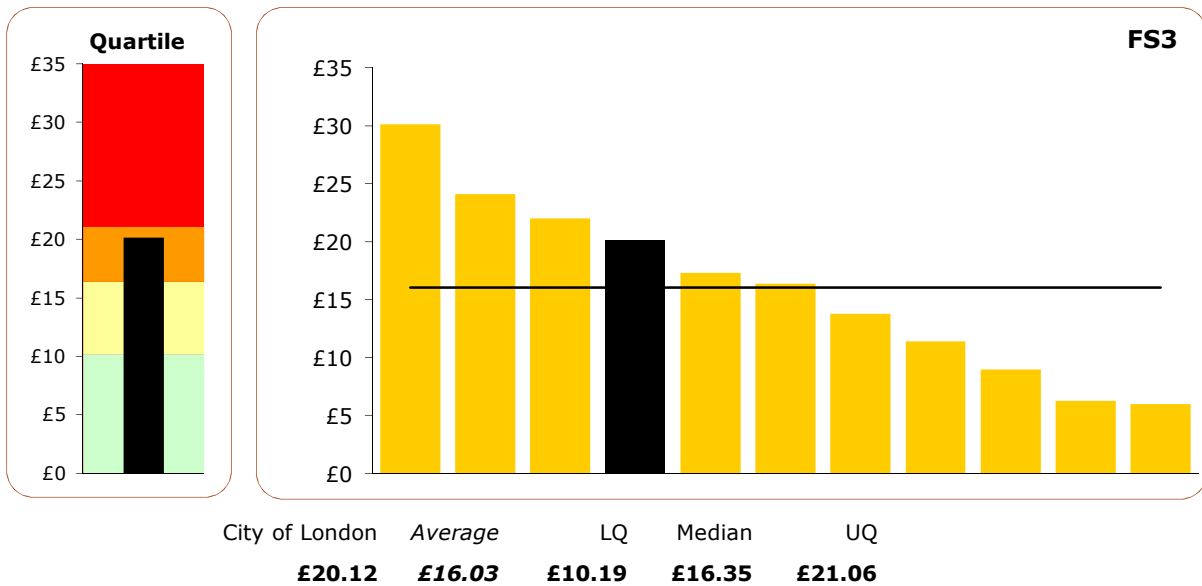
Secondary Indicators

FS3 Cost of Customer Invoicing function per customer invoice

Rationale and expected impact on behaviour
A standard and commonly used indicator that examines the efficiency of the invoicing function by identifying the cost of raising each customer invoice. Organisations should interpret achievement against
this indicator alongside secondary indicators 5 (credit notes as a percentage of invoices raised) and 6 (cost of Accounts Payable per invoice processed).
In most cases organisations should aim for a period-on-period reduction in the average cost of invoice processing. This indicator could additionally suggest the minimum value for which an invoice should be raised.

City of London	*Average*	LQ	Median	UQ
£20.12	***£16.03***	**£10.19**	**£16.35**	**£21.06**

FS4 Debtor days

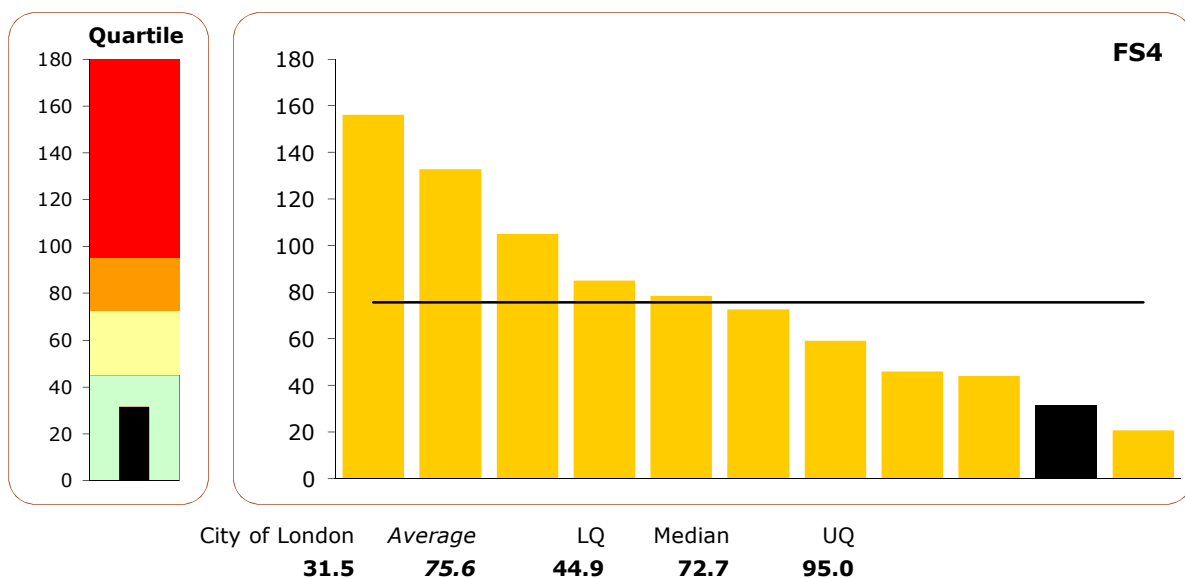**Rationale and expected impact on behaviour**
A standard and commonly used indicator that identifies the average number of days for the organisation to receive payment for its invoices.
Organisations should aim to achieve a period-on-period reduction in average debtor days.

City of London	*Average*	LQ	Median	UQ
31.5	***75.6***	**44.9**	**72.7**	**95.0**

FS5 Credit notes as a % total customer invoices raised
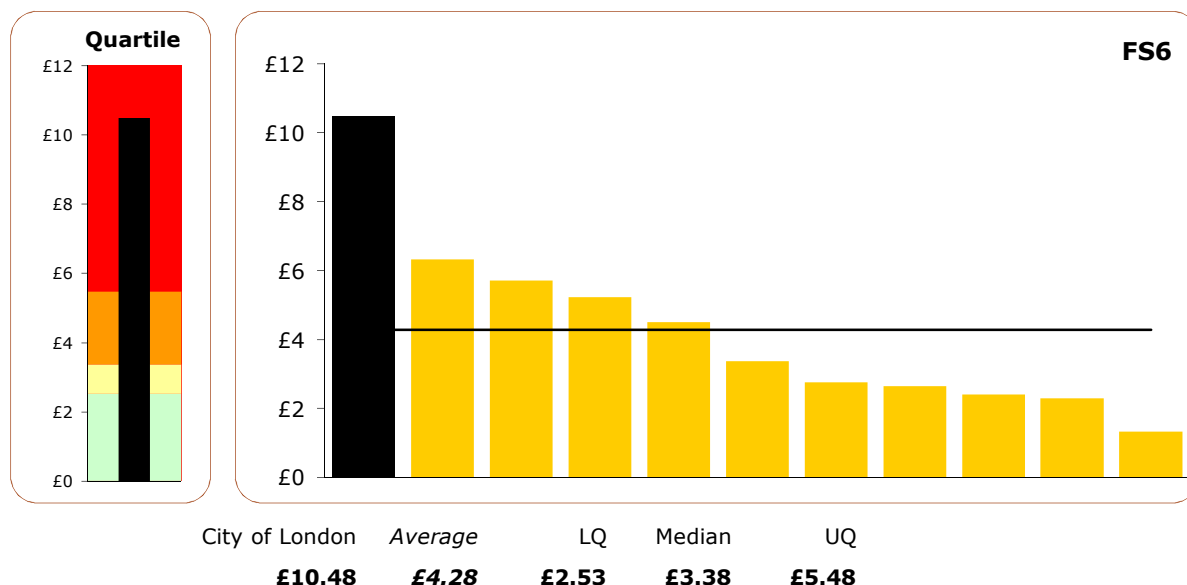
Rationale and expected impact on behaviour
This indicator examines the accuracy of invoices raised by reviewing the number of credit notes required to make adjustments to invoices previously raised.
Organisations should aim to achieve a period-on-period reduction in the percentage achieved for this indicator. Organisations should interpret achievement against this indicator alongside secondary indicators 3 (cost per customer invoice processed) and 6 (cost of Accounts Payable per invoice processed). (Note: The indicator is being used as a proxy for accuracy although it is recognised that organisations may use other mechanisms to make adjustments).

