

Subject: Benchmarking (2006/07 Data)

Status: For Publication

Report to: Performance Overview & Scrutiny Committee

Date: 20th November 2008

Report of: Finance Manager

Portfolio

Holder: Finance & Resources

Key Decision: No

Forward Plan General Exception Special Urgency "X" In Relevant Box

1. PURPOSE OF REPORT

- 1.1 The purpose of the report is to update Members on the results of the financial benchmarking exercises undertaken earlier this year.
- 1.2 The service areas covered were Finance, Human Resources (HR), Information & Communications Technology (ICT), Property and Procurement which have been identified by the Government as a priority area for securing efficiency improvements and releasing resources for use in delivering front-line services

2. CORPORATE PRIORITIES

- 2.1 The matters discussed in this report impact on following:
 - o *A Well Managed Council: strong financial management and the delivery of value for money services (Customers, Community Network, Improvement, Partnerships)* – Effective and strong financial management of back-office functions ensures the effective management of the Council’s resources which then enables the provision and delivery of value for money services

3. RISK ASSESSMENT IMPLICATIONS

- 3.1 All the issues raised and the recommendations in this report involve risk considerations as set out below:

- 3.1.1 Financial monitoring focuses on the key risk areas of: employment costs, income, agreed budget savings, emerging issues and opportunities and in particular service department net costs.
- 3.1.2 This benchmarking exercise helped to provide comparative assessments for some of the key back-office functions. However, caution must be exercised to ensure that comparisons are made on a like-for-like basis and that authority size is taken into account when arriving at any conclusions from the data collected. The exercise was of a voluntary and paid for nature, therefore it was not always possible to obtain absolute Rossendale comparisons. That said the exercise did confirm officers' understanding of the services and confirmed the validity of decisions previously made to take action regarding efficiencies.

4. BACKGROUND AND OPTIONS

- 4.1 In June 2007 the Council published its "Strategic Approach to Value for Money in Service Delivery". Part of the Councils action plan for delivering value for money was the completion of a number of service benchmarking exercises, the results of which are detailed in the following report.
- 4.2 The financial year used as a comparator was 2006/07 being the latest year in which all organisations had audited data available. Clearly as this Council reaches the second half of 2008/09 and prepares budgets for the following year much has improved with regard to efficiencies. The Council has exceeded its Gershon annual efficiency targets, retained Council tax increases below inflation and made significant changes to its cost base in order to redistribute financial resources into those areas of priority.
- 4.3 Therefore, as we entered into this exercise Officers were aware that there were a number of areas in which action was already underway to address know inefficiencies or areas of high cost, eg IT, systems databases, organisational structures, etc.
- 4.4 In addition it has to be recognised that for a relatively small district council, such as Rossendale, there is a minimum resource which is needed for the Council to act effectively. This Council will always struggle in maximising economies of scale compared to larger organisations. This is clear in one of the key comparators which matches corporate service overheads (ie. HR, Finance and IT) with the Council's total annual spending.
- 4.5 The exercise involved a wide mix of government agencies such as District Councils, Police, Fire, PCTs etc. Some of these organisations may not always be readily comparable to that of a District Council organisation.
- 4.6 The following now summaries the key findings from each of the 5 exercises:
- 4.7 **Financial Services Benchmarking Exercise**
 - 4.7.1 In this exercise the costs of payroll functions were included, but the costs of procurement management and internal audit were excluded.

4.7.2 Cost comparisons:-

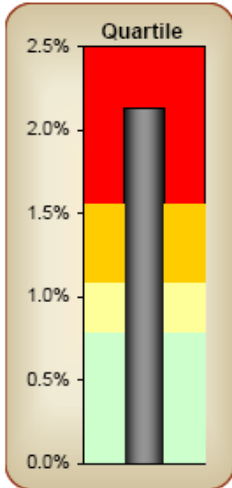
	Staff	£14.72	£9.53
	IT	£2.98	£1.05
	Accommodation	£0.73	£0.49
	Supplies & Consumables	£0.46	£0.41
	Outsourcing	£0.00	£0.61
	Other	£2.46	£0.99
Total Cost		£21.35	£12.69

The table opposite shows Rossendale finance costs per £000 of total organisation spend compared to the average of those who took part in the survey.

Staff costs and IT costs are the main cost driver here, though work has already commenced to correct this area

Other costs include other department recharges, such as personnel and legal.

4.7.2.1 The benchmarking exercise examined the costs of the Finance Section in relation to the total spend of the authority. The graphic below shows Rossendale finance costs at 2.14% of total organisation spend, in the highest quartile compared to those who took part in the survey .

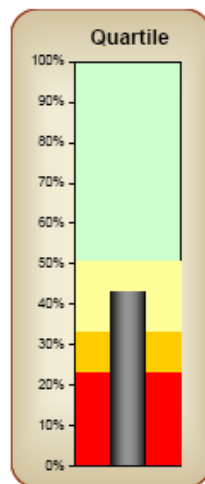
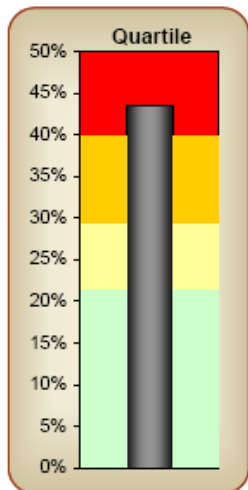


Similar authorities in terms of percentage were Kensington (£7.3m cost compared to £354m spend) and Brent (£8.4m costs compared to £394m spend).

