

FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:

Cabinet

21st May 2001

**BEST VALUE REVIEW - YEAR TWO
FINANCIAL MANAGEMENT SERVICES
FUNDAMENTAL CHALLENGE, FINAL SCOPE
AND ROUTING FOR THE REVIEW**

Report of the Chief Financial Officer

1. BACKGROUND AND PURPOSE OF REPORT

1.1 PURPOSE OF REPORT

To seek Cabinet approval to the outcome of the fundamental challenge stage of the review process, the recommended future routing of the review and the final review scope for Financial Management Services, in accordance with the Best Value Review Process.

1.2 BACKGROUND

The background to this report is common to all other reviews and is addressed in the covering report of the Assistant Chief Executive.

The scope for Financial Management Services approved by Cabinet has been updated and the final recommended scope is attached at Appendix 1 to this report.

This report summarises the findings from the Fundamental Challenge Stage, which is attached as supporting information at Appendix 2.

2. RECOMMENDATIONS

2.1 Members are recommended to:

- (i) To carry out a review of the outcome of the fundamental challenge stage of the review and assure themselves that the process of Best Value has been met.
- (ii) Consider the recommendations resulting from the review.
- (iii) Agree the revisions to the scope for the review;
- (iv) Agree the proposed review routing;
- (v) Investigate further the decommissioning of honorary treasurership services;

- (vi) Note that options for securing 2% savings in financial management will be put to Members in the autumn.

3. FUNDAMENTAL CHALLENGE

3.1. Analysis of the Services

The following table of services summarises detailed information, based upon answers to the questions posed in the Assistant Chief Executive's covering report, obtained from business units included within the scope. The Policy and Performance Unit hold the detailed information centrally and will make it available to Members as required.

Service	Type of service			Level of Service			Justification (Nature of Commitment e.g. ref. to Act.)
	Statutory	Core Discretionary	Other Discretionary	No Change	Reduce	Decommission	
Financial Strategy	✓	✓		✓			(See below)
Accountancy	✓			✓			
FMIS	✓			✓			
Departmental Finance Teams	✓			✓			
Treasury Management and VAT	✓			✓			
Honorary Treasurerships			✓			✓	

3.2 Should current services continue?

3.2.1 Financial Management services are integral to the strategic priorities of the Council at 2 levels. Firstly, at a strategic level, where the development of financial policies directly support the Council's priorities. Secondly, at a departmental level, where Heads of Finance directly support their departments in delivering actions required to implement the Council's key strategies and policies.

3.3 Corporate Level

3.3.1 The Council's strategic priorities follow the Community Plan, which has 6 main priorities. Financial Management Services indirectly support the implementation of all priorities, by ensuring that the Council's finances are efficiently managed, and by optimising resources available.

3.4 Revenue and Capital Strategy

3.4.1 The Council has 4 main resource strategies that support the performance management framework. The Capital and Revenue strategy are key resource strategies. The revenue strategy, and the principle of long term planning, was subject to public consultation and the Council's budget was set in light of the consultation. The strategic approach to Revenue Budget setting is now firmly embedded within the Council's performance management culture. The Corporate Revenue Budget strategy is supported by Departmental Revenue Strategies whereby each department plans its services within the corporately agreed framework and to corporately agreed planning targets and assumptions.

3.4.2 The Council has had a capital strategy since 1998/99. This sets out a framework for capital spending, which supports the Council's strategic priorities.

3.5 Devolved Financial Management

3.5.1 Financial Services supports the operation of devolved financial management (DFM) across the authority. DFM was introduced in 1998 and is a pre-requisite for the Council's performance management framework. DFM aligns financial responsibility to operational responsibility.

3.5.2 Other work that supports the Council's overall performance management framework includes:

- financial regulations
- various support to corporate working groups particularly major capital schemes
- Treasury Management Strategy.

3.6 Statutory and Discretionary Services

3.6.1 The services within the review operate under a statutory framework. It is very difficult to determine what a statutory minimum level of service is in relation to Financial Management and in some cases there is an invisible line between statutory and discretionary services.

3.6.2 Whilst the core of Financial Management is the carrying out of statutory functions, clearly the service also supports the authority in taking its service priorities forward. In some cases these priorities are not meeting a statutory provision or are exceeding a statutory minimum, so by definition there are aspects of financial management which may indirectly be beyond the statutory minimum.

3.6.3 Disaggregation of services to a level which demonstrates a statutory minimum is impractical. For example, there is a legal requirement for each authority to set a budget. The method of setting the budget is not specified, therefore each authority approaches this differently. In Leicester's case we have 3 year budget planning in place. This is a Council Policy and it is also clearly the way in which government are expecting all authorities to develop. However, arguably if an annual approach was taken the Council would still satisfy its legal responsibilities and it may cost less to produce the budget? However, Members and the S151 Officer have determined that this method of budgeting is the most effective way for the Council to ensure proper financial planning. The Local Government Act 1972 specifies that each authority must have an officer designated as being responsible for the proper

financial affairs of the authority, the Section 151 Officer. As the S151 Officer has to ensure that there are proper financial procedures in place and he has determined this is an appropriate level, the service is in effect meeting the statutory minimum. However, there are clearly other ways to meet the requirement to produce a budget.

3.6.4 Whilst it is always difficult to specify minimum levels of statutory service for Council services, the qualitative nature of financial management makes it exceptionally difficult. The fact that the authority must legally have effective financial control in place means that the statutory minimum will generally be based on judgement and accepted practice within local government finance.

3.6.5 There are two other indicators at authority wide level, that support the view that the Council does not provide a financial management service that generally exceeds the statutory minimum:

- a) In 1997/8 the Council carried out a review of the structure of its corporate resource functions. The review led to devolved financial management (DFM). The review led to savings being achieved of £500,000 per annum.
- b) Since 1997/8 the Council has been required to constantly look for more effective ways of providing services due to budget pressures. The devolution of financial services has enabled service Directors to consider these services within their budget. Generally, support services have been looked at hard in order to protect, as far as possible, front line services. Since 1998/9 financial management services have been subject to further reductions.
- c) The benchmarking which the Council has done does not imply that the Council has excessive levels of staff and cost. In fact it implies that our costs are below average, as is the number of staff carrying out the service.

3.6.6 The S151 Officer's view is that most services provided are either statutory (such as accounts preparation) or absolutely integral to the authority's needs, being services which are standard across the country (e.g. treasury management).

3.6.7 As well as carrying out services which are provided under a statutory framework, much of the work of services concerned support departmental priorities and requirements, many of which are statutorily required.

4. Discretionary Services

4.1 Following consultation with the S151 Officer and Heads of Service, the following services have been defined as discretionary.

4.2 Core Discretionary

4.3 Financial Strategy

4.3.1 This section provides a service which analyses and forecasts resources received from central government, makes representations to central government about planned changes, supports financial policy development and helps the Council maximise resources. It can be demonstrated that the section has "paid its way" (having secured more resources for the Council than it has cost). The CFO believes it to be an essential feature of a well

managed authority (it was strengthened as a consequence of the corporate resources review of 1997). The discretionary aspects of the service relate to proactive work on revenue grant distribution, including research and supporting working groups such as SIGOMA and the High Ethnicity Spend Interest Group. This proactive work helps the authority make sound technical cases to government. In 1999/00 the authority was awarded grant of £1.3m partly as a result of such lobbying.

4.3.2 Such work is core to the overall strategy of the Council. Medium to long term budget planning would be compromised without investment in such technical research. The Council would not be able to play an effective part in the current review of revenue grant distribution (80% of our general fund resources come directly from the government) restricting our ability to influence the review. We would also not be able to respond to a number of government consultations, potentially disbenefiting us. As mentioned above the service can demonstrate it has saved more money than it has cost.

4.3.3 The service is recommended to continue.

4.4 Schools Bursar Service

4.4.1 This service provides financial management services to individual schools. The funding for the service is delegated to schools therefore schools have total freedom to purchase the service from elsewhere.

4.4.2 The service is core to effective financial management at school level and has received positive comments from OFSTED.

4.4.3 The service is recommended to continue.

4.5 Decommissioning

4.5.1 Honorary Treasurerships

There are 2 instances where the Council acts as the honorary treasurer for organisations for historical reasons and where there is no service reason for continuing these arrangements. It is proposed to consult with the bodies involved and further investigate the decommissioning of these services. The savings possible from withdrawal are a modest £8,000 p.a. and such action may not therefore be justified.

4.5.2 North Memorial Homes

The North Memorial Homes is a charity established after the First World War to provide accommodation for disabled servicemen and their families.

North Memorial Homes were paid for by public subscription of, at today's prices, between £2 – 3 million. To this date the office of Lord Mayor of Leicester holds a place on the Management Committee of the Charity, and 3 Councillors sit on the Management Committee, one of whom is a trustee. The trust deed states that the Honorary Treasurer shall be the Treasurer of Leicester City Council.

The homes are situated in Oadby and comprise twenty semi-detached houses, all but five of which have been converted into two self contained units. The Trust deed sets out the qualification for residency and in all instances the underlying consideration is of residential history within the City of Leicester. Priority is given to disabled persons who have served in the armed forces, their widow/widowers or dependants; after this a person who is disabled and in necessitous circumstances and finally a person who is in necessitous circumstances.