City of London	*Average*	LQ	Median	UQ
6.7%	**7.5%**	**3.7%**	**5.0%**	**7.4%**
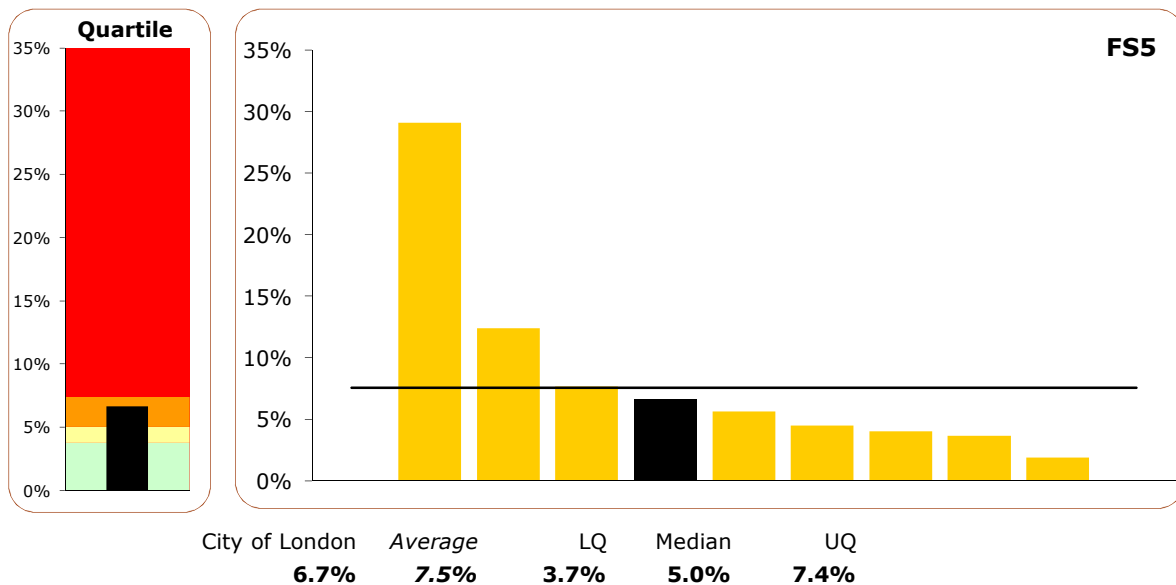
FS6 Cost of Accounts Payable per accounts payable invoice processed

Rationale and expected impact on behaviour
A standard and commonly used indicator identifying the cost of processing each supplier invoice. Organisations should aim to achieve a period-on-period reduction in the cost achieved for this indicator. Organisations should interpret achievement against this indicator alongside secondary indicators 3 (cost per invoice raised) and 5 (credit notes as a percentage of invoices raised).


City of London	*Average*	LQ	Median	UQ
£10.48	**£4.28**	**£2.53**	**£3.38**	**£5.48**

FS7 % payments made by electronic means

Rationale and expected impact on behaviour
This indicator identifies the proportion of all payments made electronically, particularly with respect to BACS and RfT1, since these methods usually offer the most effective savings of time and cost compared with manual payment systems.
In most cases organisations would seek to achieve a period-on-period increase in the proportion of payments made electronically.

City of London	*Average*	LQ	Median	UQ
95.6%	***86.3%***	**82.1%**	**85.6%**	**93.7%**
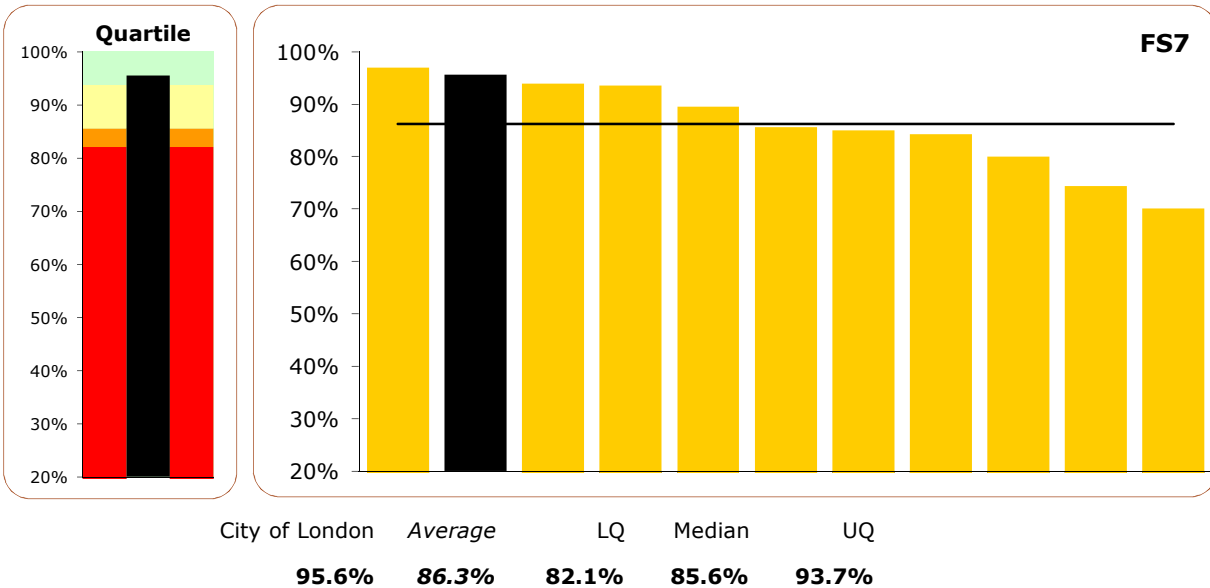
FS9(a) % invoices for commercial goods & services paid by the organisation within 10 days of receipt

Rationale and expected impact on behaviour
A standard and commonly used indicator that identifies the proportion of invoices that an organisation pays within 10 days and 30 days or within the agreed payment terms. To encourage prompt payment of invoices received. Performance should be within the appropriate prompt
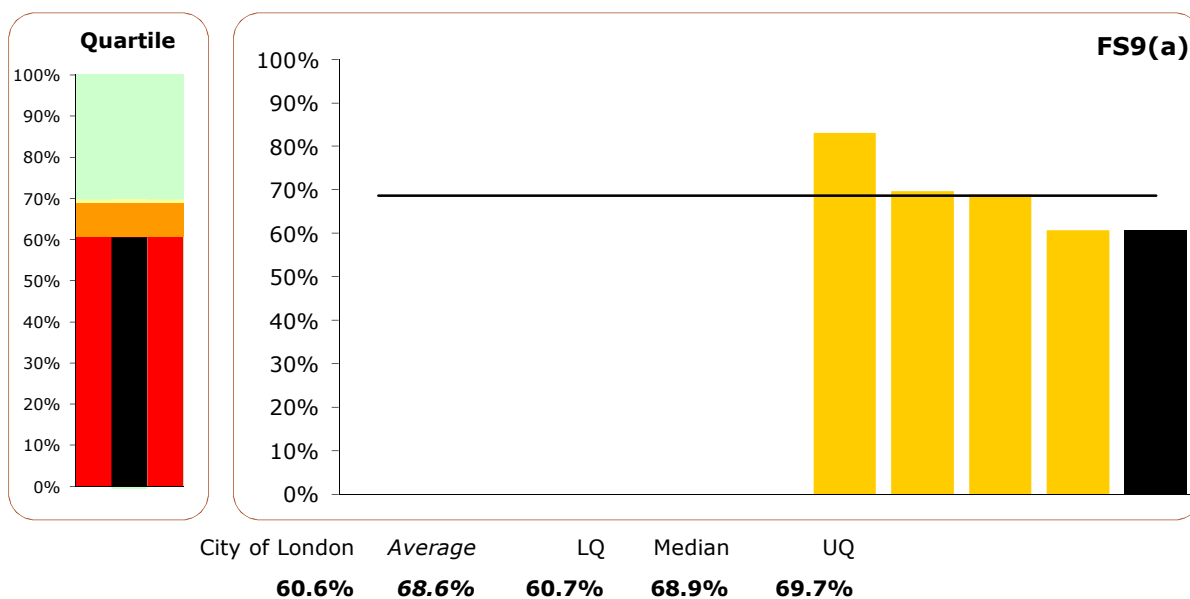
City of London	*Average*	LQ	Median	UQ
60.6%	***68.6%***	**60.7%**	**68.9%**	**69.7%**

# FS9(b) % invoices for commercial goods & services paid by the organisation within 30 days of receipt or within the agreed payment terms