In terms of size our closest 'neighbours' , to which we compare favourably were:

	Finance £000	Total costs £000	Percentage
Rother	590	21,819	2.70%
Barrow-in-Furness	898	21,981	4.09%
Rossendale	702	32,880	2.14%
North Hertfordshire	1,144	39,072	2.93%
Weymouth	520	41,572	1.25%
Warrington	1,882	46,110	4.08%
Redditch	1,081	47,716	2.27%

4.7.2.2 The costs of the Finance Section in relation to the total spend of the authority were then split between transactional costs (ie, the Exchequer and Payroll functions) and corporate decision support costs (Accountancy).

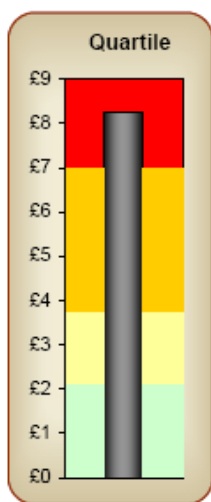


The tables opposite show Rossendale transaction costs and corporate decision support costs, both as a percentage of the total finance costs. Whilst transactional costs are in the worst quartile, the proportion attributed to supporting decision-making is 2nd quartile.

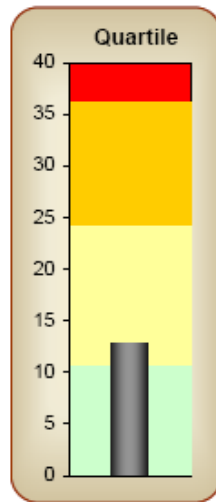
4.7.2.3 Looking further at transaction costs the exercise examined the costs of issuing and recovering sundry debtor invoices where Rossendale fared less well (£27.10 per invoice). This is partly because the volume and value of invoices issued has dropped over the years, yet a full debtors system is still required. More recently the Council has invested further in a debtor's recovery module to assist the legal department in pursuing outstanding debt. Other recent investments in financial systems such as procurement is helping to further automate purchasing and payments which will reduce transactional costs.

4.7.2.4 In tandem with 4.6.2.3 above the exercise reviewed debtor-days, an indicator that identifies the average number of days for the organisation to receive payment for its debts. Here Rossendale fared slightly better at 84.6 days. It also examined the proportionate value of debt over 90 days old, for which Rossendale's 37% was higher than the average of 30.3%, but better than the bottom quartile of 40%.

4.7.2.5 The cost of paying creditors was also in the bottom quartile at £8.27 but will, as previously stated, improve as the Council benefits from impact of investment into procurement systems after 2006/07:



Cost of paying an invoice



Creditor days

Related to this was the 'creditor-days' indicator which measured the speed with which the Council pays its invoices – 13 days placed us in the 2nd quartile. This is a result of both the importance seen by the organisation in this area and efficiencies achieved through the introduction of the electronic purchase ordering and payment system.

4.7.2.6 In the proportion of all payments made by electronic means, Rossendale achieved 34% in the period in which the benchmarking exercise was done. The introduction of BACs payments was complete for payroll and at around 75% for creditors. However, the introduction of BACs for Benefits, our highest volume transactions, only took place in October 2007 and the introduction of BACs refunds for Council Tax and NNDR only took place in summer 2008. In August 2008 89.4% of all payments were by electronic means, this would have achieved a 2nd quartile position.

4.7.2.7 Payroll administration costs per employee were another area where our comparative smaller size places us at a disadvantage. The costs of software systems and staff have not decreased in proportion to the staffing reduction over recent years. The bottom-quartile cost of £284 per employee translates to an overall cost of almost £64k per annum (ie £284 x number of

employees). *It should be noted also that our software costs are a combined payroll and HR system, the total cost is there not exclusively payroll.*

4.7.2.8 In terms of performance for managers and decision-making the Finance team should be aiming to reduce their monthly monitoring exercise to within 10 days of the month end, a reduction of 2 days on that currently achieved, so that information is as timely and accurate as possible. The presentation of year-end accounts to the auditors is only 4 days over the average (and well within the statutory requirement), which is good when the addition of Group Accounts, a significant accounting complication for Rossendale, is taken into consideration.

4.7.3 Lessons learnt from this exercise

4.7.3.1 Costs - in 2008/09 the section will take advantage of a resignation and planned retirement to further reduce its cost base yet maintain its performance.

4.7.3.2 Debtors – performance in terms of debtor days and debt outstanding is now monitored monthly within the budget monitoring exercise.