The CFO remains the Honorary Treasurer but in practice his officers carry out these duties, a role currently performed by the Cash management Office. In addition a member of the Cash Management Office serves as Honorary Secretary. This is on a personal basis (but within work time) and is not a role that historically has been linked with the Town Clerk's Department but is a role that has always been carried out by an officer of the Council. The combined cost of carrying out the duties of honorary Treasurer and Honorary Secretary are estimated to be in order of £7,000.

It should be noted that other services are provided to NMH. The other main area of support comes from Commercial Services who organise and supervise repairs and works of improvements to the homes. The total cost of these other services is in the order of £14,000. These services are outside the scope of the review.

The work to support the Honorary Treasurer role is not seen as core to the role of financial services.

4.5.3 Wyggeston School Foundation

Upon Unitary Status, the Honorary Treasurership for the Wyggeston School Foundation passed to the City Council. The Council carries out basic maintenance of statutory accounts, provides management accounting information and assists in making returns to the Charities Commission.

The original trust was established by Regent College, Queen Elizabeth College and Wyggeston School. The trust administers income from the trust to support pupils at the school. In the past Wyggeston have expressed a desire to administer the finances of the trust itself.

The work is carried out within the Education Finance Team. A nominal fee is charged for the work which does not cover the cost of the service provided.

The work is not considered to be core to financial services and it is therefore recommended that cessation of the service is investigated (or charging on a full cost basis) subject to advice from legal services. This would lead to savings of £1,000 per annum. A phased withdrawal is recommended with full withdrawal or charging from April 2002.

5. **FINAL SCOPE AND STRATEGIC DIRECTION**

- 5.1 The original scope, agreed by Cabinet on 9 April, needs amending to reflect the recommendation that the Council investigates cessation of its role as Honorary Treasurer for North Memorial Homes and the Wyggeston Foundation. This is

attached at Appendix 1.

6. ROUTING OF BV REVIEW

6.1 The following table provides a summary of compliance for each service with the Council's Performance Management Framework together with an assessment of performance over the previous 18 months.

Service	How Commissioned	Performance Management				Route PM/SA
		Framework In place Y/N	Range PI's %cover	No. PI's	% met	
Financial Strategy	In House	Y	70%	1	*N/A	PM
Accountancy	In House	Y	70%	5	**100%	PM
FMIS	In House	Y	57%	4	**100%	PM
Departmental Finance Teams	In House	Y	51%	9	**80%	PM
Treasury Management & VAT	In House/External	Y	70%	10	70%	PM

* New Pis 2001/02

** 2 measures cannot be measured until outturn completed, 3 that can have all been met.

*** 4 PI have only been measured to Quarter 3, 4 of the 5 measured have met the target.

6.2 The Performance Management Route is recommended for the entire service subject to the further tasks in relation to competition, consultation and comparison identified below. Whilst it is recommended that the review is dealt with through performance management, clearly the Council will wish to consider the implications of the comments made by the Best Value Inspector, in relation to year 1 reviews, for all year 2 reviews. Informal discussions will take place with the inspectors to ascertain their views. Independent verification of the findings of the fundamental challenge process will also be sought. A review of business planning across all areas of financial management has been carried out. Below is a summary of the main issues that were identified as part of the review. Paragraph 3.4 in the attached supporting information at Appendix B gives further details.

- Business Planning is now well engrained into culture of Financial Management Services
- Generally Service meeting customer needs who regard service highly
- Services have compared their costs to other authorities; overall we cost below average compared to similar authorities
- The configuration of our services broadly mirror the current external market and how other authorities provide such services
- Whilst monitoring takes place regularly at a departmental level there needs to be more coordination across Financial Services as a whole and more common PIs where appropriate
- In the majority of cases PIs have been in place for more than 1 year and the

majority have been met

- There are gaps in the coverage of some PIs including EMAS and staffing which need to be bridged
- In some areas evidence of measurement of progress of business planning and PIs needs evidencing more clearly
- Lack of market for external provision of core services but need to test whether or not any such market could emerge.

6.3 The following paragraphs summarise the evidence that performance management will facilitate the duty to deliver Best Value through the 4Cs. Appendix B provides full details.

Challenge

Paragraph 3.3 above identifies the links between Financial Management and the Council's Strategic aims. In summary, links include;

- Implementation of key strategies: the Revenue and Capital Strategies
- Management of Devolved Financial Management, which underpins performance management
- Effective management and maximisation of resources, which indirectly facilitate the Council's strategic priorities
- Numerous examples of supporting projects that are corporate priorities.

Compare

The need to compare has been addressed on several fronts;

- we are members of CIPFA's benchmarking club for accountancy services and are currently undertaking the exercise for this financial year. This benchmarking covers all the services within the scope of the review,
- we are members of a unitary club established by Stoke City Council looking at a broad range of financial services including those in the scope of this review,
- we have commissioned PriceWaterhouseCoopers to identify any relevant private sector benchmarks that can be built into future business planning,
- we are active members of the West Midlands Treasury Managers' Benchmarking Group,
- The CFO attends the Midlands Treasurers' meeting on a quarterly basis, which from April 2001 will consider benchmarking and PIs as a standing agenda item,
- we are part of an East Midlands Unitary authority benchmarking group, run by Stoke, which is due to meet quarterly from April.

The benchmarking indicates:

- the service costs below the average of similar authorities, whilst having slightly above average number of qualified staff.
- Controllable costs of staff and Supplies and services are significantly below the average of similar authorities (6.5% less).
- There is higher than average devolution of staff to service departments.
- Where there are relevant performance measures, the service fares well.

Some data has been collected on private sector rates. However, an exercise is to be carried out with PriceWaterhouseCoopers to identify any useful private sector benchmarking which could be used to compare the efficiency of our operations against the private sector. This will be completed by October 2001.

Consult

Most business plans for 2001/02 are committed to determining customer satisfaction. Most services have carried out consultation with service users over the last 12 months. Evidence of consultation includes:

- Each devolved financial service has surveyed all internal customers in 2000/01 with overall positive results.
- Public consultation was carried out on the Council's corporate revenue budget strategy. Findings were reported to Cabinet in November 2000 and taken into account in developing budget policy; more than 1/2 surveyed supported the concept of medium term financial planning, opposed to less than 1/5 opposing it. A further exercise is planned for this summer to review public attitudes to the Council's revenue strategy.
- Education finance consultation takes place with schools relating to financial information and financial services 3 times a term in order to provide services and information that schools want. The Fair Funding Group's role is also being expanded to consider more operational issues, such as finance support.
- Schools have been consulted on the provision of Financial Services by OFSTED; positive comments were received from OFSTED concerning financial services to schools.
- The VAT and Taxation Services have carried out customer satisfaction survey with satisfaction of 86% achieved.
- The FMIS team has carried out an exercise to establish customer satisfaction, 85% rating has been gained.
- Accountancy surveyed all internal customers in 2000/01 and have PIs in their business plan for 2001/02 to continue to achieve 90% satisfaction from service users.
- The Town Clerk's Financial Services carried out staff surveys in 2000/01 to establish staff morale and issues affecting staff.
- Overall satisfaction levels around 80% can be shown.

It can be demonstrated that consultation has been acted upon and developed further in 2001/02 business plan.

Compete

The service has reviewed the market for the services in the review. There are 2 aspects to the research undertaken:

- possible suppliers of financial services to local government.
- the types of service already being supplied in the market.

The main findings were:

- A large number of potential suppliers but a limited market for the core financial services included in the review.

- Suppliers generally concentrate on marketing:
 - financial processes that lend themselves fairly easily to increased IT systematisation (such as debtors and creditors).
 - advice pertaining to tax or PFI (i.e. specialisms closely related to the operation of the free market).
 - investment management services.
 - Services which are easy to specify through outputs.
- Externalisation normally focussed on professional advice services, e.g. VAT, Treasury Management and PFI advice.
- Leicester's use of the market is consistent with findings from the review and business planning is already in place to measure value for money and the balance of existing arrangements
- No evidence that any authority has externalised its core financial services; Lincolnshire seem to have gone furthest but even they are cautious because of strategic importance and sensitivity of services concerned and therefore they have not included most core services.

We are members of the CIPFA's Best Value Advisory Service and maintain knowledge of the market through the service.

The consensual view of authorities across the Country is that it is inappropriate to externalise core financial management functions. (Budget planning, accounting, treasury management, financial monitoring and financial advice). The nature of these services is such that they are core to supporting authorities' corporate strategic priorities. The services tend to be very responsive to customer needs in an environment where it is difficult to specify precise outputs for a service. There is no evidence that private sector can provide the same levels of professional staff more competitively (we have evidence to the contrary). The management of an externalisation would be difficult given the qualitative nature of the service and hence the cost of the service would be difficult to manage (tasks outside the specification would need to be paid for).

Our research has shown that 65% of externalisation relating to finance was in order to provide computerised financial systems. The majority of these areas are likely to have arisen because investment in IT is required but the authority was unable to make investment. It should be noted that the Council is already committed to the relaunch of FMIS for which a project team and budget has been established for the past 18 months.