City of London	Average	LQ	Median	UQ
88.6%	90.0%	86.7%	90.7%	94.9%
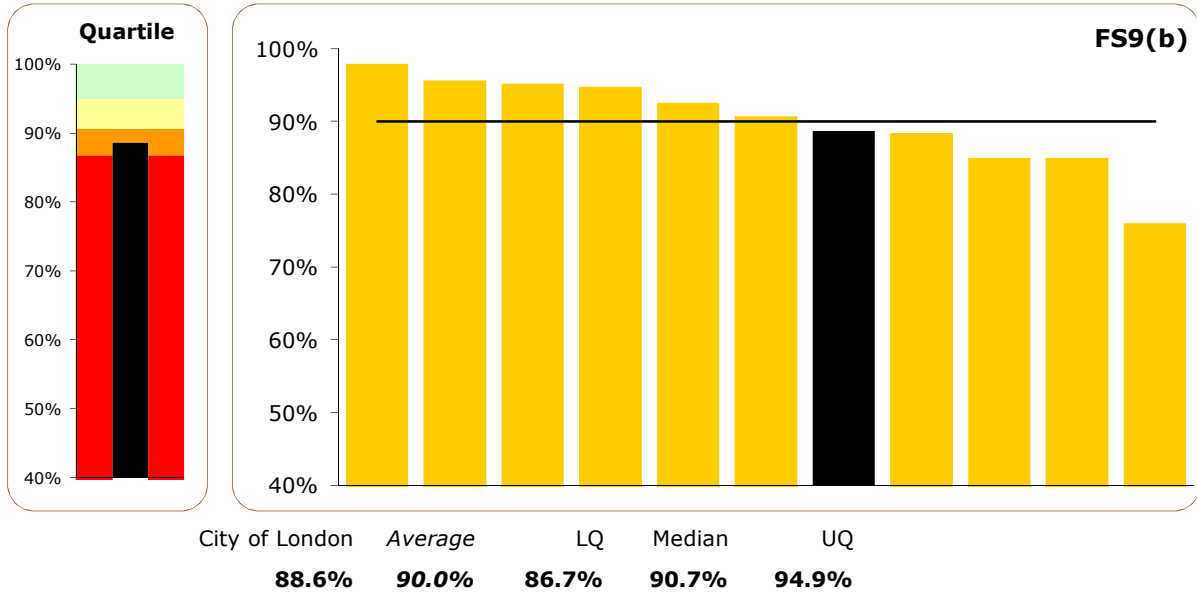
FS10 Payroll admin cost per employee paid

Rationale and expected impact on behaviour
A standard and commonly used indicator that seeks to establish the cost of paying one single employee as an indicator of the cost effectiveness of the payroll function.
In most cases organisations should aim for a period-on-period reduction in the average cost.
(Note: This function may be a responsibility of HR in some organisations. In these instances the indicator should accordingly be completed by HR)


City of London	Average	LQ	Median	UQ
£51.08	£72.14	£33.46	£65.33	£88.49
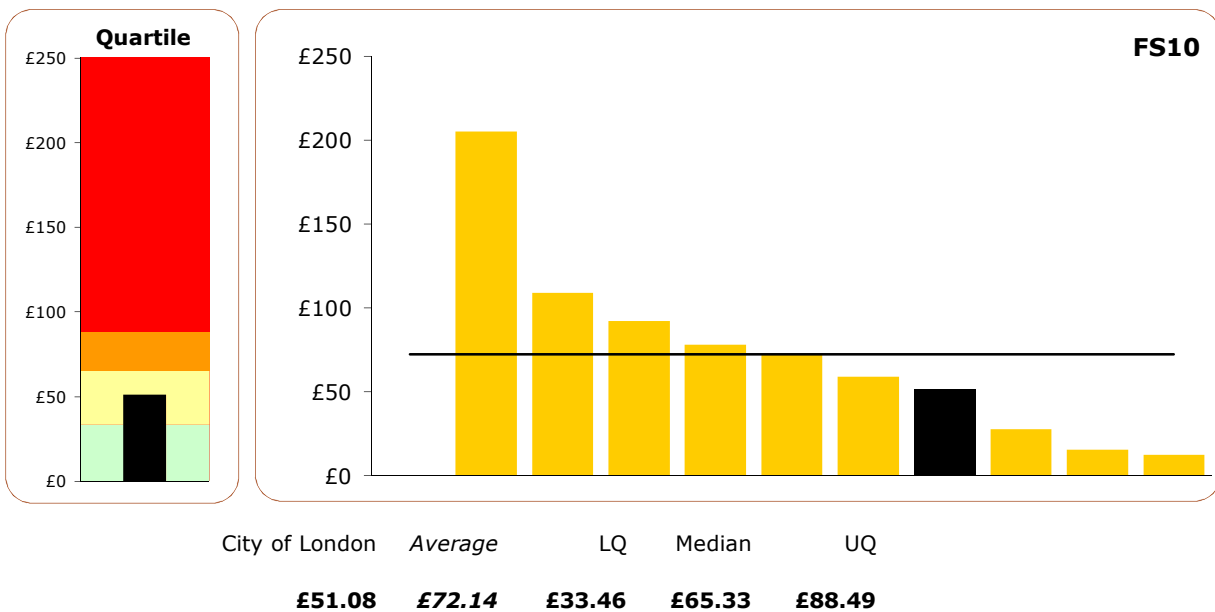
Section 2 - IMPACT

FP2 Days from period-end closure to distribution of routine financial reports to budget managers and overseeing boards and committees

**Rationale and expected impact on behaviour**
This indicator measures the typical number of days it takes the finance department to produce management information and so identifies the extent to which budget managers, and overseeing boards and committees, can take timely financial decisions based on up to date financial information. In most circumstances organisations should aim to reduce the number of working days to produce financial reports. Organisations should interpret their achievement against this indicator in conjunction with the response to the commissioner statement 'The financial information provided for financial planning and management is accurate, timely and easy to access' (contained in primary indicator 5) and secondary indicator 2(b) (which asks whether the year-end accounts were qualified by external

	City of London	Average	LQ	Median	UQ
	3	13	6	10	19
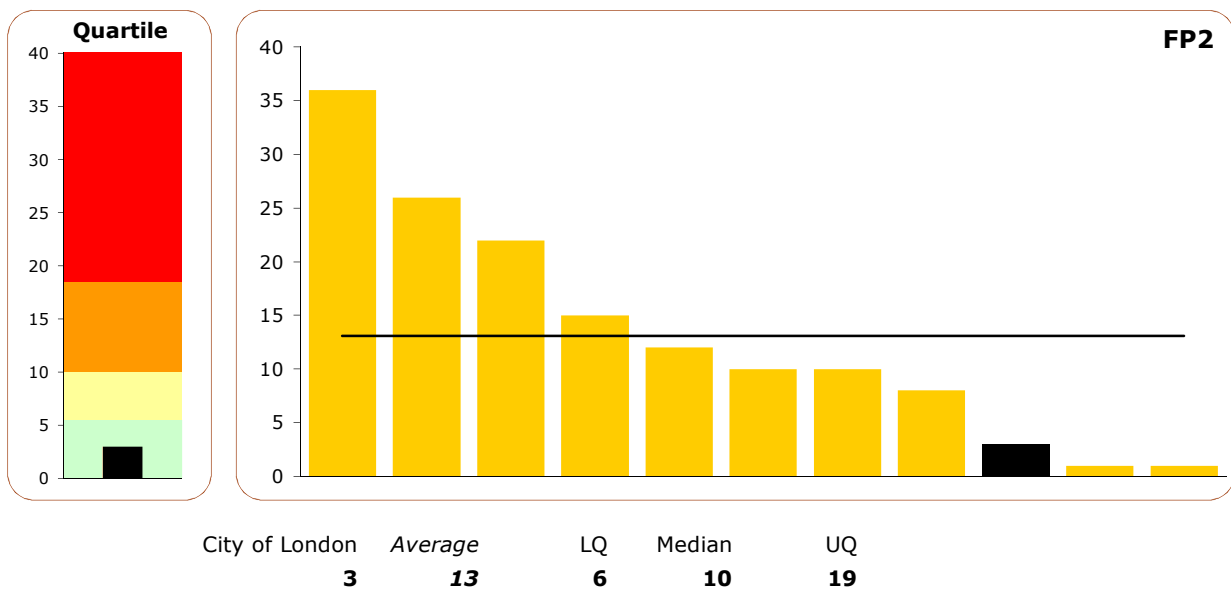
FP3 % variation between forecast outturn at month 6 and the actual outturn at month 12

Rationale and expected impact on behaviour
This indicator assesses the accuracy of forecasting. Organisations should aim to reduce the level of variation between their month 6 forecast and the year-end outturn by improving forecasting and budgetary control.