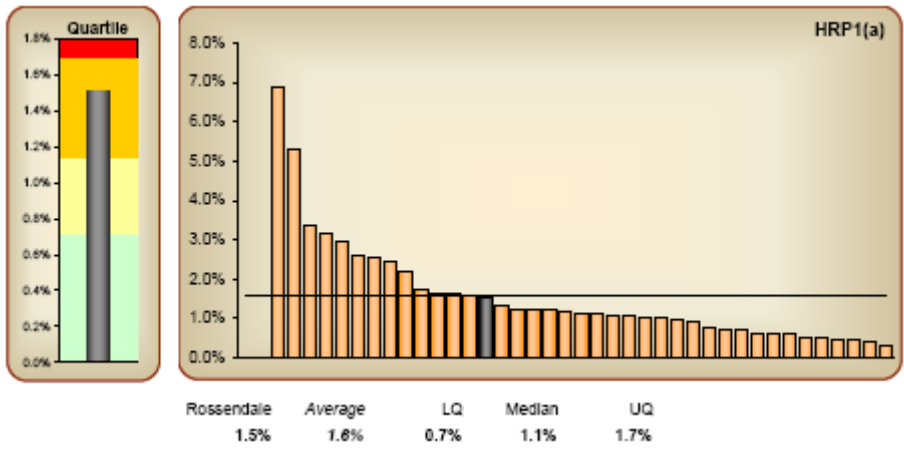
4.7.3.3 Electronic payments – further extension of the BACs to refunds and benefits are still being pursued – 91% or more would achieve 2nd quartile status. (It should be noted that the result by value is already at 99.1%, showing that the higher value payments have already been targeted for electronic payment – this reduces banking costs and risks associated with cheque payments).

4.7.3.4 The costs of payroll are being reduced by the effective multi-tasking of the staff member previously devoted solely to this task.

4.8 **Human Resources Benchmarking Exercise**

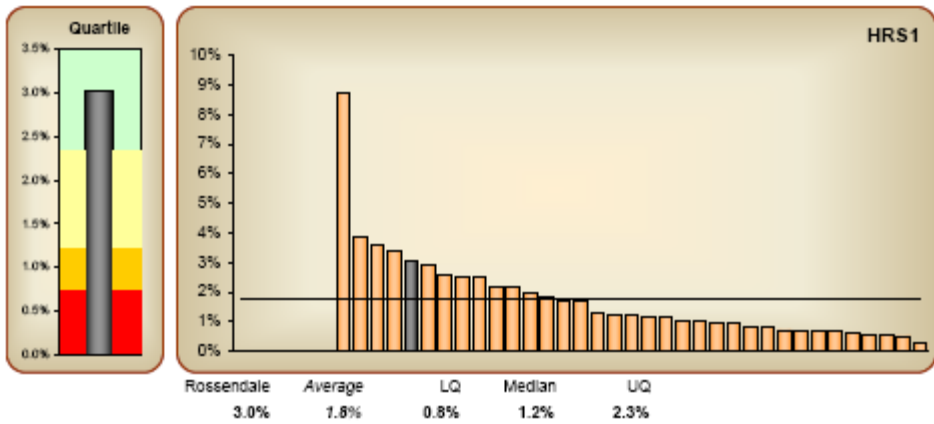
4.8.1 This Council has in recent years made a conscious decision to invest in its Human Resources function as part of the Councils recovery plan. It should not therefore be surprising that on a simple cost comparison our HR costs are higher than those of other organisations. The important issue for this Council, certainly during the year in question, should be that of quality of output – to which this Council can have no doubt in that matter (eg The Councils Investors in People accreditation in summer 2007).

4.8.2 The 2006/07 costs of the Human Resources section were just below the average of 1.6% of total authority spend, though on a cost-per-employee basis the size of the authority means that we are in the bottom quartile at £2,262 each against an average of £885. Consideration should also be given to the fact that in 2006/07 the section was supporting the out-sourcing of revenues and benefits and the subsequent transfer of staff to Capita. Since then the section has reduced by 2 FTE in its efforts to become more efficient.

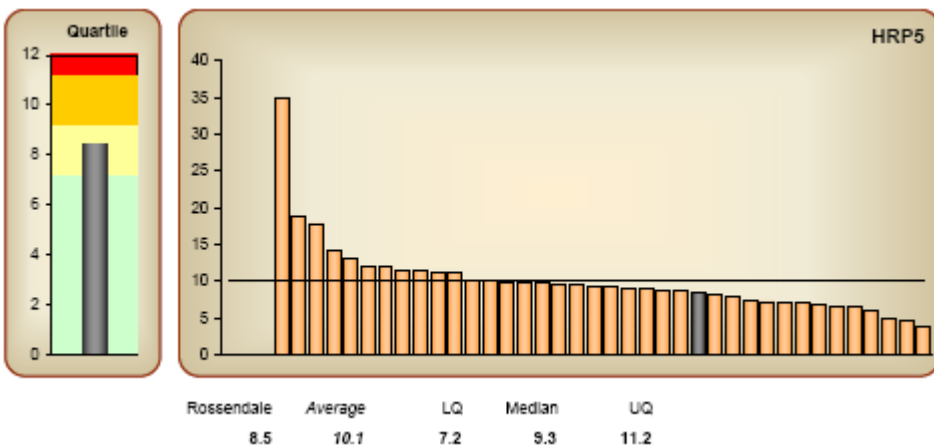


Costs as a percentage of authority total spend

4.8.3 The costs of learning and development activity as a percentage of the total payroll is in the top quartile at 3%. This area in particular was another proactive policy decision made by Members, demonstrating the authority's commitment to enhancing its capacity in order to deliver and improve, as well as raising staff morale and setting award winning development programmes.