It is recognised that as Financial Services CCT was relatively undeveloped the existing market place may change in response to Best Value. Therefore it is proposed to carry out further soft market testing to identify whether there is an emerging market. The major accountancy firms will be asked to participate in an exercise. It is expected that this work will be concluded by October 2001 and can then be built into further years' business planning as appropriate.

Action Plan

At this stage of the review process there is not a requirement to show an action plan. However, the supporting information at Appendix B (section 8) shows a broad outline of the tasks that need to be completed.

FINANCIAL AND LEGAL IMPLICATIONS

The following table illustrates a best estimate of the build up of cost for each service delivered within the scope. Reflecting:

- The minimum cost that is currently incurred in meeting a legally defined statutory minimum service.
- The cost of providing a core discretionary service
- Other additional costs incurred to enhance either a statutory or core service.

Service	Type of service			Total Budget £000
	Statutory Minimum Cost £000	Core Discretionary Cost £000	Other Discretionary Cost £000	
Financial Strategy	158	30		188
Accountancy	398			398
FMIS	104			104
Departmental Finance Teams	1,323			1,323
Treasury Management & VAT	261			261
Honorary Treasurership			8	8
TOTAL	2244	30	8	2282

EQUALITIES

The main equalities aspect of the scope is associated with the recruitment, retention and training of staff within financial management services. A key aspect of this work is to ensure that those procedures address issues of equality and that any subsequent action plan can measure the effectiveness of these policies.

Equality is addressed in business planning, albeit requiring more consistency across departments.

SUSTAINABLE AND ENVIRONMENTAL IMPLICATIONS

The report identifies the requirement for business planning to adequately address EMAS issues where there are currently gaps in performance indicators.

REPORT AUTHOR/OFFICERS TO CONTACT

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Head of Financial Strategy
9 May 2001

BEST VALUE REVIEW OF FINANCIAL MANAGEMENT SCOPE

1. Strategic Links

- 1.1 Being a support service, financial management indirectly contributes to all strategic plans and community plan priorities by optimising financial resources and promoting the good financial management of the Authority. The service directly contributes to 2 key resource strategies (revenue and capital) for which we take the lead role in development and implementation.

2. Purpose

- 2.1 The purpose of the service being reviewed is to provide financial advice to support strategic and departmental decision making; and to provide specialist financial support services to the Authority. The latter includes:

- (a) preparation of accounts;
- (b) compilation of grant claims and statistical returns;
- (c) financial planning and monitoring;
- (d) treasury management services.

- 2.2 The nature of the service provided is such that the 2 aspects (advisory and support services) are complementary.

- 2.3 The total cost of the services subject to the review is £2.3m.

- 2.4 Services subject to the review have a direct impact on schools in respect of budget allocation, challenge and financial support; and include the bursar service which some schools purchase from the Education Department on a traded basis.

3. Services to be Included

- 3.1 The Review will include the Council's budgeting, accounting, financial planning and financial advice services.

- 3.2 The following sections/activities will be included. All the services are in the Town Clerk's & Corporate Resources Department, unless otherwise indicated:

- (a) The Financial Strategy Section;
- (b) The Corporate Accountancy functions of the Accountancy Team;
- (c) The FMIS Team, excluding work which is part of the maintenance of the Council's creditors/debtors/payroll systems;
- (d) The work of Departmental Finance Teams, to the extent that this involves budgeting, accounting, financial monitoring and financial advice (including work done by the Accountancy Team in respect of the Town Clerk's and

Chief Executive's Departments);

(e) The Treasury Management and the VAT Service;

3.3 These services all have the following theme:-

- (a) They are services of a strategic nature, supporting policy making in respect of either the Council's corporate finances or service matters;
- (b) They are heavily dependent on professionally qualified staff;
- (c) Specification of the required service generally involves a degree of subjectivity and high level definition (it is based on the expressed needs of Members, Directors and the Chief Financial Officer).

3.4 The Review will include the following services which are currently obtained externally:

- (a) The CIPFA/Pricewaterhouse Companies Advisory Service (which provides advice in respect of our relationship with companies);
- (b) Sector Treasury Services (which provides advice on our treasury management strategy);
- (c) External Fund Managers (who invest funds on our behalf);
- (d) The VAT Advisory Service (who provide specialist advice on the more complex VAT issues which arise from time to time).

3.5 To put the above into context, the following services are not included in the scope of the review and will be included in the Review of Operational Finance scheduled for 2002/3:

- (a) Payment of creditors and debtors - A whole system approach is envisaged, which will encompass the work carried out in direct service teams, departmental finance teams and central financial services;
- (b) Payroll - As above, a whole system review will be carried out;
- (c) The control and support team (which controls day to day financial processing);
- (d) The bulk banking service (which banks cash received from establishments city-wide);
- (e) The work of the FMIS team to the extent that this involves support to debtors, creditors and payroll systems;
- (f) Insurance and risk management.

3.6 These services all have the following theme:

- (a) They are essentially bulk transactional processes and services which support these;

- (b) They are heavily dependent on good quality IT systems;
- (c) Specification of the service required can generally be established on objective grounds and the services lend themselves more readily to objective performance measures.

3.7 Audit and Local Taxation Services are being reviewed as part of separate Best Value themes.

4. Questions to be Asked as Part of the Review

4.1 The review will be structured in a way which prevents work being done which could become abortive as a consequence of the neighbourhood management review.

4.2 Much of the review will be based on staffing issues, given the dependence of the service on staffing.

4.3 The following activity will be carried out:

- (a) Whether the Council's financial management services meet current and foreseeable future needs of the Council; in particular, this will include:
 - Comparison of the cost of the individual services with that of similar authorities;
 - Review of our staffing complement compared to comparator authorities;
 - Identification of criteria by which our performance can be judged, and comparison of such measures with comparator authorities;
 - A review of the skills mix used to deliver the service, the extent to which the Council is effective at recruiting and training the right calibre of staff to deliver the service, and the extent to which our recruitment and training processes effectively deliver equality of opportunity in employment;
 - Capacity to carry out unforeseen tasks.
- (b) How ICT can be used to improve the quality of decisions made (the continued existence of FMIS will be taken as a "given" due to previous review work in this area);
- (c) A review of Council financial policies, to the extent that this is pertinent to the review (ie to the extent that they impact the way the service is delivered). It is not intended to review policies in respect of financial administration (eg procurement, paying for goods and services) as these are matters for other reviews (follow up to the procurement Best Value review and the operational finance Best Value review);
- (d) A review of the most effective means of delivering the service, including examination of structural issues and outsourcing options. To ensure this work does not conflict with the review of neighbourhood management:

- initial work will be done to examine alternatives, including the market for providing such services;
- a more detailed examination of whether the current structure/means of service delivery should be changed to meet the Council's forecast needs will be undertaken as part and parcel of the neighbourhood management review;
- if it becomes clear that the neighbourhood management review will not require a re-appraisal of the way financial services are provided to the Authority, the above work will then proceed anyway.

4.4 The review will seek to avoid pre-empting the operational finance review, and ensure any appropriate links are drawn with follow up action arising from the procurement review which took place in 2000/01.

5. Stakeholders

5.1 These are identified as:-

- (a) Elected Members, particularly the Cabinet and Scrutiny Committees;
- (b) Council Departments;
- (c) The Chief Financial Officer in his S151 capacity;
- (d) Organisations receiving honorary treasurership services and bodies for whom we act as accountable body;
- (e) The District Auditor;
- (f) Schools.

5.2 Views of stakeholders on the services will be sought as part of the review, and stakeholders will be consulted as the review progresses.

5.3 Whilst the general public is not a direct stakeholder in the services being reviewed, consultation does take place with both electors and business ratepayers as part of the budget planning/strategy process. The effectiveness of these means of consulting the public will be evaluated as part of the review (as it has a direct bearing on the way the Council's finances are managed).

6. Independent Element

6.1 Independent support to the review will be obtained from one or more of the following sources:

- (a) Stoke City Council (who are undertaking a similar review to ours, and for whom we have agreed to act as independent consultees);
- (b) The PriceWaterhouseCoopers Companies Advisory Service, who have past experience of supporting such reviews (we will not, of course, use them to support review of services we obtain from them);

- (c) A private sector finance specialist.

7. The 4 Cs

7.1 It is worth considering initially how the review might address the 4 Cs.

- (a) Challenge is a clear part of the review, although it is noted from the outset that many of the functions are required by law or support the strategic management of the Council.
- (b) Consultation will be largely limited to internal stakeholders.
- (c) Comparison with others is a vital part of the review.
- (d) Competition will be considered both in advance of and in tandem with the neighbourhood management review.

8. Equalities

8.1 The main equalities issue in the review relates to recruitment, training and retention of staff. This is dealt with in paragraph 4.3 above.

9. Lead Officer/Review Group

9.1 Graham Feek will be the lead officer for the review.

9.2 A small group, including workforce representation, will monitor progress from time to time. The trade unions have expressed a preference for using this mechanism as a means of gauging workforce opinion as the review progresses.

10. Costs of the Review

10.1 Whilst, as far as possible, the review will be carried out using existing resources, primarily from the Financial Strategy section and drawing from other Heads of Finance in relation to certain tasks, it is estimated that additional support will be required to support the review. It is estimated that this will amount to ½ a PO1 post for 5 months, estimates at £11,000, including associated on-costs.