FP3 Actual Values

Quartile

FP3 Absolute Value
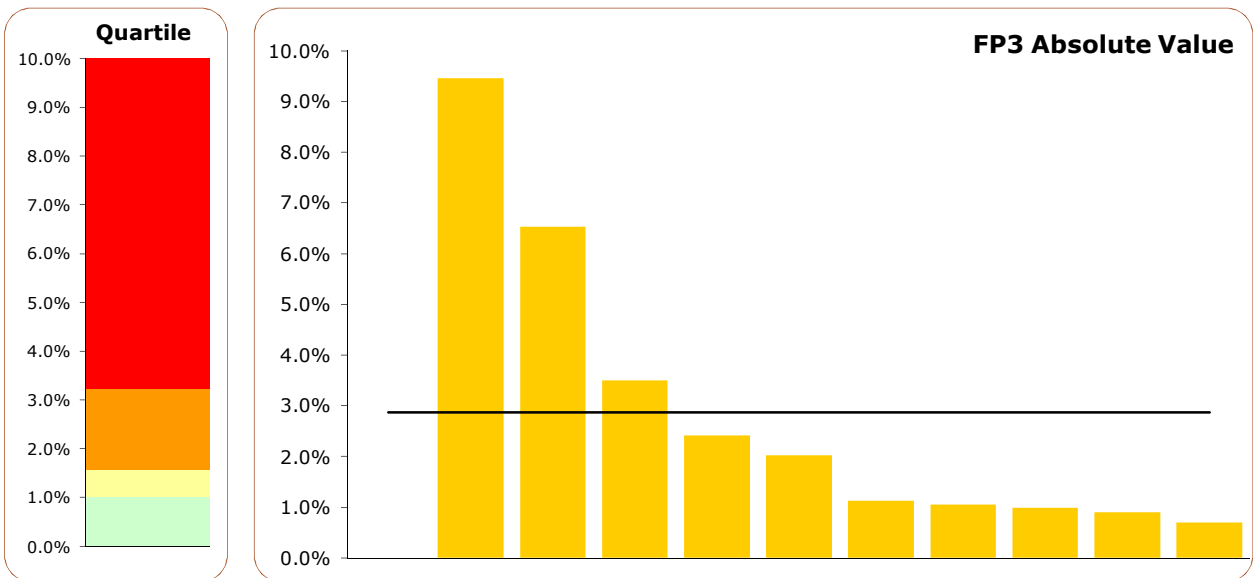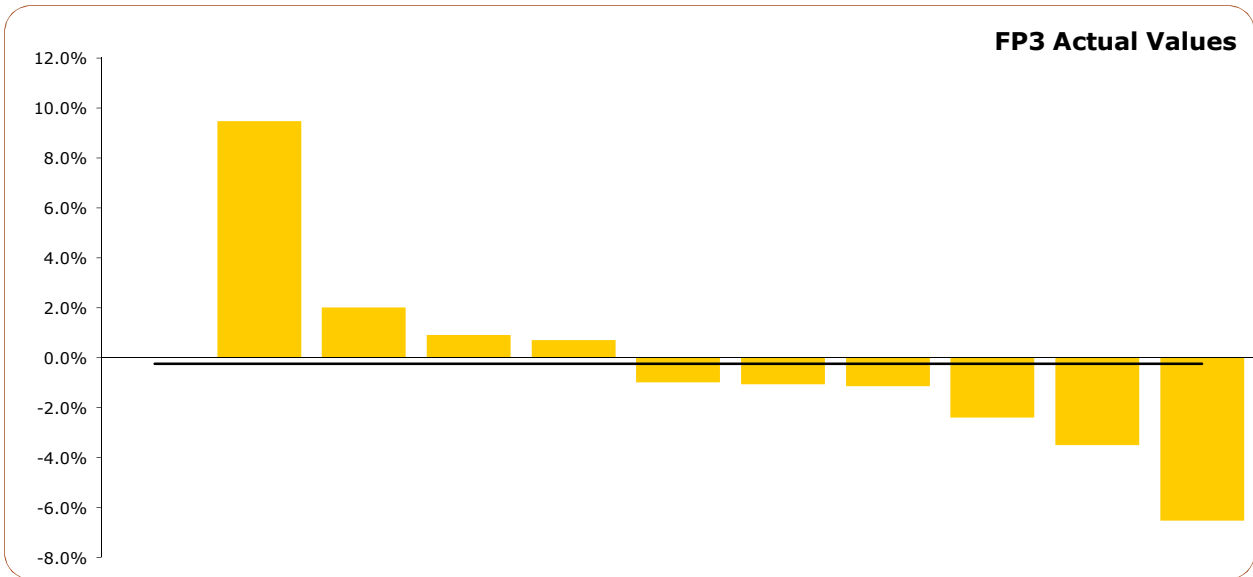
City of London	*Average*	LQ	Median	UQ
na	**2.9%**	**1.0%**	**1.6%**	**3.2%**

FP4 % public sector organisation spend for which there are fully costed outputs which are measured by key performance metrics and for which a named individual is accountable

Rationale and expected impact on behaviour
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.
Over time, organisations should aim to increase the percentage of their spend that meets the criteria of this indicator.
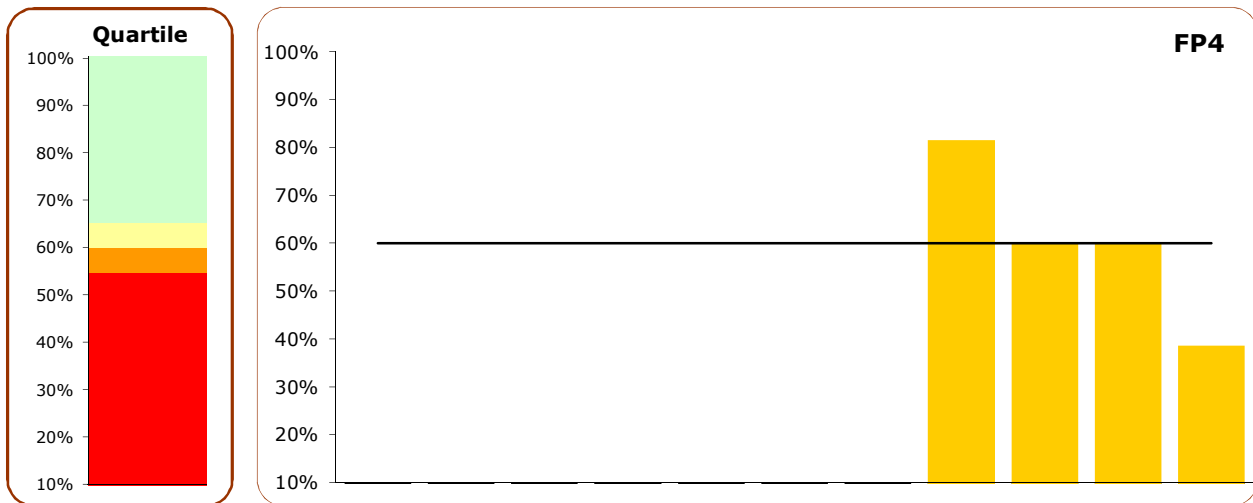
| City of London	Average	LQ	Median	UQ
na	60.0%	54.6%	60.0%	65.4%

Secondary Indicators

FS1 Professionally qualified finance staff as % total finance staff (FTEs) undertaking reporting, controls and decision support processes (i.e. excludes those staff involved in transactional processes)

> **Rationale and expected impact on behaviour**
> This indicator assesses the capacity and competency of the finance department by examining the proportion of staff with a professional accountancy qualification.
> In most cases organisations would aim for a period-on-period increase in this percentage. Organisations should interpret their achievement against this indicator alongside primary indicator 5 (the commissioner and user satisfaction index) and secondary indicator 2 (the length of time necessary to produce year-end accounts and whether those accounts required qualification).