4.8.4 Sickness absence was an area where Rossendale was performing better than the average of the participating authorities with 8.5 days per employee compared to average of 10.1. Previous years had not been so good for this Council, the investment in HR capacity has resulted in the introduction of robust absence policies which have had a positive impact on our performance. Efforts are still being made across the Council to improve this area further.



4.8.5 Two other areas of good performance were in 100% of employees receiving an annual appraisal (against an average 87%) and the percentage of leadership posts occupied by women. In the latter the top-quartile was 50%, whilst Rossendale achieved 76% with only one other participating authority returning a higher figure. Such a proactive approach to HR matters is one of the reason why this Council is seen as one of the best organisations to work for (The Times – summer 2007)

4.8.6 Lessons learnt from this exercise

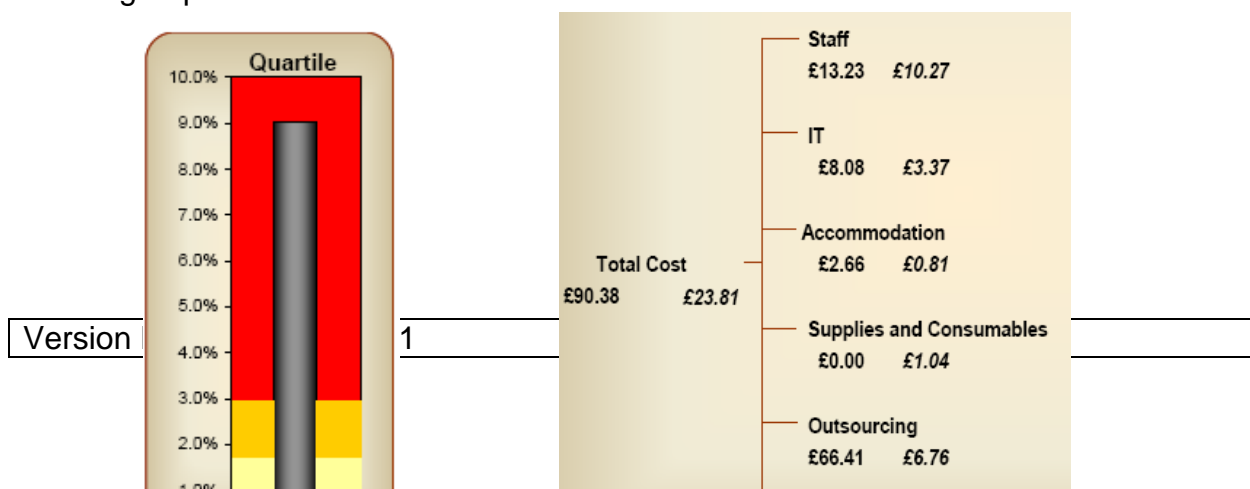
4.8.6.1 As anticipated the comparative costs of the HR team in Rossendale are again a function of the size of the organisation. Indeed during the period under review a number of projects having significant HR implications were delivered (eg Housing Stock Transfer and Revenues and Benefits Capita project). Further the HR team have taken the lead for a number of areas of activity which would normally reside elsewhere within the organisation including: Equalities, Children & Young People and Organisational Development.

4.8.6.2 Sickness absence is still a performance indicator monitored monthly with the aim of reducing its impact on the operational ability of the authority still further.

4.9 **ICT Benchmarking Exercise**

4.9.1 Rossendale has a contractual IT legacy which during 2008/09, it is anticipated, should finally be resolved and which will benefit this Council both financially and operationally.

4.9.2 Therefore during 2006/07 in terms of ICT spend as a percentage of overall expenditure Rossendale Borough Council was above the average at 3.1% of total spend compared with an average ICT spend of 2.4% for the comparator group.