11. Consultation

11.1 Consultation on this scope has taken place with:

- (a) Staff and staff representatives;
- (b) Heads of Finance Group;
- (c) Strategic Resources Group;
- (d) Directors' Board.
- (e) The Director responsible for "challenge"

11.2 Significant revisions have been made to the scope as a consequence of these consultations.

Financial Management Best Value Review

Fundamental Service Review – Supporting Information – April 2001

1. Purpose

- 1.1 The purpose of this document is to provide detailed information to support the Fundamental Service Review of Financial Management.
- 1.2 To date the Best Value review has concentrated on compiling relevant information to inform the route of the review and services to be included in the scope of the review. Essentially the FSR aims to consider which services within the scope of the review should continue to be carried out and provide evidence to inform the decision concerning which route, performance management or service review, the review should take.

2. Background

- 2.1 The scope of the Financial Management Best Value Review was agreed by Cabinet on the 9th April 2001. The full scope is attached at Appendix 1.
- 2.2 In summary, the scope of the review included the following sections/activities, all of which are in a Town Clerk's Corporate Resources Department, unless otherwise indicated:
 - (a) The Financial Strategy Section.
 - (b) Corporate Accountancy functions of the Accountancy team.
 - (c) The FMIS team, excluding work which is part of the maintenance of Council's creditors/debtors/payroll system.
 - (d) The work of Departmental Finance teams, to the extent that this involves budgeting, accounting, financial monitoring and financial advice (including work done by the accountancy team in respect of the Town Clerk's and Chief Executive Departments).
 - (e) The Treasury management and VAT service.
 - (f) Honorary Treasurerships across the Council.
- 2.3 These services have been grouped together because they are services of a strategic nature, which support the policy making of the Council. They are also heavily dependent upon professionally qualified staff. Specification of the required services generally involves a degree of subjectivity and a high level of definition as services are based upon the expressed needs of Members, Directors and Chief Financial Officer.
- 2.4 There are a number of services which are currently obtained externally which are also included in the scope of the review;

- (a) The ASLAC Advisory Service (joint CIPFA/Pricewaterhouse Coopers Advisory Service).
- (b) Sector Treasury Services
- (c) External Fund Managers
- (d) VAT Advisory service

3. Demonstrating fit into Performance Management Framework

- 3.1 Financial Management services are integral to the Performance Management Framework of the Council. Performance management affects financial management services at 2 levels. Firstly, at a strategic level, where the development of financial policies directly support the Council's performance management framework. Secondly, at a departmental level, where Heads of Finance directly support their departments in delivering the actions required to implement the Council's key strategies and policies.
- 3.2 A detailed assessment has been carried out to determine whether Financial Management Services meet the Council's performance management expectations. The analysis has been carried out at 2 levels: firstly, regarding the strategies and policies in place which support the performance management framework at a corporate level; secondly, how individual business units carry out day to day operations within the performance management framework.

3.3 Corporate Level

3.3.1 Community Plan

The Council's strategic priorities follow the Community Plan, which has 6 main priorities:

- Diversity
- Community Safety
- Education
- Health and Social Care
- Environment
- Jobs and Regeneration

Financial Management Services indirectly support the implementation of all priorities, by ensuring that the Council's finances are efficiently managed, and by optimising resources available.

3.3.2 Revenue and Capital Strategy

The Council has 4 main resource strategies that support the performance management framework. The Capital and Revenue strategy are key resource strategies. These strategies provide a clear means by which the authority can achieve its key objectives within a clearly costed financial framework. These strategies are further developed than many other comparable authorities. The Council's revenue budgets for 2000/2001 and 2001/02 have been based upon the principles and priorities set out in the revenue strategy. This is the first time that the authority has set a budget based on tax commitments and priorities, which were

previously pledged. The revenue strategy and the principle of long term planning, was subject to public consultation and the Council's budget was set in light of the consultation. The Revenue Strategy is now firmly embedded within the Council's performance management culture. The Corporate Revenue Strategy is supported by Departmental Revenue Strategies whereby each department plans its services within the corporately agreed framework and to corporately agreed planning targets and assumptions.

The process of rolling forward the Revenue Strategy to 2004/05 has commenced. The process will again be subject to public consultation.

The Council has had a capital strategy since 1998/99. Since then all capital programmes have been based upon the principles and priorities within that strategy. All of the schemes within the Corporate Capital programme can be linked directly to corporately agreed capital priorities within the strategy. The priorities in the capital strategy are subject to annual review and in 2000 the capital strategy underwent a major revision in order to reflect the Council's new performance management framework, including the priorities arising from the Community Plan. The strategy is subject to annual review and the process of review for 2001/02 has already commenced. The strategy will be subject to public consultation over the Summer of 2001.

3.3.3 Devolved Financial Management

Since 1998, the Council, has operated a system of devolved financial management (DFM) which enables departments and individual business units to operate and be financially accountable at an individual business unit level. The system of devolved financial management is supported by new financial regulations and a code of practice which sets out clear lines of responsibility between service Directors and the Corporate centre in order to satisfy the section 151 officer of the adequacy of financial control across the City Council as a whole. The code of practice ensures that service provision is closely aligned with financial responsibility and is integral to the successful operation of the Council's performance management framework.

The operation of DFM is constantly monitored through a weekly Heads of Finance meeting, whereby common issues affecting departments are discussed and Heads of Finance are kept up to date concerning financial issues with a corporate dimension.

A further major initiative, which is helping to underpin the Council's performance management framework and devolved financial management, is the review of FMIS. Amongst other things, the review is being used to ensure that financial reporting across the Council better reflects the needs of individual business units and that information is available at a level which assists individual business unit managers to fulfil their responsibilities under the performance management framework. There is a project team responsible for the review which reports to Strategic Resources Group as the Project Board.

3.3.4 Other Corporate Work

Since DFM was introduced there have been significant improvements in our financial monitoring. Departmental Management teams and Directors' Board receive monthly reports on Capital and Revenue spending.

The culture of DFM is now firmly embedded in the organisation. The effective operation and improved deliveries of Financial Management at a departmental level can be evidenced by improved budget monitoring performance over the 3 years of DFM, leading to an outturn position in 1999/00 of an underspend of 0.9% against controllable budgets. Our performance has been referred to positively by the Social Services Inspectorate. Carry forwards of unspent budgets have decreased since 1997/8 as follows:

- C/forward 1997/98 £4.3m
- C/forward 1998/99 £3.0m
- C/forward 1999/00 £1.3m

Capital monitoring remains an area of concern, which is being addressed. The new capital strategy attempts to put better estimating techniques in place at a scheme's outset in order to improve subsequent monitoring and control.

Other issues that support the Council's overall performance management framework include:

- financial regulations
- various support to corporate working groups
- Treasury Management Strategy, (complying with CIPFA code of practice on Treasury Management)

3.4 Departmental business planning

3.4.1 As well as supporting the performance management framework at a corporate level, central and devolved finance are integral to departments' achieving their aims and objectives which support the Council's key strategies and plans.

3.4.2 Business planning is now well engrained into the culture of financial management. Separate business plans are prepared by the central Financial Services Division and devolved finance teams. Whilst these are monitored within their respective departments, there is a need to develop this further and monitor financial management corporately. This is clearly a development requirement and has been picked up in the Town Clerk's and Corporate Resources Department's, Financial Service's Business Plan for 2001/02.

3.4.3 An assessment has been carried out of all business plans in order to test how far they meet expectations of the performance management framework in order to produce an action plan for this review.

3.4.4 Appendix B of Appendix 2 shows a summary of the assessment. The business plans for Financial Strategy, Accountancy, VAT and Treasury Management are contained within the Town Clerk's and Corporate Resources Department's Financial Services Business Plan. Devolved Heads of Finance write individual business plans for their services.

3.4.5 The nature of the plans are different. The Town Clerk's services business plan generally demonstrates how these services will help the Town Clerk's Department meet its corporate priorities, including undertaking the corporate lead role on Financial Management for the authority. Divisional objectives are cross-referenced to Departmental objectives.

3.4.6 The Town Clerk's Services business plan contains a number of stated objectives for financial management across the authority. These include;

- Improving the financial management of the Authority, and ensuring that finance

considerations are an integral part of strategic and service policy making;

- Establishing medium term financial planning, and rooting it within the Authority's culture (this is integral to the Council's revenue and capital strategies);
- Optimising the financial resources available to the Authority.

3.4.7 The general findings from the review undertaken were:

- Generally, business planning demonstrated that service objectives were set as were clear service outputs and outcomes.
- Some areas do not lend themselves well to clear service standards because of the subjectivity of the work
- There are no national PIs for the services covered in the review. The nature of the services contained in the review do not necessarily lend themselves well to performance indicators.
- Whilst there is monitoring of past year's performance in place in most areas there are some gaps.
- The majority of services have performance indicators. In some cases however, there needs to be more communality of definition between departments.

The table below summarises PI s in Business Plans from 2001/02 and where available estimates of performance in 2000/01.