City of London	Average	LQ	Median	UQ
22.8%	35.6%	26.4%	29.9%	40.5%
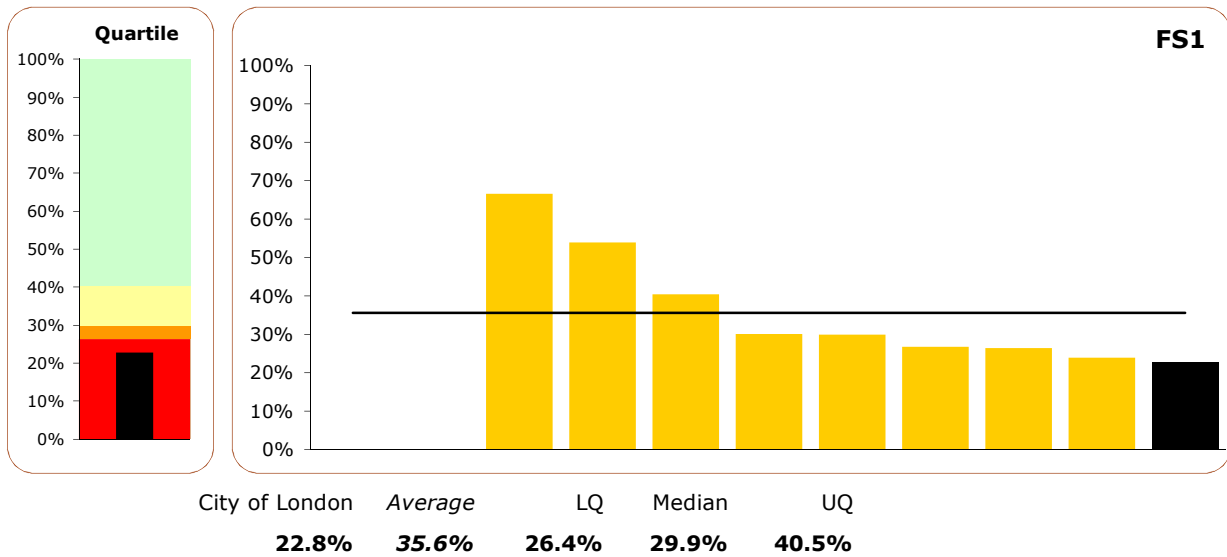
FS2 (a) Days from date of year-end to submission of annual accounts for audit

> **Rationale and expected impact on behaviour**
> This indicator examines the effectiveness of the finance function by assessing their ability to produce a timely and accurate set of annual accounts. Date of year-end to submission of annual accounts for audit varies both across organisations and sectors. It will be appropriate to compare with similar type organisations. In most circumstances organisations should aim to both reduce the number of days taken to prepare their year-end accounts and ensure that they do not require external qualification.
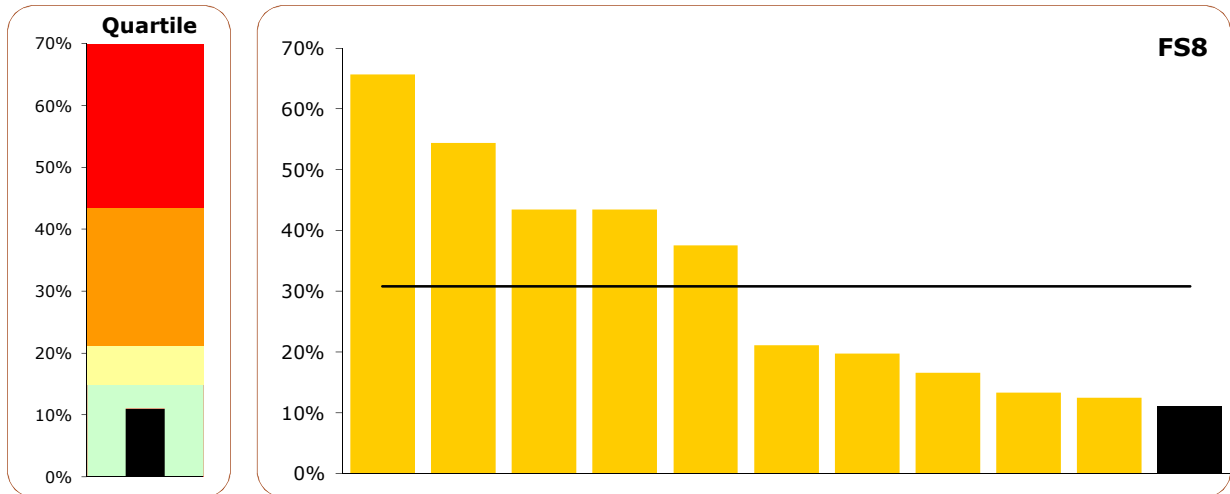

City of London	Average	LQ	Median	UQ
31	73	58	61	90
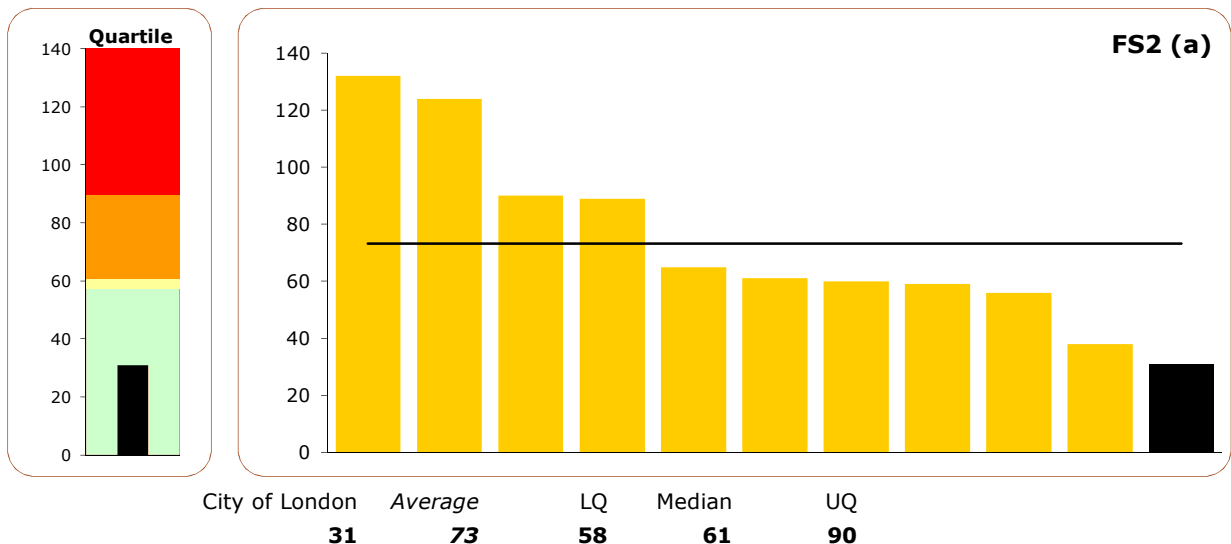
FS2(b) Was the last set of accounts qualified by external audit?
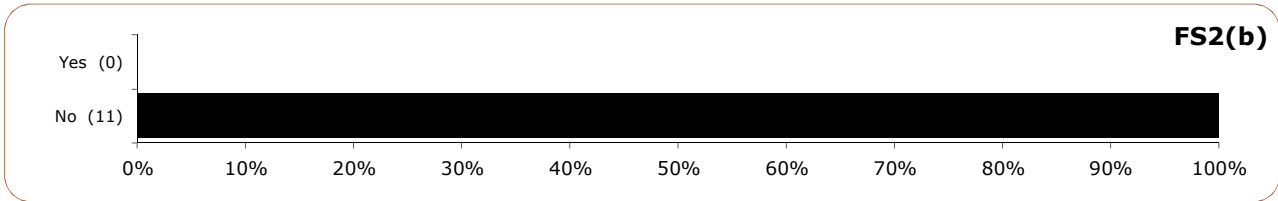
FS8 % outstanding debt that is more than 90 days old from date of invoice

Rationale and expected impact on behaviour
This indicator examines the ability of the finance department to recover outstanding debts from customers. We have adopted the commonly used 90-day credit period as the basis for the indicator. Organisations should aim to achieve a period-on-period reduction in the proportion achieved for this indicator. This indicator should be used in tandem with Secondary Indicator 4.