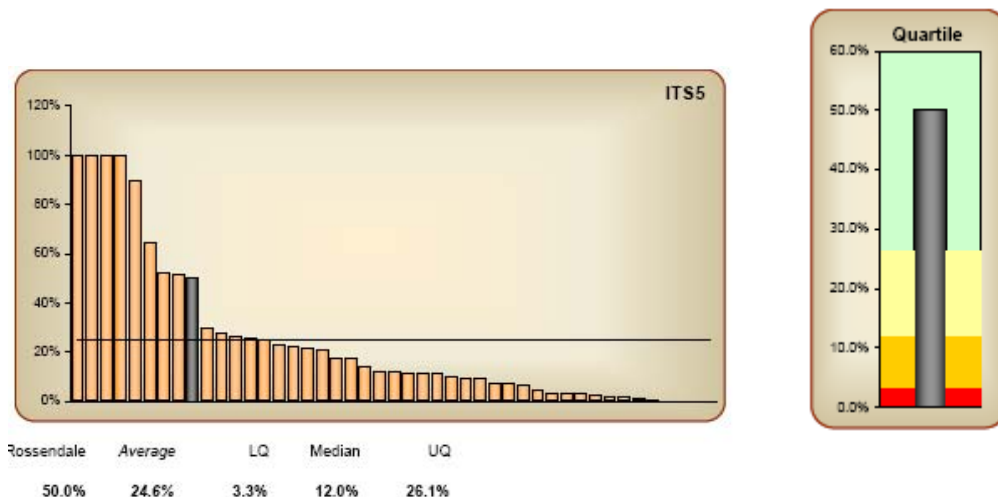


4.9.3 As can be seen from the cost comparisons above the main area of variance from the average cost per £000 of overall expenditure was in the out-sourcing area. The major reason for this being the cost of the out sourced IT contract.

4.9.4 The figures above were based on the 2006-07 out-turn. Since then, due to the endeavours of the Head of Customer Services, the out-sourced contract has been examined in great detail and significant reductions to the contract cost have already been obtained and as already noted will be full resolved during 2008/09.

4.9.5 In terms of investment in IT hardware and infra-structure, Rossendale's spend was 0.27% of total spend, compared to an average of 1.1% and an upper quartile figure of 1.5%. It should be noted, however, that the figures used were from 2006/07 and subsequently significant investment has been undertaken in the SAN and other infrastructure, all of which has been procured in a most efficient way to ensure best value. As part of the post LSVT strategy the Council has also resolved to make an annual contribution from the VAT share arrangements to an IT reserve for further IT investment.

4.9.6 In terms of performance Rossendale is in the top quartile for the number of end users able to access remote-working.



4.9.7 Lessons learnt from this exercise

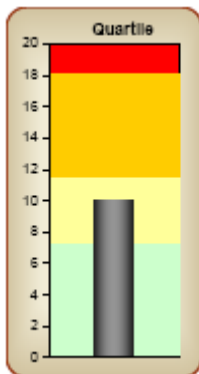
4.9.7.1 The exercise confirms the current strategy and focus ie reducing the costs of the out-sourced contract.

4.9.7.2 The Council must also ensure that its hardware and infrastructure remain current and fit-for-purpose in this rapidly-changing environment through a robust hardware replacement programme – hence the creation of an IT reserve in 2007.

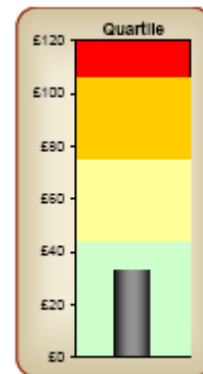
4.10 **Property Benchmarking Exercise**

4.10.1 This Council has an aspiration for a future single site location incorporating Civic, customer and back office facilities. Officers have already noted the cost benefits associated with this strategy, however, delivery is inextricably linked with the Rawtenstall town centre redevelopment.

4.10.2 Therefore the 06/07 costs of the facilities management function of the Council is just below the average, but just over twice the cost of the best performing councils in relation to overall running costs. In addition the costs of our property maintenance per square metre were well within those of the best-performing councils.

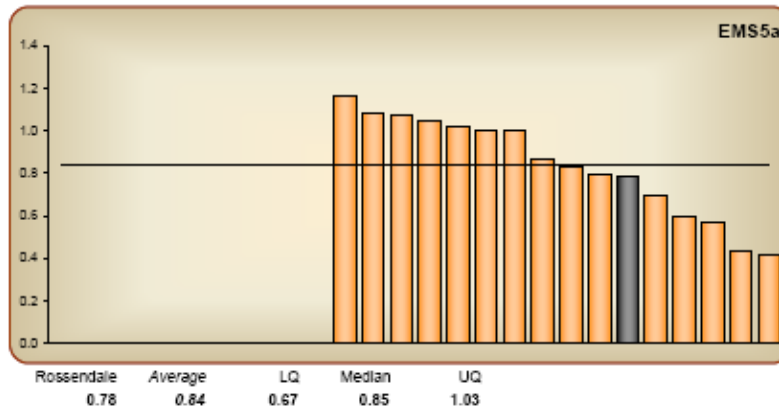
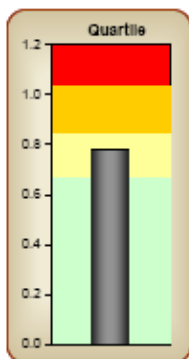


Cost of Facilities Management Team (£ per m2 managed)