Details	Target 2001/02	2000/01 Forecast	2000/01 Target	Target Met?
Financial Strategy				N/A
Satisfaction with service by members and departments	80%	New		
<u>Accountancy</u>				
Qualifications to final accounts (y/e 31/3/2001)	0	0 (in respect of 1999/2000)	0	✓
Qualifications to grant claims (y/e 31/3/2000)	0	There continued to be some areas with which the DA was unhappy re 1999/2000, but no formal qualifications	0	✓
Forecast outturn for year ending 31/3/01 for Department	Within 0.5% of February forecast	Not yet known	Within 5% of February 2001 Forecast	Not yet known
Satisfaction rating from Cost Centre managers	90% satisfactory or better	Survey completed October 2000, showing ~90% satisfaction rating	80%	✓
Forecast outturn for net recharges	Within £50,000 of February forecast	Not yet known	Within £150,000 of February2000 forecast	Not yet known
Departmental revenue & capital budget monitoring to DMT	All reporting deadlines met	New		N/A
Corporate revenue & capital budget monitoring to Directors' Board	All reporting deadlines met	New		N/A

	Target 2001/02	2000/01 Forecast	2000/01 Target	Target Met?
Grants and statistical returns	All submitted on time	New		N/A
FMIS				
Respond to system support requests	95% within 1 working day	95%+	95%+	✓
Respond to system access requests	95% within 1 working day	95%+	95%+	✓
Reconciliation of Accounts Payable to General Ledger	2 occasions per week	2 per week	2 per week	✓
Satisfaction of internal customers with section's service	90% satisfactory or better	87.5%	80%	✓
Treasury Management				
The rate of interest earned on deposits.	Mid-point of LIBOR/LIBID exceeded	Exceed by 0.1%	Mid point of LIBOR/LIBID	✓
The rate of interest paid on new loans.	5.0%	4.9%	5.25%	✓
The timing of borrowing decisions.	Lowest point in 2001/02 plus 0.25%	Target beaten by 0.1%	Lowest point in 2001/02 plus 0.25%	✓
Average borrowing costs.	7.0%	7.2%	7.3%	✓
Cost of debt administration per £000 of capital debt.	46p	48p	46p	X
VAT and Taxation				
Submission of VAT returns	On average 5 days before due date	On average 7 days before due date	On average 5 days before due date	✓
Submission of CIS vouchers on average by due date	In all cases by due date	On average 29 days after due date	On average by due date	X
Submission of P11D returns	20 days before due date	2 days before due date	On average 20 days before due date	X
Submission of PSA 5 days before due date	10 days before due date	16 days before due date	On average 5 days before due date	✓
Partial exemption position	< 4%	3% or less	<4%	✓
Arts & Leisure				
% of staff who have received ERDs & renewal training plan	100%	75% at Q3	100%	?
% Spend against Budget	100%	?	100%	?
% of comments on Financial IMPs on committee reports within 48 hours	99%	92% at Q3	99%	?
No. and % of cost centre managers trained in use of FMIS	35/20%	2	35/20%	?
Provide monitoring information to managers	3days	N/A	N/A	N/A
E&D				
Heads of Finance given sound Financial advice	100%	?	100%	?
*Education				
Statutory Financial Policies completion on time			100%	✓
*Social Services				
Carry out annual satisfaction survey of CEMs			100%	✓
Complete all returns within deadline			100%	✓
Implement FMIS at all remote sites.			100%	X

• (2001/02 not finished – 2000/01 used)

? Year end figures not yet completed

- PIs and progress against business plan have been regularly monitored through individual management teams.
- There are some service gaps in PI, particularly relating to staff performance and EMAS.

- The co-ordination of PI reporting is a development task within the Town Clerk's Financial Services business plan and will be carried out through the established Heads of Finance Meeting, chaired by the Chief Financial Officer.
- It can be seen that in the majority of cases PIs have existed for more than 1 year.

4. 4Cs

4.1 The purpose of this section of the supporting information is to show how the current performance management framework is being utilised to demonstrate that Financial Management Services are meeting the requirements for challenge, compare, consult and compete.

4.2 The Town Clerk's Financial Service's business plan in 2000/01 committed to demonstrating that financial service across the authority seek to demonstrate Best Value. As well as carrying this requirement out through the normal identification of key tasks and priorities and measurement through PIs the process was supplemented by work specifically to prepare for the Best Value review. This ensured that the existing business planning could be supported by information such as benchmarking and customer feedback in order to move the service forward.

4.3 Challenge

4.3.1 The challenge task has two aspects: do we need to carry out all the services which we currently provide, and are the services provided in the most effective way?

4.4 Should Existing Services Continue to be Carried Out?

4.4.1 Paragraph 2 indicates the services included in the scope of the review.

4.4.2 The services within the review operate under a statutory framework. It is very difficult to determine what a statutory minimum level of service is in relation to Financial Management and some cases there is an invisible line between Statutory and Discretionary Services.

4.4.3 Whilst the core of Financial Management Service is carrying out statutory services, clearly the service supports the authority in taking its own priorities forward. In some cases these priorities are not meeting a statutory provision or exceeding a statutory minimum, so by definition there are aspects of financial management which may be beyond the statutory minimum.

4.4.4 Disaggregation of services to a level which demonstrates a statutory minimum is impractical. For example, there is a legal requirement for each authority to set a budget. The method of setting the budget is not specified therefore each authority approaches this differently. In Leicester's case we have 3 year budget planning in place. This is a Council Policy and it is also clearly the way in which government are expecting all authorities to develop. However, arguably if an annual approach was taken the Council would still satisfy its legal responsibilities and it may cost less to produce the budget? However, Members and the S151 Officer have determined that the method of budgeting is the most effective way for the Council to carry out proper financial planning. As the S151 Officer has to ensure that there are proper financial procedures in place and he has determined this is an appropriate level, it is in one sense the statutory minimum. However, there are clearly other ways to meet the requirement to set a budget.

4.4.5 Whilst it is always difficult to specify minimum levels of any statutory service, the qualitative nature of financial management makes it exceptionally difficult. The fact that the authority must legally have effective financial control in place means that the statutory minimum will generally be based on judgement and accepted practice within local government finance.

4.4.6 There are three other indicators at an authority wide level, that indicate that the Council does not provide financial management service which exceeds the statutory minimum:

d) In 1997/8 the Council carried out a review of the structure of its financial management, as part of a wider review of corporate staffing (the “corporate resources review”). The review led to devolved financial management (DFM), and also led to savings being achieved of £500,000 per annum.

e) Since 1997/8, the Council has been required to constantly look for more effective ways of providing services in order to meet budget savings. Generally support services have been closely scrutinised in order to protect, as far as possible, front line services. Since 1998/9 financial management service have made a number of further savings.

f) The benchmarking which the Council has done does not imply that the Council has excessive levels of staff and cost. In fact it implies that our costs are below average as is the number of staff carrying out the service.

4.4.7 The Local Government Act 1972 specifies that each authority must have an officer designated as being responsible for the proper financial affairs of the authority, the Section 151 Officer.

4.4.8 The S151 Officer’s view is that:

Most services provided are either statutory (such as accounts preparation) or absolutely integral to the authority’s needs, being services which are standard across the country (e.g. treasury management).

The results of benchmarking suggest that such services cost at or below average. Identifiable actions can be taken to improve performance, but a thorough service review is not essential.

Discretionary Services include:

a) Some aspects of Financial Strategy – this section provides a service which analyses and forecasts resources received from central government, makes representations to central government about planned changes, supports financial policy development and helps the Council maximise resources. It can be demonstrated that the section has “paid its way” (having secured more resources for the Council than it has cost) and the CFO believes it to be essential feature of a well managed authority (it was strengthened as a consequence of the corporate resources review of 1997). The discretionary aspects of the service include proactive work on revenue grant distribution, including research and supporting working groups such as SIGOMA and the High Ethnicity Spend Interest Group. This proactive work helps the authority make sound technical cases to government. In 1999/00 the authority was awarded grant of £1.3m as a result of such lobbying;

- b) Honorary treasurerships which need to demonstrate their contribution to the Council's key objectives if they are to be continued;
- c) The school bursar service, which is entirely "traded" (i.e. it recovers its costs from schools) and is an essential aid to the Council's key corporate objective of raising standards in schools.

4.4.9 As well as carrying out services which are provided under a statutory framework, much of the work of services concerned support departmental priorities and requirement, many of which are statutorily required.

4.4.10 Heads of Service have carried out a review of their activities to determine which, if any, should be discontinued because they are discretionary and not core to the authority's aims and objectives.

4.5 Discretionary Services

4.5.1 Following the consultation with the S151 Officer and Heads of Services the following services have been defined as discretionary.

4.6 Non Core Discretionary

4.6.1 Honorary Treasurerships

There are 2 instances where the Council acts as the honorary treasurer for organisations for historical reasons and where there is no service reason for continuing these arrangements. It is recommended that cessation of these services is investigated, subject to clarification of any legal issues associated with the trusts. It is recognised that the savings that will be achieved from withdrawal of service are minimal, £8,000 in all, and members may be reluctant to discontinue these services for such a small saving.

4.6.2 North Memorial Homes

The North Memorial Homes is a charity established after the First World War to provide accommodation for disabled servicemen and their families.