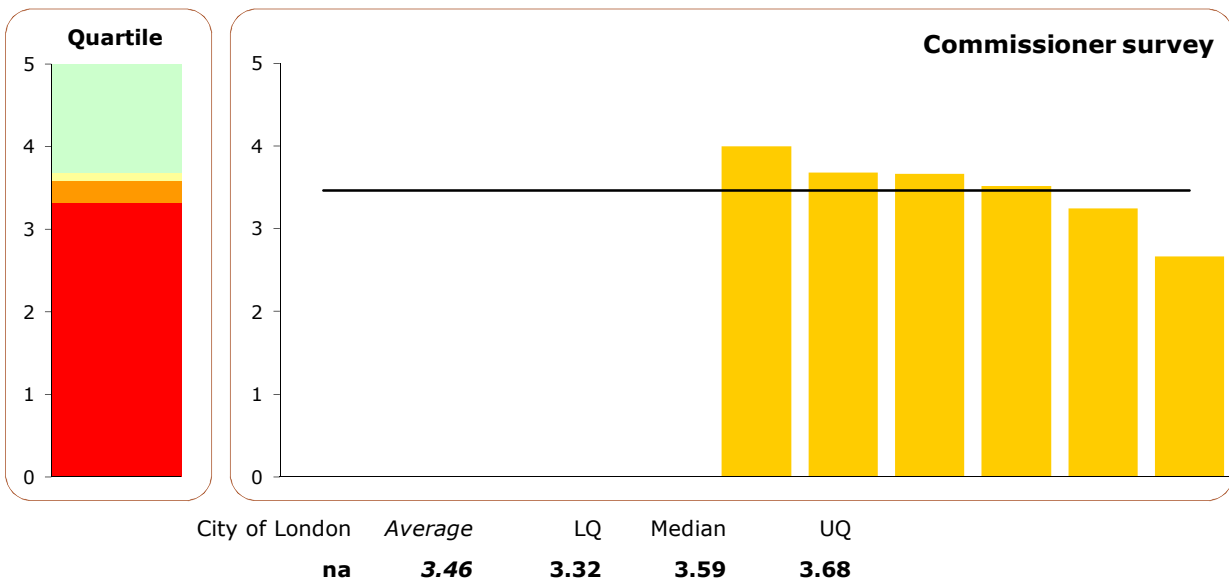| City of London	Average	LQ	Median	UQ
11.0%	**30.8%**	**14.9%**	**21.1%**	**43.5%**

Section 3 - SATISFACTION

> **Rationale and expected impact on behaviour**
> This indicator examines the effectiveness of the finance function by assessing the perceptions of its commissioners and users. The indicators have been identified because they are considered to indicate whether the function communicates effectively with its commissioners and users, and is responsive to the requirements of the organisation.
> Over time, organisations should seek to increase the proportion of commissioners and users agreeing with the statements.

Please note if you are using the online surveys we will complete this section for the final reports.

FP5(a) Commissioner satisfaction average score

City of London	Average	LQ	Median	UQ
na	3.46	3.32	3.59	3.68

FP5(b) User satisfaction average score

City of London	Average	LQ	Median	UQ
na	3.37	3.34	3.35	3.43
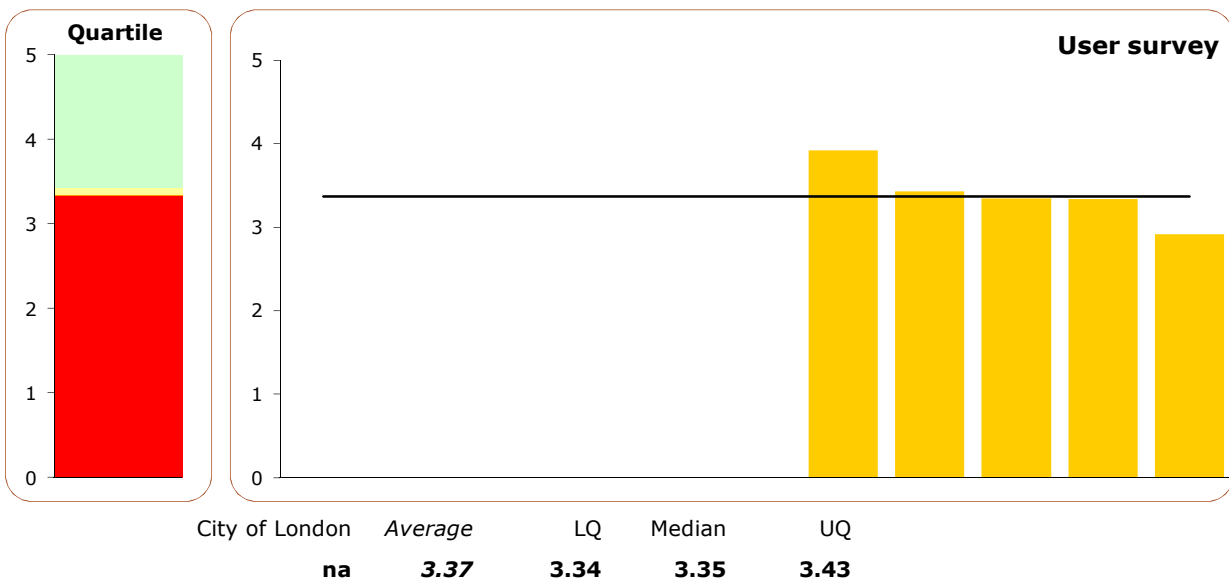
Analysis of individual statement scores

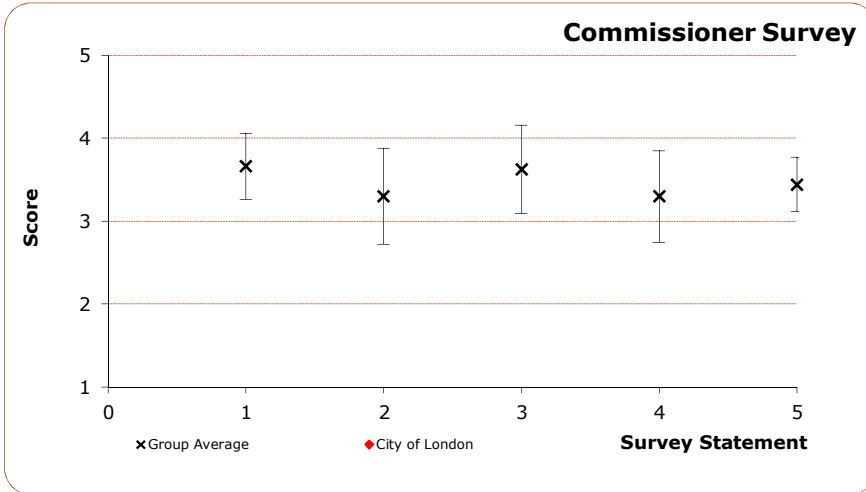These charts show the average performance scores for all participants as black x's. The black error bars show one standard deviation either side of the mean. Approximately 65 - 70% of the organisations will fall within this range. The red diamond is the average score for your organisation.

Commissioner Survey

Survey Statements

- The Finance function supports the financial implications of the organisation's strategy, policy and delivery discussions by providing effective support and challenge.
- The financial information provided for financial planning and management is accurate, timely and easy to access.
- The organisation's financial systems are secure and efficient.
- The Finance function proactively anticipates my needs.
- The Finance function provides value for money.

User Survey
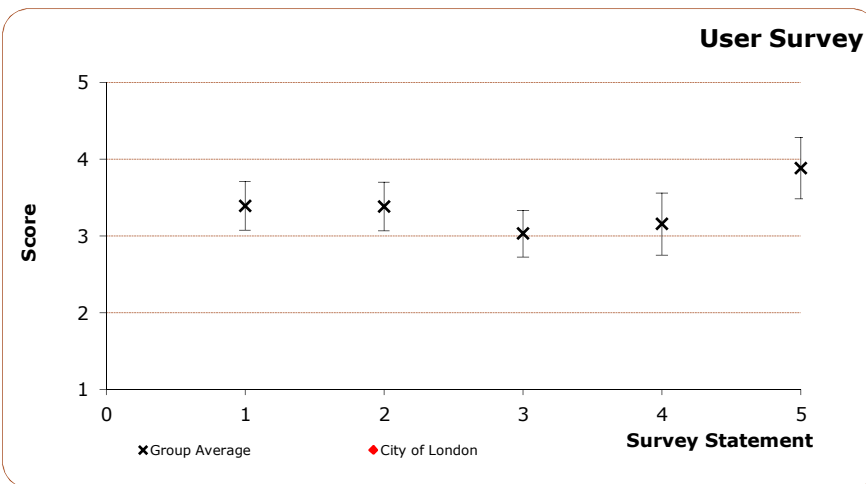
Survey Statements

- Finance regularly provides the information needed to understand the level of delivery in my area of responsibility and the related cost.
- Finance policies and procedures are clear and understandable.
- The organisation has clear and easy to use financial systems.
- Appropriate financial management training for non-finance staff is provided.
- I know who to contact if I have a query regarding finance.