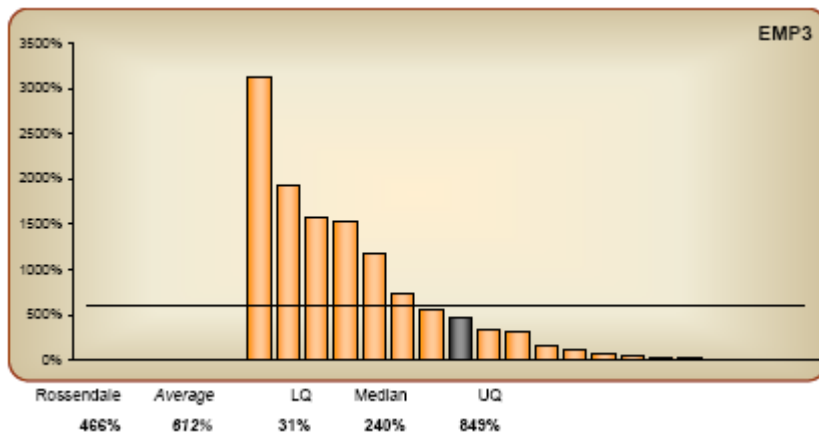


Property operational costs (£ per m2)

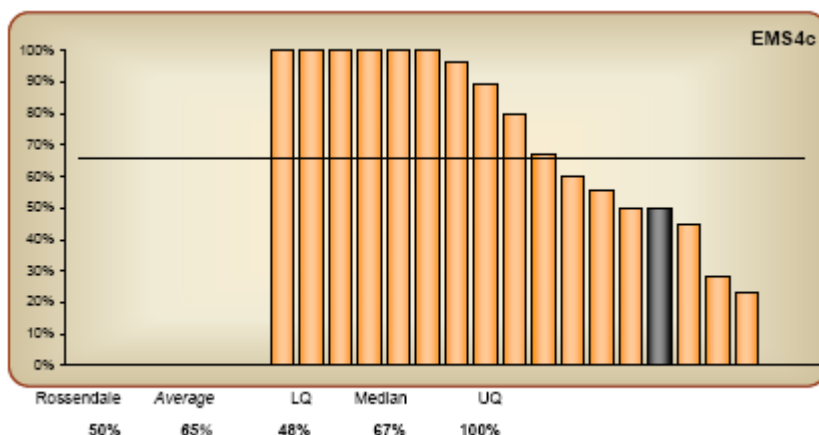
4.10.3 The efficient use of property was examined in several ways. The analysis of total accommodation to the number of employees was almost five times higher than the average, a reflection of the amount of surplus assets held and to the decreasing numbers of staff employed. However, in terms of the ratio of workstations to staff employed Rossendale is just below the average at 0.78 per FTE



4.10.4 The benchmarking exercise also looked at the capital aspects of the property maintenance function. Total property maintenance backlog as a percentage of average annual maintenance spend for the last three years was just below the average for those taking part, though stock condition surveys have been completed and an investment programme to resolve as now commenced during 2008/09.



4.10.5 However, the indicator for capital project performance only reported 50% were achieved within cost and time expectations. This reflects the partial slippage of the 2006/07 maintenance backlog into 2007/08 after a full tender process to ensure best value delayed the start of the works. Apart from this all projects were completed within time and budget.



4.10.6 Lessons learnt from this exercise

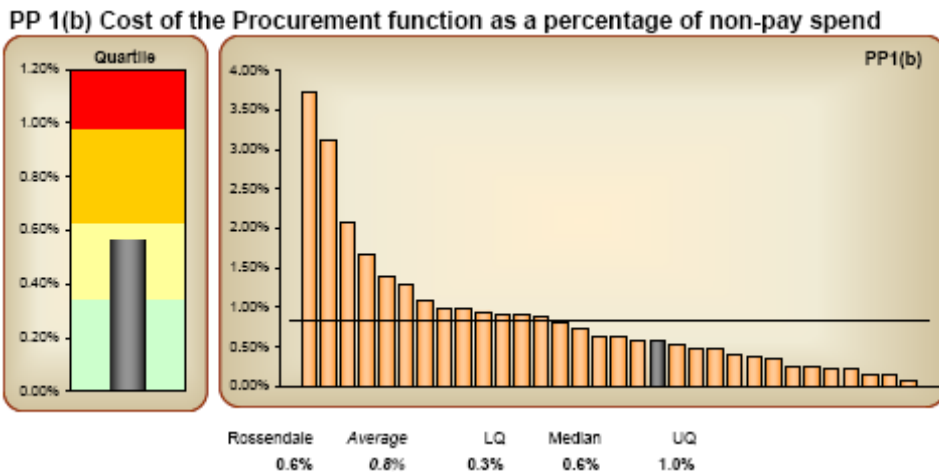
4.10.6.1 Understandably this exercise reflected the Council's portfolio of non-operational assets and the Council has a robust capital disposal schedule which it monitors monthly.

4.10.6.2 The results also reflected the same delays in capital projects which the monthly monitoring regime now reports to Members on a regular basis.