North Memorial Homes were established by public subscription of, at today's prices, between £2 – 3 million. To present date the office of Lord Mayor of Leicester holds a place on the Management Committee of the Charity, and 3 Councillors sit on the Management Committee, one whom is a trustee in a personal capacity. The trust deed states that the Honorary Treasurer shall be the Treasurer of Leicester City Council.

The homes are situated in Oadby and comprise twenty semi-detached houses, all but five have been converted into two self contained units. The Trust deed sets out the qualification for residency and in all instances the underlying consideration is of residential history within the City of Leicester. Priority is given to disabled persons who have served in the armed forces, their widow/widowers or dependants.

The CFO, remains the Honorary Treasurer but in practice his officers carry out these duties, a role currently performed by the Cash management Office. In addition a member of the Cash Management Office serves as Honorary

Secretary. This is on a personal basis (but within work time) and is not a role that historically has been linked with the Treasurer's Department but is a role that has always been carried out by an officer of the Council. The combined cost of carrying out the duties of honorary Treasurer and Honorary Secretary are estimated to be in order of £7,000.

It should be noted that other services are provided to NMH. The other main area of support comes from commercial services who organise and supervise repairs and works of improvements to the homes. The total cost of these other services is in the order of £14,000. These services are outside scope of the review.

The work to support the Honorary Treasurer role is not seen as core to the role of financial services. It is therefore proposed to investigate withdrawal of the service on a phased basis in order to allow North Memorial Homes to put alternative arrangements in place by April 2002. The Homes will be fully consulted before making a final decision.

4.6.3 Wyggeston School Foundation

Upon Unitary Status, the Honorary Treasurership for the Wyggeston School Foundation passed to the City Council. The Council carries out basic maintenance of statutory accounts, provides management accounting information and assists in making returns to the Charities Commission.

The original trust was established by Regent College, Queen Elizabeth College and Wyggeston School. The trust administers income from the trust to support pupils at the school. In the past Wyggeston have expressed a desire to administer the finances of the trust.

The work is carried out within the Education Finance Team. A nominal fee is charged for the work which does not cover the cost of the service provided.

The work is not considered to be core to financial services and it is therefore recommended that cessation of the service is investigated (or charging on a full cost basis) subject to advice from legal services. This would lead to savings of £1,000 per annum. A phased withdrawal is recommended with full withdrawal or charging from April 2002.

4.7 Core Discretionary

4.7.1 Financial Strategy

As outlined above, some aspects of Financial Strategy can be considered discretionary.

However, such work is core to the overall strategy of the Council. Medium to long term budget planning would be compromised. The Council would not be able to play an effective part in the current review of revenue grant distribution (80% of our general fund resources come directly from the government) restricting our ability to influence the review. We would also not be able to respond to the same extent, on a significant number of government consultations, potentially disbenefiting us. As mentioned above the discretionary claimant of the service and the whole service can demonstrate they have saved more money than they have cost.

The service is recommended to continue.

4.7.2 Schools Bursar Service

This service provides financial management services at an individual school level. The funding for the service is delegated to schools therefore schools have total freedom to purchase the service from elsewhere.

The service is core to effective financial management at school level and has received positive comments from OFSTED.

The service is recommended to continue.

4.8 Are Services Carried Out in the Most Effective Way?

The second aspect of challenge is whether the Council carries out the services in the most effective way.

The scope of the review states that a more detailed examination of whether the current structure and means of service delivery is the most effective will be considered as part of the Neighbourhood Management review. If the neighbourhood management review does not require a re-appraisal of the way financial services are provided, the Best Value review will consider issues of effectiveness.

Therefore, to some extent, the direction of this aspect of challenge is suspended pending the neighbourhood management review is completed. However, the draft action plan at section 8 below outlines the aspect of service that require review, regardless of the outcome of neighbourhood management.

5. Compare

5.1 The services that are included in the scope of the review are traditionally difficult to compare against other authorities and particularly difficult to compare against similar sized private or public organisations.

5.2 The need to compare has been addressed on several fronts;

- we are members of CIPFA's benchmarking club for accountancy services and are currently undertaking the exercise for this financial year. This benchmarking covers all the services within the scope of the review,
- we are members of a unitary club established by Stoke City Council looking at a broad range of financial services including those in the scope of this review,
- we have commissioned PricewaterhouseCoopers to identify any relevant private sector benchmarks that can be built into future business planing,
- we are active members of the West Midlands Treasury Managers Benchmarking Group,
- the CFO attends the Midland's Treasurers' meeting on a quarterly basis, which from April 2001 will consider benchmarking and PIs as a standing agenda item,

- we are part of a East Midlands Unitary authority benchmarking group, run by Stoke which is due to meet quarterly from April.

5.3 Findings from benchmarking

- 5.3.1 Of the benchmarking carried out by CIPFA, Stoke and the West Midlands, the CIPFA and West Midlands information is the most relevant. The CIPFA club compares us against very similar authorities listed in Appendix C, and also against all authorities which joined the club (a large number). The methodology used has been tried and tested, with clearly laid out guidelines and definitions which have been identified over time.
- 5.3.2 The West Midlands benchmarking for Treasury Management services is also robust and has been refined over time.
- 5.3.3 The Stoke benchmarking club is new and definitions are therefore being refined.
- 5.3.4 Appendix 3 gives a detailed breakdown of the results of all 3 exercises.
- 5.3.5 Because of the difficulties in identifying common PIs, most of the benchmarking data is concerned with staff numbers and costs and total costs of service. The main exception to this is Treasury Management where there are more common PIs.
- 5.3.6 All 3 exercises generally show that the total cost of the services within the review are average or below average. It also shows that on average we pay less for staff despite having a higher proportion of qualified staff, this is also evidenced in recruitment difficulties over the past 2 years. The fact that our salaries are low has been evidenced separately and reported to SRG last year.
- 5.3.7 Rather than being average or below average, we would expect our costs to be above average because of a variety of reasons, including managing a large number of new funding schemes. Some of these issues are shown in Appendix C.
- 5.3.8 The benchmarking evidence will be subject to continual review and will form the basis for ongoing comparison against others. The benchmarking evidence is also useful to give us a view on how our services are configured, to some extent, and which, if any, may be suitable for competition.

6. Consult

- 6.1 Appendix 2 shows that most business plans for 2001/02 are committed to determining customer satisfaction. The services have carried out consultation with service users over the last 12 months. Evidence of consultation includes:
- Each devolved financial service has surveyed all internal customers in 2000/01 with overall positive results (summarised at appendix 5),
 - Public consultation was carried out on the Council's corporate revenue budget strategy. Findings were reported to Cabinet in November 2000 and taken into account in developing budget policy; more than 1/2 surveyed supported the concept of medium term financial planning, compared to less than 1/5 opposing it. Strong support for the Council's priorities was evident. A further public consultation exercise will be carried out over the summer of 2001.

- Education finance consultation takes place with schools relating to financial information and financial services 3 times a term in order to provide services and information that schools want. The Fair Funding Group's role is also being expanded to consider more operational issues, such as finance support.
- Schools have been consulted on the provision of Financial Services by OFSTED; positive comments were received from OFSTED concerning financial services to schools.
- The VAT and Taxation Services have carried out customer satisfaction survey, reaching satisfaction of 86%.
- The FMIS team has carried out an exercise to establish customer satisfaction, 85% rating has been gained.
- Accountancy survey all internal customers in 2000/01 and have PIs in their business plan for 2001/02 to continue to achieve 90% satisfaction from service users.
- The Town Clerk's Financial Services carried out staff surveys in 2000/01 to establish staff morale and issues.

6.2 It can be demonstrated that consultation has been acted upon and developed further in 2001/02 business plan.

7. Compete

7.1 As part of Best Value preparations a review of the current market for Financial Services has been undertaken. The review is based mainly on market surveys carried out by CIPFA's Best Value Advisory Service (BVAS). There are 2 aspects to the research:

- possible suppliers of financial services to local government.
- the types of service already being supplied in the market.

7.2 Possible Suppliers

7.2.1 There are several possible suppliers of financial services to local government. However, these vary considerably in terms of their existing relationship with local authorities.

7.2.2 The large accountancy firms

Companies such as the 'Big 5' (PriceWaterhouseCoopers, KPMG, Deloitte & Touche, Ernst & Young and Arthur Andersen) already have a close relationship with many local authorities through the provision of (internal and external) audit services. However, their services tend to be limited only to audit and advice/consultancy which are outside the scope of this review.

7.2.3 Hyder Business Services & Utilities Companies

Hyder are best known for having won the 10 year contract to work in partnership with Lincolnshire County Council in providing a range of local government financial

services. However, Lincolnshire did retain a core of 47 finance staff (including 10 financial strategy staff and 10 treasury management staff) and it appears to have retained a number of other staff who are equivalent of our devolved finance staff. Lincolnshire's rationale for retaining core central staff included:

- they were a key strategic function,
- they considered there to be limited scope for such arrangements to bring added value to core services,
- there was a need to retain a secure viable unit and they would seek to secure improvements through their performance management process.

7.2.4 Capita/Integra/other systems-based companies

Capita and Integra were shortlisted along with Hyder to provide a complete service to Lincolnshire.