Section 4 - MANAGEMENT PRACTICE INDICATORS

FP6 CIPFA Financial Management Model

This indicator was intended primarily for Central Government Bodies

		Management Dimension			
		Leadership	**People**	**Process**	**Stakeholders**
Financial Management Style	**Securing Stewardship**				
	Supporting Performance				
	Enabling Transformation				

These charts show the average performance scores for all participants as black x's. The black error bars show one standard deviation either side of the mean. Approximately 65 - 70% of the organisations will fall within this range. The red diamond is the average score for your organisation.

(Care should be taken when interpreting these results as they are based on a very small sample size)

FP7 Modern Management Practices

Management practice total score

	City of London	Average		LQ	Median		UQ
	8	*8*		**7**	**7**		**8**

	City of London	Yes	No	% Yes	% No
FMP1	**Yes**	**10**	**0**	**100.0%**	**0.0%**
FMP2	Yes	7	3	70.0%	30.0%
FMP3	**Yes**	**10**	**0**	**100.0%**	**0.0%**
FMP4	Yes	10	0	100.0%	0.0%
FMP5	**Yes**	**9**	**1**	**90.0%**	**10.0%**
FMP6	Yes	5	5	50.0%	50.0%
FMP7	**Yes**	**8**	**2**	**80.0%**	**20.0%**
FMP8	Yes	2	8	20.0%	80.0%
FMP9	**No**	**7**	**3**	**70.0%**	**30.0%**
FMP10	No	7	3	70.0%	30.0%

FMP1

The responsibilities of budget holders are clearly understood and embedded in performance

FMP1

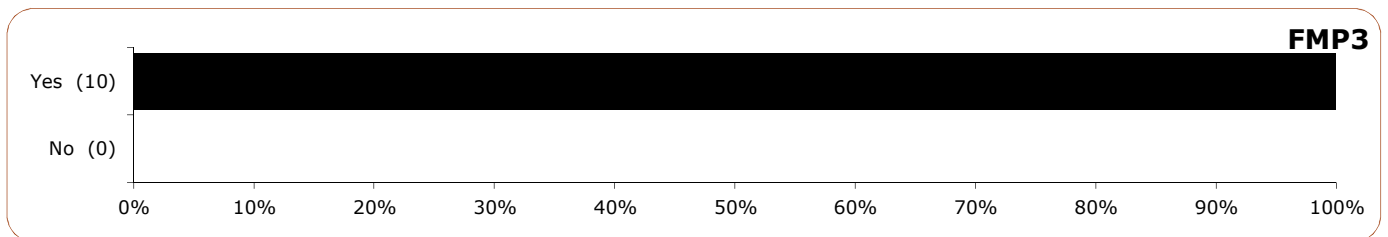Yes (10) — 100%
No (0) — 0%
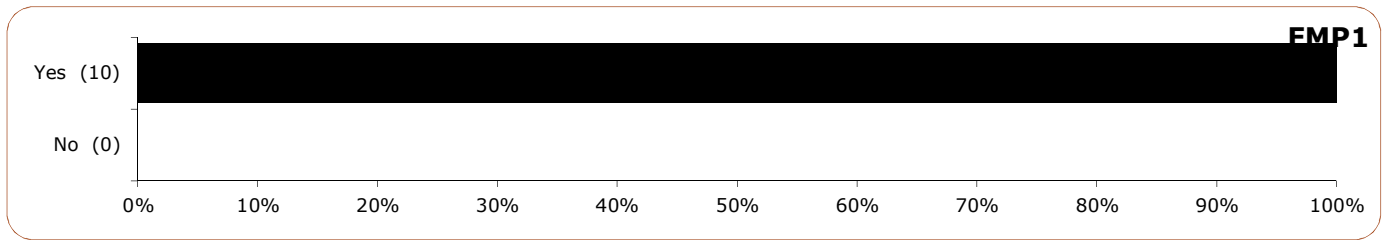
FMP2

Service levels and expectations have been set with key internal customers using a documented approach such as an SLA or Customer Charter, with regular service review meetings held.

FMP2

Yes (7) — 70%
No (3) — 30%
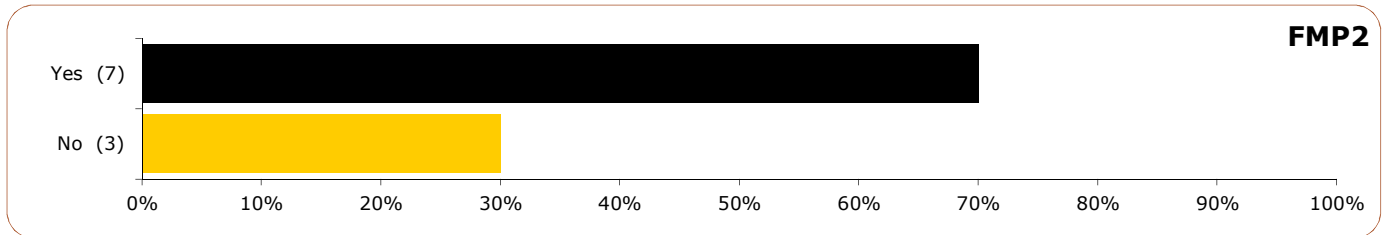
FMP3

A rolling programme of reviewing and benchmarking the organisation's costs is in place across major service areas.

FMP3

Yes (10) — 100%
No (0) — 0%

FMP4

Standardised organisation-wide integrated software is in place with centralised data processing. This should cover as a minimum purchase to payment of supplier and invoice to cash receipt from a customer.

FMP4

Yes (10) — 100%
No (0) — 0%
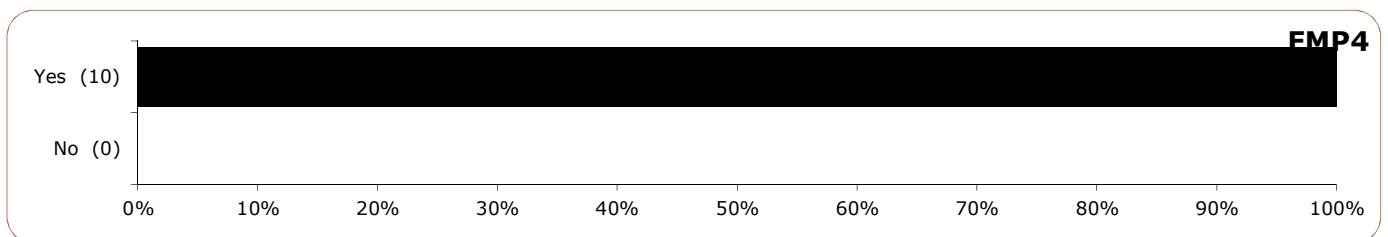
FMP5

The organisation can demonstrate that it has used at least two of the following to steam-line financial processes in the last 3 years; a) bar coding, b) invoice scanning/imaging, c) workflow, d) web technologies to build extranets with external stakeholders, e) intranet to build self service capabilities for staff to check status, run reports, f) on-line travel and expense system used by claimants that is fully integrated with the accounting system.
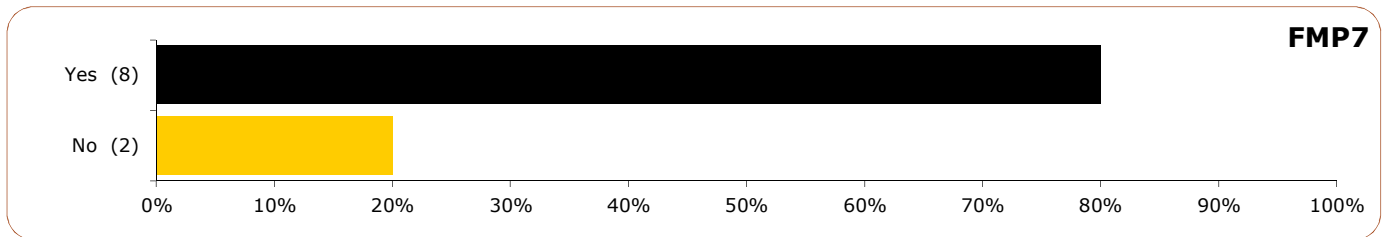
FMP5