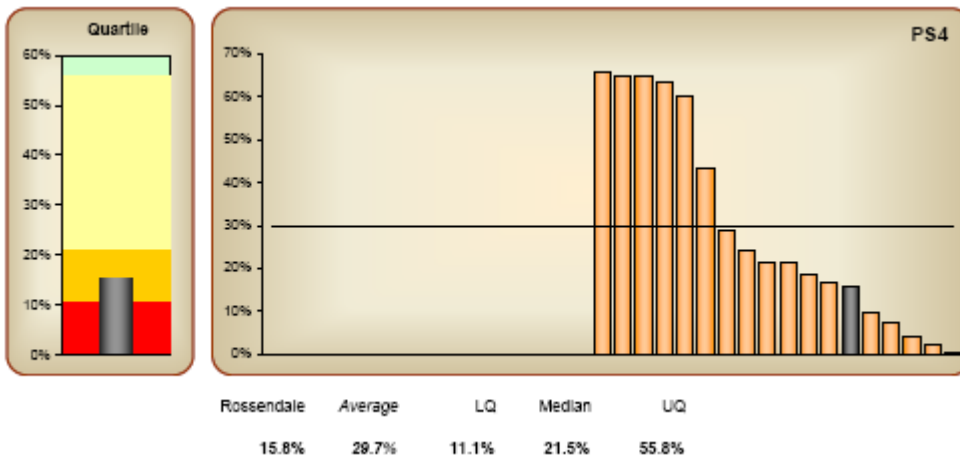
4.10.6.3 Capital project delays across the whole capital programme has prompted a tightening of the capital monitoring regime in 2008/09. Quarterly performance and re-forecasting is being introduced to better understand the factors behind the delays and costs over-runs, especially in the light of the current financial climate and reducing capital receipts to fund such projects.

4.11 Procurement Benchmarking Exercise

4.11.1 The cost of the procurement service was seen to be some of the best being below average in terms of percentage of the organisation’s non-pay spend. These costs did include the contributions made towards the ELeP collaborative partnership as well as in-house procurement staff.

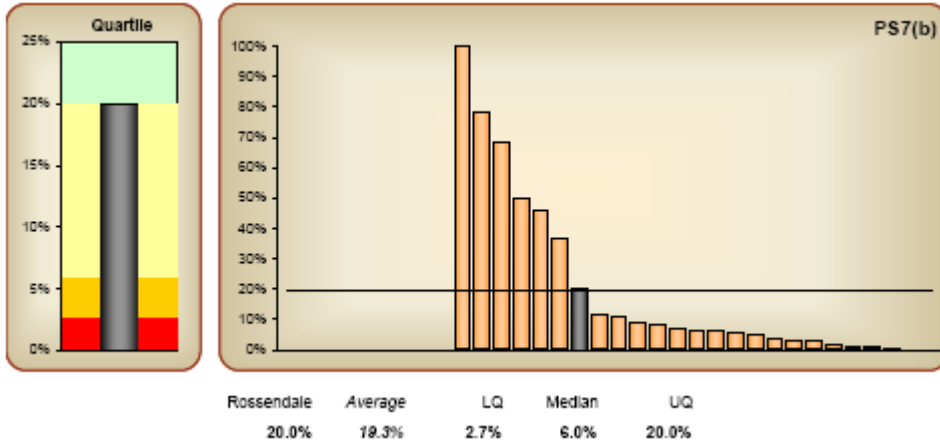


4.11.2 The exercise also compared non-pay spend channelled through SMEs to examine the effectiveness of the procurement function in relation to the organisation’s corporate social responsibility. As a small commissioning authority current spending levels mean we are often better able to gain the procurement savings being sought if we participate in collaborative working. Naturally, this results in a fine balance between the desire for cost and efficiency savings versus considerations of supporting local procurement.

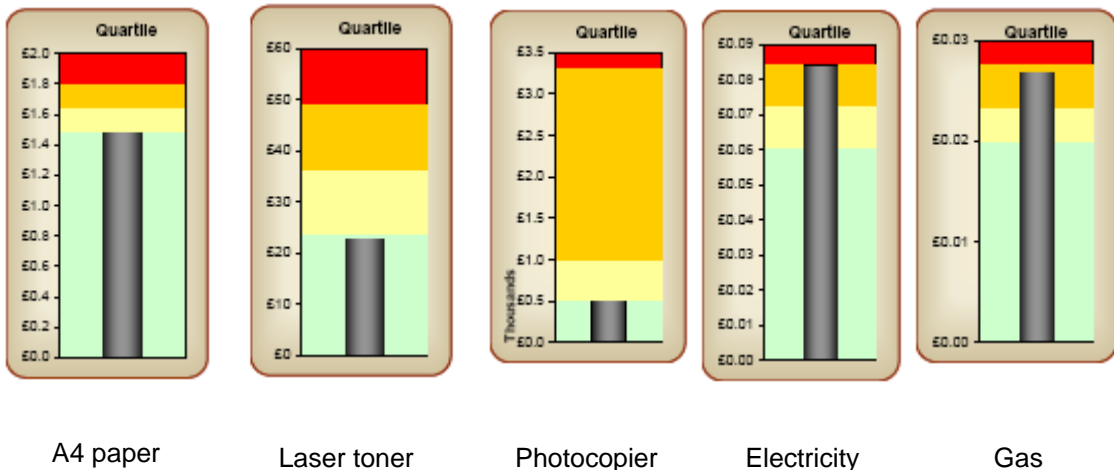


4.11.3 The use of technology in procurement has recently seen a great investment of both time and money here in Rossendale. For the period analysed in the benchmarking exercise Rossendale was in the upper quartile with 20% spend

managed through electronic purchasing. However, due to system developments and the embedding of electronic procurement (e-procurement) throughout the organization, we are currently operating at around 80%. In 2007/08 this helped to raise the performance on invoices paid within 30 days to nearly 97% (up from only 76% in 2006/07). E-procurement also has a very positive impact on the Council's ability to monitor budgets monthly and close the accounts early in April of each year.