- Capita are familiar with local government operations, having provided financial services to local authorities for several years. However, their work tends to be transaction-based (such as benefits administration) rather than core financial management. This is borne out by the BVAS survey – Capita provides no accountancy service to local government, although it does provide several transaction-based financial services.
- Integra specialises in IT systems, as do a great many other bidders for local authority financial work. Consequently, they too concentrate solely on transaction-based functions, as the BVAS survey shows.

7.2.5 Other Local Authority/Consortium

It is possible that another local authority which has the capacity to take on additional work could bid for a financial management contract let by Leicester City Council. Such an authority would be expected to have already achieved a high quality of service. There are also likely to be restrictions due to other authorities only being able to utilise any surplus capacity at present under current legislation. Alternatively, a consortium of local authorities could set up an accountancy service with the intention of achieving economies of scale. This would have the added benefit of 'sector experience'. Currently no consortia exist to provide services to local government, but a few exist in the health service (where many of the consortium members share the same legacy systems in any case) for transaction-based functions.

7.3 Types of financial service supplied

7.3.1 The market for local government financial services has not developed to such an extent that financial management services can readily be bought-in. Suppliers generally concentrate on marketing:

- financial processes that lend themselves fairly easily to increased IT systematisation (such as debtors and creditors).
- advice pertaining to tax or PFI (ie. specialisms closely related to the operation of the market).
- investment management services.
- Services which are easy to specify through outputs.

To date, no supplier (except Hyder who provide some) is contracted to 'supply' core financial management services.

7.3.2 This uneven development of the local government financial services market is reflected in the BVAS survey. Of the 23 contracts listed in the survey, 15 (65%) were for computerised financial systems, 5 (22%) were for advice and 3 (13%) related to investment management. Systems work tends to be contracted to IT specialists, while PFI and VAT consultancy work is usually awarded to the accountancy firms (in this case PWC and Robson Rhodes).

7.4 Summary Findings

7.4.1 There appears to be a market for supply of those financial functions which can be specified with reference to measureable outputs and therefore managed by a contract, or which relate to the provision of specialist market-orientated advice.

7.4.2 There is a market for transformation, system based or specialist financial advice. There is little, or no supply, of core financial management functions (such as budgeting and accounting, or more strategic financial work). Such functions are less quantifiable than transaction-based financial systems and therefore less amenable to outsourcing.

7.4.3 Even in the case of Lincolnshire and Hyder Business Services, all core accounting functions are not included in the contract, which has, in any case, only been let from 1/4/2000.

7.5 Are arrangements at Leicester appropriate?

7.5.1 The findings from the review largely reflect the view already held at Leicester.

The present arrangements at Leicester mirror the current market identified above:

- External support is bought in for Tax, Investment and PFI advice. Tax advice was tendered last year and PriceWaterhouseCoopers were awarded a contract after a competitive process.
- Treasury Management advice is currently provided by Sector Treasury Management and the Council's approved Treasury Strategy identifies that this contract will be re-tendered in 2002 (deferred from 2001 pending Best Value, but this can be brought forward again if the review proceeds down the performance management route).
- The Council has recently appointed Ernst and Young to provide specialist PFI advice on the waste management PFI scheme following a competitive exercise following European Union process.
- The Council has a "call on/call off" contract with PWC for general PFI/Partnership advice. This contract was subject to competitive bidding. The Council has market intelligence on private sector rates.
- The Council also subscribes to ASLAC, a joint PWC and CIPFA company specialising in providing technical advice. The VFM of these arrangements is specifically included in the scope of the review.

- 7.5.2 The consensual view of authorities across the Country is that it is inappropriate to externalise core financial management functions. (Budget planning, accounting, treasury management, financial monitoring and financial advice). The nature of these services is such that they are core to supporting authorities' corporate strategic priorities. The services tend to be very responsive to customer needs in an environment where it is difficult to specify precise outputs for a service. There is no evidence that the private sector can provide the same levels of professional staff more competitively. The management of an externalisation would be difficult given the qualitative nature of the service and hence the cost of the service would be difficult to manage (tasks outside the specification would need to be paid for).
- 7.5.3 Our research has shown that 65% of externalisation relating to finance was in order to secure investment in computerised financial systems, probably because investment in IT was required but the authority is unable to make investment. As already described, the Council is already committed to the relaunch of FMIS for which a project team and budget has been established for the past 18 months.
- 7.5.4 The CFO's view is that core financial management services :
- a) need to be highly responsive, and capable of dealing with considerable unplanned tasks;
 - b) need to be sensitive to the Council's political environment; and
 - c) need a high level of understanding of the Council's culture to operate effectively.
- 7.5.5 These needs occur both in centrally and departmentally based services, and consequently it is believed that outsourcing is unlikely to be the most attractive option.
- 7.5.6 The Town Clerk's Financial Services business plan contains provision for a review of the value for money for all the above arrangements including an assessment of the balance of in house and external provision.
- 7.5.7 It is reorganised that as Financial Services CCT was relatively undeveloped and that the existing market place may change in response to Best Value. Therefore it is proposed to carry out further soft market testing to identify whether there is an emerging market. The major accountancy firms will be asked to participate in an exercise. It is expected that this work will be concluded by October 2001 and can then be built into further years' business planning as appropriate.

8. Action Plan

- 8.1 It is recommended that the review follows the performance measurement route. An action plan will therefore be developed and implemented through business planning.
- 8.2 Performance Management
- 8.2.1 The work carried out so far shows that performance management is engrained within the culture of financial management at a corporate and operational level. However, the review has highlighted a number of development tasks which are

required to ensure that performance management is consistent across all financial management services and there is more routine allocation and analysis of key performance measures. In particular PIs for EMAS and staff performance and in some cases, further evidence of measurement of business plans and PIs.

8.3 The action plan falls into 2 parts. Firstly, developments to the current performance management framework; secondly specific tasks agreed in the scope.

8.3.1 The most substantial part of the action plan relates to tasks that were identified as part of the project scope. It was agreed in the scope that the review will be structured in a way which prevents work being done which could become abortive as a consequence of the neighbourhood management review.

8.3.2 The areas of work are as follows, italics indicate work that has already been completed or the position that has been established as part of the review:

(a) A review of activities to determine which should and which should not be carried out; *this has been carried out at the fundamental review.*

(b) Whether the Council's financial management services meet current and foreseeable future needs of the Council; in particular, this will include:

- Comparison of the cost of the individual services with that of similar authorities; *this has already been completed and the findings are summarised at appendix 3*
- Review of our staffing complement compared to comparator authorities; *this has been partly completed through various benchmarking.*
- Identification of criteria by which our performance can be judged, and comparison of such measures with comparator authorities; *Again partly completed through benchmarking and internal assessment of indicators. This is a key development recommended above in terms of enhancing performance management.*
- A review of the skills mix used to deliver the service, the extent to which the Council is effective at recruiting and training the right calibre of staff to deliver the service, and the extent to which our recruitment and training processes effectively deliver equality of opportunity in employment; *Benchmarking does help to confirm our original concerns. Bearing in mind the services in the review were selected because they are heavily reliant on professional staff this is a key task.*
- Capacity to carry out unforeseen tasks. *As part of the Fundamental Service Review key issues affecting each service have already been identified. This will help in arriving at a view concerning capacity.*

(c) How ICT can be used to improve the quality of decisions made (the continued existence of FMIS will be taken as a "given" due to previous review work in this area); *The position regarding FMIS has already been stated in paragraph 3.3.3.*

(d) A review of Council financial policies, to the extent that this is pertinent to the review (ie to the extent that they impact the way the service is delivered). It

is not intended to review policies in respect of financial administration (eg procurement, paying for goods and services) as these are matters for other reviews (follow up to the procurement Best Value review and the operational finance Best Value review); *A review of financial regulations, to ensure that regulations meet the needs of the authority, has already been commenced.*

- (e) A review of the most effective means of delivering the service, including examination of structural issues and outsourcing options. To ensure this work does not conflict with the review of neighbourhood management:
- initial work will be done to examine alternatives, including the market for providing such services; *This has been completed as part of the fundamental service review. Review of the balance of existing arrangements is programmed into Business Planning. The scope of the review includes specific review of the VFM of VAT and Treasury Management Advisors, Treasury Managers and ASLAC subscription.*
 - a more detailed examination of whether the current structure/means of service delivery should be changed to meet the Council's forecast needs will be undertaken as part and parcel of the neighbourhood management review;
 - if it becomes clear that the neighbourhood management review will not require a re-appraisal of the way financial services are provided to the Authority, the above work will then proceed anyway.

