

Committee:	Dated:
Efficiency and Performance Sub Committee	13 January 2016
Subject: CIPFA Value for Money indicators 2014/15	Public
Report of: The Chamberlain	For Information

Summary

This report outlines the CIPFA Public Sector Corporate Services VFM Indicators for Finance, HR and Legal Services between 2014/15 (the latest available statistics) and compares movements to the previous submission for 2013/14. 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.

Recommendation

Members are asked to note the report.

Main Report

Background

1. Members have previously been presented with the CIPFA Public Sector Corporate Services VFM Indicators for the Finance, HR & Legal Services functions in 2013/14.
2. The CIPFA data for 2014/15 is now available and is presented in Appendix A (Finance), Appendix B (HR) and Appendix C (Legal Services). The reports have been analysed and compared with the 2013/14 submissions to monitor changes and identify any areas of continuing concern.
It should be noted that only seven London boroughs participated in the current legal services survey.

Finance

3. The Public Sector Corporate Services VFM Indicators for Finance Services in 2013/14 compare the City Of London Corporation data with 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 2013/14;
- 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	2014/15	2013/14	2011/12
FP1	Cost of Finance function in relation to size of organisation	1.4%	1.6%	1.8%
FS1	% of staff professionally qualified	25.7%	22.8%	35.6%
FS5	Credit notes as % of invoices	5.6%	6.7%	7.8%
FS8	% of outstanding debt more than 90 days old	13.9%	11.0%	12.3%

4. Indicator FP1 states 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 1.4% of the overall organisational spend. This is an improvement on a figure of 1.6% for 2013/14 and the 1.8% figure back in 2011/12. However, despite the continuing shift to a lower proportion of cost over recent years, this is still a 'red light' in CIPFA terms as it compares unfavourably with an average of 1.0%. . Note the average figure in the survey has fallen from 1.2% in 2011/12 to 1% in 2014/15. The Committee structure of the City means that it is always likely to be significantly more expensive than local authority comparators. However, the implementation of the replacement/upgrades to the Manhattan and Oracle systems should allow further efficiencies to be realised in the Finance team once current issues are resolved.
5. Given the high (but reducing) 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. The allocation of resources to the cost of reporting and controls is seen to be correct, however the City has two amber light issues in that the proportion of spend on transaction processing is deemed too high and the proportion on supporting business decisions is deemed too low. Significant cost reduction measures affecting the cost of transaction processing are being addressed as part in the Service Based Review.
6. One area of concern back in 2011/12 was Indicator FS5 which relates to amount of credit notes raised as a % of total customer invoices raised. This figure was

7.8% in 2011/12 and has fallen back first to 6.7% in 2013/14 and now 5.6%, well below the London average of 7.3%.

7. FS 6 shows the cost of accounts payable to be high when compared to the group. Greater purchase order compliance, higher levels of P.O. for easy matching, e-Invoicing and a greatly reduced amount of suppliers contracted should see this cost reduce significantly next year. However, Indicator FS9(a), which shows the % invoices for commercial goods & services paid by the organisation within 10 days of receipt, has greatly improved over the last year. The CoL figure is 83.0% compared to 60.6% last year and is now better than the London average of 78.0%, mainly driven by much higher use of purchase orders across the organisation.
8. 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 challenge to put in place a comprehensive suite of KPI's linked to fully costed outputs.
9. Indicator FS1 sets out the % of finance staff that are professionally qualified. The City of London figure is 25.7%, higher than the figure of 22.8% last year but still below the London average of 35.5%. The professional training and development programme has recently been reviewed and this mix should change in forthcoming years. Approximately 18% of Financial Services Division staff are currently training for a professional accounting qualification.
10. One area of concern is Indicator FS8, the percentage of outstanding debt that is more than 90 days old from the date of the invoice, which stands at 13.9%. Whilst this remains well below the London average of 29.3% it has increased from 12.3% in 2011-12 and 11.0% in 2013-14.
11. The City also scored very well for using modern finance practices as set out in Indicator FP7 with a score of 9 out of 10, which should move to 10 out of 10 going forward, with the one missing item relating to embedding annual customer satisfaction surveys which the Chamberlain has instigated.