4.11.4 To measure the effectiveness of the procurement function in securing competitive prices the exercise reviewed 10 specific items commonly purchased by the organisations. In 6 out of these 10 Rossendale was in the top or 2nd quartile for the price being paid, showing that our collaborative work with the ELeP group has been successful.



4.11.5 Three of the items where Rossendale did not feature as well were agency staff, electricity and gas. Agency staff was the focus of an ELeP collaborative procurement which concluded in May 2008, after this exercise. Gas and electric are very volatile contracts and the price being paid depends greatly on when contracts are entered into – indeed the market for energy since the 2006/07 exercise has changed dramatically on a global scale.

4.11.6 Lessons learnt from this exercise

- 4.11.6.1 The advantages gained in recent years from being a part of the ELeP group can be seen in some of the contracts we have entered into which have contributed to our overall efficiencies and positive VFM audit results. We have also benefited in terms of developing our in-house capacity for securing best-value procurements in the future.
- 4.11.6.2 The recent changes between ELeP and the new Lancashire Hub will have further positive impact on both future procurement exercises and procurement costs. The effects of this change will be closely monitored.
- 4.11.6.3 Rossendale has recently entered into a new gas contract and while cost per unit was a major factor, other considerations also played a part in the final decision, such as administration charges per property, costs of ongoing monitoring of an OGC rolling contract, the length of the contract and climate change considerations.

COMMENTS FROM STATUTORY OFFICERS:

5. SECTION 151 OFFICER

- 5.1 The total cost of these five benchmarking exercises, in cash terms, was £2,000.
- 5.2 The cost-based lessons learned from this exercise, and the operational changes that they have initiated, are being reflected in the 2008/09 monthly revenue monitoring exercises as well as in the 2009/10 budget-setting exercise.
- 5.3 The exercise demonstrates the Council's commitment to the delivery of value for money services. It should be remembered that value for money is not simply about cost but an optimum combination of service cost and quality of outputs.

6. MONITORING OFFICER

- 6.1 There are no legal implications

7. HEAD OF PEOPLE AND POLICY (ON BEHALF OF THE HEAD OF PAID SERVICE)

- 7.1 Items relating specifically to the HR benchmarking exercise, are identified within the report at section 4.7 above..
- 7.2 The Head of People and Policy is exploring a further benchmarking exercise across Lancashire..

8. CONCLUSION

- 8.1 The validity of the results depends heavily on the types and size of the organisations taking part. In some respects it was enlightening to compare a small district council with other authorities of various sizes, with PCTs, Police and other government agencies, though it would have been more helpful if

there had been a greater number of district authorities to choose from when requesting the detailed report.

- 8.2 In the main this exercise has produced results that were expected and plans and procedures have already been put in place to address areas where it was suspected that further efficiencies were available to the Council.
- 8.3 Costs have already been targeted in many of the areas reviewed and savings are continuing to be fed through to the 2008/09 revenue monitoring and 2009/10 budget cycle.
- 8.4 Continuing developments in areas such as electronic procurement and creditor payments by BACs are not only providing some cashable savings, but also improving our customer service and create operational efficiencies, both within the finance team and across other departments.
- 8.5 Efficiency in collecting debts has already been a focus area since autumn 2007, working in partnership with the legal department, and performance is now included in the monthly revenue monitoring report.
- 8.6 These benchmarking exercises will contribute to the Council's overall Value for Money considerations in the 2009/10 budgets as well as focussing attention on areas where performance could be further improved.
- 8.7 In the future similar exercises might have even more impact if some of the most salient investigations were concentrated within similar authorities, perhaps across Lancashire either within the respective finance teams or through the Lancashire Hub to which finance officers will further pursue.
- 8.8 Finally it should be remembered that cost is not the only driver to be considered, the other issue being quality of outputs. In a number of key areas as part of the Council's improvement journey Members have previously made a deliberate policy choice to make additional investments into corporate support areas as part of the priority for a "Well Managed Council."

9. RECOMMENDATIONS

- 9.1 That the report be noted for Members consideration.

10. CONSULTATION CARRIED OUT

- 10.1 Directors and Managers for the sections concerned were supported in this exercise by the accountancy team.

11. EQUALITY IMPACT ASSESSMENT

Is an Equality Impact Assessment required No

Is an Equality Impact Assessment attached No

12. BIODIVERSITY IMPACT ASSESSMENT

Is a Biodiversity Impact Assessment required No

Is a Biodiversity Impact Assessment attached No

Contact Officer	
Name	Janice Crawford
Position	Finance Manager
Service / Team	Financial Services
Telephone	01706 252416
Email address	janicecrawford@rossendalebc.gov.uk

Background Papers	
Document	Place of Inspection
IPF VFM reports on each of the above benchmarking exercises.	Financial Services – Room 222, Futures Park