2001/02 BUSINESS PLAN POSITION STATEMENT

	Financial Strategy	Accountancy	FMIS	A&L	*Education	E&D	Housing	*Social Services	VAT	Treasury Management
Key Services Standards used	✓	✓	✓	✓	X	X	X	X	X	n/a
Key Services Objectives	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Anticipated Service Outputs	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Anticipated Service Outcomes	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Does the services have performance indicators for:										
Customer Satisfaction	✓	✓	✓	✓	X	✓	✓	✓	✓	✓
Staff Performance	X	X	X	✓	X	X	✓	X	X	X
Financial Performance	✓	✓	X	✓	✓	✓	✓	X	✓	✓
Crime & Disorder	n/a	n/a	n/a	n/a	n/a	N/a	n/a	n/a	n/a	n/a
Income Generation	n/a	n/a	n/a	X	n/a	N/a	n/a	n/a	n/a	n/a
Equality Action Plans	✓	✓	✓	✓	X	X	X	✓	✓	✓
EMAS	X	X	X	✓	X	X	X	X	X	X
National & local PI's	✓	✓	✓	✓	X	✓	✓	✓	✓	✓
Other Significant Plans	✓	✓	✓	✓	X	X	?	X	✓	✓
Review of 2000/01 taken place?	✓	✓		✓	✓	✓	✓	?	✓	✓
Evidence of measurement of plan?	✓	✓		✓	X	X	✓	?	✓	✓

* 2001/02 not available, 2000/01 used

Summary Benchmarking Results

This note summarises the benchmarking results from the IPF and Stoke exercises.

1). CIPFA Benchmarking for Accountancy Services

Leicester has subscribed to the IPF (CIPFA's commercial arm) benchmarking club for 2000/01. This appendix summarises the results from the exercise.

We have been compared with 2 client groups. Firstly with similar authorities, which we specified and then with all authorities who have subscribed to the club.

The benchmarking focuses on costs not output measures. IPF have based the cost comparison on how much authorities are spending on various activities per £000 of gross revenue expenditure.

Comparison with similar authorities

This is the most useful comparison. Leicester has been compared to the following authorities:

Bradford	Kingston upon Hull
East Riding	Luton
Newcastle	Nottingham City
Sandwell	Sefton
Sunderland	Telford and Wrekin
Wigan	Wolverhampton
Doncaster	

The attached table presents the key comparisons. The highlights are as follows:

Function	Leicester - Cost per £000 of GRE	Average – Cost per £000 of GRE
Financial Strategy & planning	0.88	0.68
Financial Advice	0.60	0.47
Preparation of Budgets	1.12	0.76
Budget Monitoring	1.48	2.01
Revenue and Capital Accounts	0.76	0.79
Technical Research and projects	0.20	0.33
Systems support	1.09	1.06
Treasury Management	0.23	0.19
Other Functions	0.07	0.19
Total	5.83	6.02

Overall our costs are below average. We spend more on strategy, advice and budgeting compared to others and less on monitoring. Detailed time recording between different functions is not kept at present and therefore, to some extent, the split between type of service is not as meaningful as the total.

The below average cost can be explained as follows:

Per £000 of GRE	Staff	Running Costs	Accommodation	IT	Central Recharge	Total
LCC	4.14	0.21	0.28	0.87	0.33	5.83
Average	4.34	0.31	0.24	0.84	0.33	6.06?
Difference	0.20	0.10				

The two wholly controllable items are staffing and running costs where Leicester is 6.5% less than the average. Other support costs are slightly above average.

The close correlation of accommodation, IT and recharges costs implies a degree of consistency in the way each authority has approached the benchmarking exercise, and enables greater reliance to be placed on the outcome.

Other interesting facts include:

Despite having a slightly higher than average % of qualified staff our average staff cost is below average. Average staff cost per full time equivalent for Leicester is £24,717 compared to an average of £25,019.

Out of the 14 authorities we have the third highest degree of devolvement of staff; 66% of staff compared with 42% on average.

The total number of staff is also below average; 79.9 compared to 82.9.

2) Stoke City Council Benchmarking Club

This is a new Club which was established in a summer of 2000 and reported its findings in October 2000. There are 15 unitary Authorities who participate in a group of which Leicester is the largest with the budget requirement of £294m compared to an average budget requirement of a £190m.

Because this is a new Club and has collected information from authorities for the first time there have been problems with definitions used and in many cases the comparability of information provided by authorities has been hindered by this.

The initial results showed major inconsistencies across authorities in terms of the numbers of staff carrying out different functions and also the total number of staff in the authority. Subsequent to the initial exercise Leicester adjusted its assumptions to match that of the other authority in order to aid comparison.

The benchmarking information is to be refined through benchmarking officer's group that has been established by Stoke at which various definitional problems can be ironed out in order to create a reliable database of benchmarking over the next year or so. Therefore, in the short term the information gained from the exercise is of fairly limited value. To give an example of how varied the findings are, the cost of

financial services has been expressed as a percentage of an authority's budget requirement. This varies from 0.1% up to 1.4% and has clearly been worked out on different basis by different authorities. Interestingly the average is 0.9% of budget requirement which coincides with Leicester's average cost. Information on staffing numbers (again this is of limited value because of definitional problems) indicates that Leicester has a level of employee commensurate with the average of other authorities in the group compared to its budget requirement.

The analysis is also hindered by the fact that the two largest authorities apart from Leicester have not completed this part of the benchmarking in relation to financial services.

The most interesting and useful aspect of the work to date is the financial and productivity indicators that have been collected as part of the exercise. There are 4 main performance indicators:

1. The date of published accounts where Leicester has the second earliest date.
2. Average investment rate where Leicester has a third highest in a group.
3. Leicester has the best performance on VAT returns.
4. Leicester obtained second earliest agreement of its partial exemption with Customs and Excise.

3) Further Staffing Pressures

There are a number of reasons why an authority such as Leicester may have more, rather than less staff, than the average of all authorities and some specific issues are unique to the authority.

Issues included:

E&D	Regeneration – SRB, Surestart accountable body, NRF. LTP – Above average size programme to manage. Investment Property – Above average size portfolio.
Education	Number of schools in special measures Government Initiatives – EIC, Standards Fund, New Deal, EAZ OFSTED implications
Social Services	Management of volatile budget – compounded by issues of need (e.g. Children's Services)
Commercial Services	Historic implications of large number of in-house contracts
Housing	Above average resources - £25m Capital Programme
Corporate	Policy choices – Revenue Budget and Capital Strategy support PFI Support – more in-house than many others Support to major schemes e.g. Abbey Meadows, NSSC

Financial Management Services

Customer Satisfaction Surveys – Key Issues Raised

This document summarises the main findings from the customer satisfaction surveys carried out by sections within Financial Management Services in 2001.

	Satisfaction (Good/Very Good)
Arts & leisure	65%
Education (Bursar Service)	78%
Environment and Development	80%
Housing	70%
Social Services	74%
Town Clerk's	
- Accountancy	90%
- FMIS	87%
- VAT/TAX	86%

FMIS - very good overall satisfaction levels. No particular issues. Future business planning needs to take into account findings from the survey.

Arts and Leisure - very comprehensive survey. Unlike other surveys this exercise also attempted to attach the importance to each service as well as customer's satisfaction with that particular service. This has enabled Arts and Leisure to weight the overall findings in order to determine how far customer needs have been met.

Some issues were raised around quality of advice. Generally all aspects of the service perform well.

The largest expectation gap between customer requirements and the perception of level of service relates to the timely delivery of information to customers. However, this was still rated as good.

The survey also maps whether the service has improved over the last period. 71% of the respondents said service was the same as opposed to 16% has considered it better and 13% has considered it worse.

It still does not seem particularly clear what "meeting customer needs" actually means.

The second Arts and Leisure survey carried out indicates that 45% of needs are not met. Again it is not clear what this actually means. Also budget monitoring instructions and budget settings process were not as clear to Cost Centre Managers as they would have liked.

Social Services - the survey involved the relatively small sample of Cost Centre Managers. There are some issues around training for Cost Centre Managers; however, this did not appear to be a significant issue.

Environment and Development - overall 50% response rate which equated to only 10 responses. One area of concern was that 50% of respondents were not aware of the budget monitoring timetable; this is particularly worrying as Cost Centre Managers are responsible for providing financial information to Heads of Finance for the budget monitoring exercise. Also 45% felt that they were not well informed about the budget process; again this could impact on the budget process at a departmental and also corporate level.

Accountancy – again budget preparation was an issue when nearly 50% felt that they were not well informed of the process. Also some concern over the quality of supporting information provided. Their 45% of respondents identified quality as an issue.

Housing – 37 responses were received. Mostly a positive response with no notable exceptions. 25% of respondents did not think that the service met their needs; again it is not clear what customer needs actually means.

This survey also identified the quality of instructions and procedure notes as an issue where 3rd of the respondents thought these were either fair or poor.

The quality of supporting information again an issue where 45% considered them fair or poor.

Education – the main customer satisfaction survey was with regard to the bursar service. Overall good satisfaction levels for the service. It seems that much of the perception of these services down to the view the school has of the individual bursar with whom they are associated. There are many written comments to suggest that the service received at an individual level was very good.

Also the Education service did a further customer survey of schools in relation to all Education services. Schools gave a fairly low rating on the planning of budget, the clarity and the fairness of the funding to schools, the timeliness of financing information and the consultation on the LMS scheme. It should be noted that the fair funding groups remit is being extended to cover such issues.

Overall Conclusion

- High levels of satisfaction
- In future, needs to be more commonality in survey analysis, Arts & Leisure may represent best practise in their approach
- It is still unclear what 'customer needs' are in some cases. This need addressing in future cases.
- There are issues about clarity of instructions, particularly in relation to budget monitoring and budget process. This needs addressing as part of 2001/02 budget monitoring and 2002/03 budget preparation.