Legal Services

12. The Public Sector Corporate Services VFM Indicators for Legal Services in 2014/15 compare the City Of London Corporation data with six other London Boroughs. The key messages from the analysis are:
 - The City still appears expensive on the economy and efficiency indicators, but is improving in this area;
 - The legal services provided by the Comptroller and City Solicitor are very highly regarded; and
 - Modern practices are well embedded.

13. There are four main indicators relating to the economy and efficiency of the legal service. In the past the City of London has been in the most expensive quartile for each, but this year that improves to only three of the 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 0.83% is above the average of 0.54% but is an improvement on the previous years 0.92%. Note however the average has also reduced over the period from 0.61% in 2013/14.
- Indicator LS1 (b) is very similar but compares costs net of income as a percentage of organisational running costs. Again the City figure of 0.62% is above the average of 0.44% but is better than the previous years 0.81%.
- Indicator LS5 sets out the cost of the legal function per employee - the City figure of £1,243 is only slightly above the average of £1,194.
- Indicator LS8 sets out the cost per hour of providing legal work. The City figure of £94 is again in the top quartile compared to an average of £71.

14. 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. 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.

15. 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 appropriate salaries to attract the right skills and experience. 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.

16. The levels of satisfaction with the legal service continues to be very high as shown by both Commissioner and User Satisfaction ratings set out in 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.

17. It is noted that only six London boroughs participated in the legal services survey for 2013/14 and seven legal departments in the current survey.

Human Resources

18. The Public Sector Corporate Services VFM Indicators for Human Resources in 2014/15 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.

19. 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 0.99% is above the average of 0.76%, but is not in the top quartile.
- Indicator HRP1(b) calculates the overall HR cost per FTE. Against this measure however, the City is again in the most expensive quartile with a figure of £1,087 compared to an average of £896.

20. There are number of factors influencing the high cost of the service which can distort the way the VfM is reported. 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. Also the cost of the HR function used for the report is the total cost of the HR service, but the FTE figure used to compare with this only reflects the staffing of our City Fund services. 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.

21. The cost of agency staff as a percentage of the total pay bill as set out in Indicator HRS2 was 14.9% against an average of 8.3%. This is an increase on the 9.9% figure last year. This is partly due to a high proportion of consultants being employed over the last 12 months to manage and support key projects such as Oracle, Service Based Review and Police IT. Work is currently underway to review our use and cost of consultants in the future.

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

- Indicator HRP3 shows the City (1.5 days per FTE per year) to be above the average (1.2) for investing in employees' development.

- Staff turnover, as shown by Indicator HRP4, is 13.7% which is above the London average of 8.7%. However, this comes after a number of years of much lower than average staff turnover. With a number of restructures and efficiencies being implemented this has impacted on the staff turnover. This includes a number of short term contracts that have not been renewed. This area will continue to be monitored as we progress the Service Based Reviews over the next two/three years.
- Indicator HRP5 shows the average working days per FTE lost annually through sickness at 5.4% to be below the average of 7.5% and lower than the 5.6% last year. This is partly a result of initiatives such as the Sickness Absence Review Group and continued close management of sickness absence.
- 94% of staff have an annual face to face appraisal compared to an average of 72% 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%.
- Elapsed time from a vacancy to acceptance of an offer now stands at 49.1 days which is better than the London average of 54.2 days and a significant improvement on the previous year.

23. There are a number of indicators which relate to the equality and diversity agenda - HRS10 to HRS13. These indicators are regularly monitored by Establishment Committee and so no comment is made in this report.

24. Note that during 2014/15 no User Satisfaction surveys were carried out.

25. 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.

Conclusion

26. 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. It's however important to note in all areas these costs are falling.

27. 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 and ensuring appropriate professional development of staff.

28. The Comptroller and City Solicitor focus on improving efficiency is mainly through better demand management, but also exploring possible shared service arrangements where practicable. Due to the low number of legal departments participating in the survey it is recommended that, in future, legal services are surveyed every three years

29. The Director of HR is focusing on a number of areas to reduce costs going forward as outlined in the Service Based Review.

Appendices

- Appendix A – CIPFA Finance VFM Indicators 2014-15
- Appendix B – CIPFA Legal VFM Indicators 2014-15
- Appendix C – CIPFA HR VFM Indicators 2014-15

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