Yes (9) — 90%
No (1) — 10%
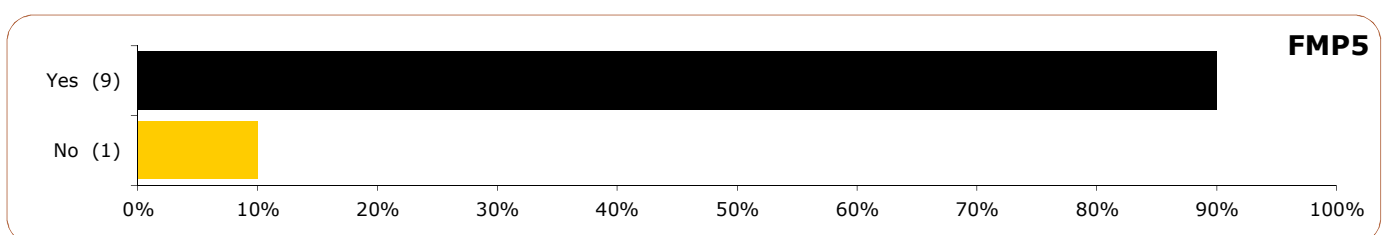
FMP6

Fully automated accruals system based on purchase order and good/services received information held within a fully integrated accounting system.
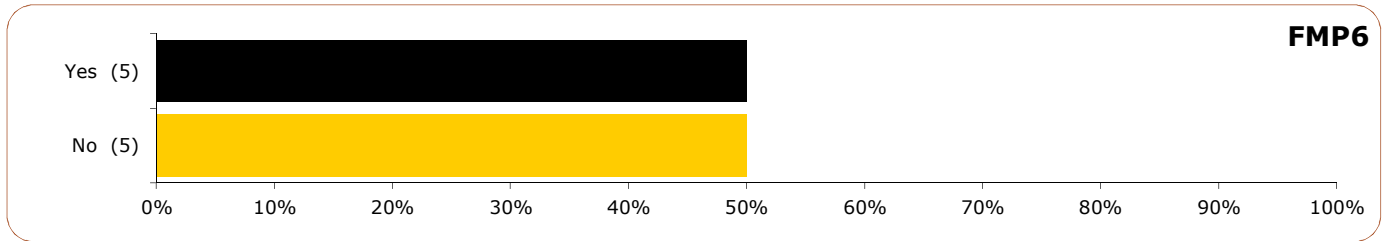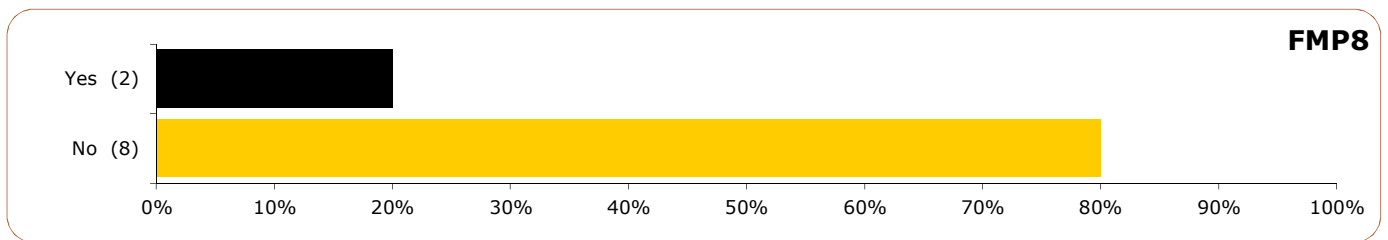

FMP7

Budget holders have on-line, real-time insight into the status of their budget and can run standard financial and manpower reports through their desk top PC.

FMP8

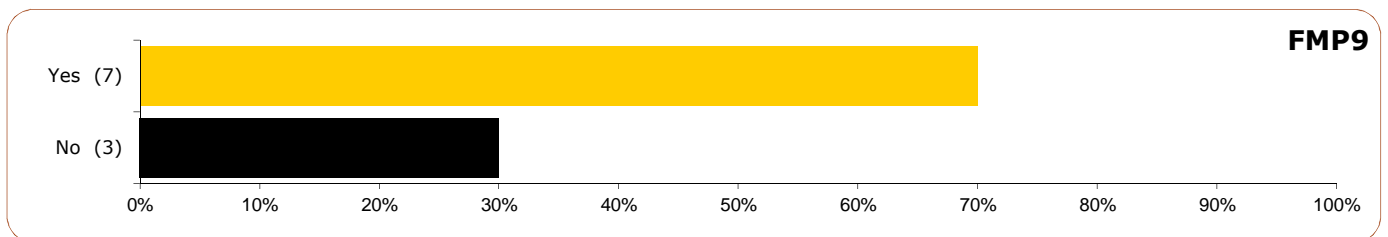A needs based budget based on activity levels rather than historical baselines, is prepared at least every 3 years.
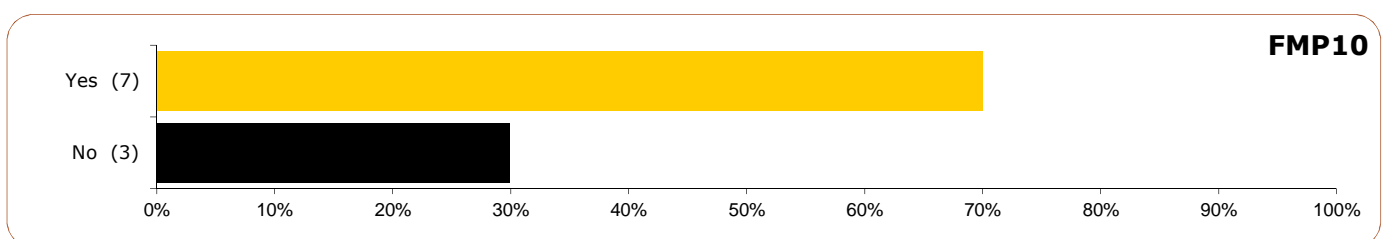

FMP9

Customer satisfaction surveys are conducted at least annually with results openly published and acted upon.

FMP10

A comprehensive professional development programme is in place for Finance staff which ensures that they receive at least 5 days of continuing professional development per annum.

Section 5 - TABULAR DATA

		City of London	Average	Lower Quartile	Median	Upper Quartile
Primary Indicators 2013/14						
FP1	Cost of the Finance function as a percentage of organisational running costs (expenditure)	1.6%	1.0%	0.7%	1.0%	1.1%
FP1(a)	Cost of transaction processing as a proportion of the finance function	28%	28%	20%	26%	32%
FP1(b)	Cost of business decision support as a proportion of the cost of the finance function	43%	37%	33%	38%	42%
FP1(c)	Cost of reporting and control as a proportion of the cost of the finance function	28%	37%	34%	37%	40%
FP2	Cycle time in working days from period-end closure to the distribution of routine financial reports to all budget managers and overseeing boards and committees	3	13	6	10	19
FP3	% of variation between the forecast outturn and the actual outturn at month 12 (absolute values)	na	2.9%	1.0%	1.6%	3.2%
FP4	Percentage of public sector organisation spend for which there are fully costed outputs which are measured by key performance metrics and for which a named individual is accountable	na	60.0%	54.6%	60.0%	65.4%
Secondary Indicators						
FS1	Professionally qualified finance staff as a percentage of total finance staff (FTEs) undertaking reporting, controls and decision support processes (i.e. excludes those staff involved in transactional processes)	22.8%	35.6%	26.4%	29.9%	40.5%
FS2(a)	Cycle time in days from date of year-end to submission of audited accounts	31	73	58	61	90
			Yes	No	% Yes	% No
FS2(b)	Were the last set of accounts qualified by external audit?	No	0	11	0%	100%
FS3	Cost of Customer Invoicing function per customer invoice processed	£20.12	£16.03	£10.19	£16.35	£21.06
FS4	Debtors days	31.5	75.6	44.9	72.7	95.0
FS5	Credit notes as % of total customer invoices raised	6.7%	7.5%	3.7%	5.0%	7.4%
FS6	Cost of Accounts Payable per accounts payable invoice processed	£10.48	£4.28	£2.53	£3.38	£5.48
FS7	Proportion of all payments made by electronic means	95.6%	86.3%	82.1%	85.6%	93.7%
FS8	Proportion of outstanding debt that is more than 90 days old from date of invoice	11.0%	30.8%	14.9%	21.1%	43.5%
FS9(a)	% invoices for commercial goods & services paid by the orgainisation within 10 days of receipt	60.6%	68.6%	60.7%	68.9%	69.7%
FS9(b)	% invoices for commercial goods & services paid by the orgainisation within 30 days of receipt or within the agreed payment terms	88.6%	90.0%	86.7%	90.7%	94.9%
FS10	Cost of Payroll Admin per employee paid	£51.08	£72.14	£33.46	£65.33	£88.49