

FINANCIAL MANAGEMENT BEST VALUE REVIEW

INTERIM REPORT

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2. PURPOSE OF REPORT

- 2.1 To outline the context within which the Financial Management Best Value Review is being undertaken.
- 2.2 To indicate to the Change Board the direction of the review so far, the likely outcomes as currently perceived, and the proposals for further progressing the Review.
- 2.3 To give the opportunity for the Change Board to influence the next stages of the Review.

3. BACKGROUND

3.1 Agreeing the subject to be reviewed

- 3.1.1 The agreement of the subjects for the Council's Best Value Review timetable originally centred on the various services that the Council provided. What became apparent was the need to consider how certain Council wide functions were being addressed. The chosen revised method (as reported to Executive 11th February 2002) produced a timetable for reviews covering; Common Business Processes, Service Areas and Themes. One of the most significant cross cutting functions of the Authority is how it deals with its financial management, and this was identified as one of the major common business processes.
- 3.1.2 The Best Value Lead Inspector was consulted on the proposals to move towards the use of more strategic and cross cutting reviews, and the proposal to deal with financial management in this way was welcomed. He commented specifically that a review in this way would take the Council significantly forward in preparing for the Comprehensive Performance Assessment. Having agreed this was a desirable type of approach, it was necessary to decide how the review could be done in practice.
- 3.1.3 It is apparent that financial management occurs throughout the authority and it involves members, all business units, and most officers at some stages of their work. The need arose at the earliest stages to try and define the subject to be reviewed in such a way that it encompassed the widest strategic issues, but did not lose sight of the basic financial services that were being provided to customers. In addition there are a few direct services provided to identifiable customers (e.g. Grants to Voluntary Bodies), and the major fiduciary responsibility to local taxpayers as customers established under case law.
- 3.1.4 At the time that this was being considered, advice was received from the Finance Advisory Network (FAN) on a set of draft Audit Commission criteria that were being considered to evaluate the performance of any authority's financial management. Within these criteria was a definition of the component parts of financial management. These definitions have been used in conjunction with the Council's overall approach to other reviews to establish what will comprise financial management for the purposes of this review.
- 3.1.5 A copy of the draft Audit Commission judgement criteria is attached as Appendix A.
- 3.1.6 A copy of the scope of the review as agreed with the Inspectors (Form BVP) is attached at APPENDIX E.
- 3.1.7 The format of the Audit Commission judgement criteria is that they indicate six service outcomes that would result from the ideal financial management operation. The six desired Service Outcomes are shown below:-
 - a) Effective financial management supports services being delivered to the community.
 - b) Financial management helps shape strategic service and planning decisions, and forging partnerships.
 - c) Financial Services contribute to sound financial controls and stewardship.

- d) Financial management contributes to corporate governance in the Council.
- e) Financial management contributes to the overall efficiency and effectiveness of the Council and its performance management systems.
- f) Financial management is efficient and effective.

3.1.8 Hence in trying to picture the entirety of the function being reviewed, it is to consider:-

- a) The definitions of Financial Management from the Audit Commission judgement criteria, which are as follows
 - Financial Accounting
 - Financial Analysis and advice
 - Accounting
 - Budgeting
 - Account maintenance and monitoring
 - Final Accounts
 - Financial Strategy and Planning
 - Financial System Management
 - Treasury Management
 - Internal Audit
 - Creditor Payments
 - Debtors
 - Payroll
 - Insurances

In the context of:

- b) The six desired service outcomes detailed in paragraph 3.1.7 above.

3.2 **Business Units or Services Affected by the Review**

3.2.1 By definition, a cross cutting review is likely to affect all units within an authority to some degree, but the significant impact will centre on the main financial providers. Whilst more detail will be provided later as different aspects are examined, an overview of how financial management is provided at the Council is shown in the following paragraphs.

3.2.2 **Policy Services**

- The most senior financial employee in a local authority is the Section 151 Officer. The Section 151 of the Local Government Act 1972 requires that every authority in England and Wales should "... make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs".

- At Warwick the S151 Officer is the Strategic Director (Finance) who is the Head of the Policy Services Unit within the Chief Executive's Office.
- In addition to the Section 151 Officer, there are two other senior accountancy staff and a research officer employed within Policy Services dealing with financial management issues.
- In the simplest of terms the Policy Services operations in respect of financial management relate to strategic financial issues.

3.2.3 **Finance**

- The business unit comprises three divisions. The two divisions of the unit that provide services the subject of this review are; the Financial Services Division and the Audit Services Division.
- In simple terms, the Finance Unit provides the operational services relating to financial management.

3.2.4 **All other units**

- Financial management roles in all other Business Units are provided by staff employed within those units or by using operational help from Finance. There will be significant financial management work performed within the larger units (e.g. Leisure, or Planning and Engineering), but much less so in smaller units (e.g. Council Tax or Member Services). In the smaller units, the financial management contribution would come from using resources provided by Finance.
- Whilst it is recognised that at any stage of the review any issues relating to financial management in other units could be considered, it was expected the main focus would be on matters arising from the services provided by Policy Services or Finance.

3.3 **Service History**

- 3.3.1 Following local government reorganisation in 1974, a Treasurer's department was established that included all the financial services typical of the time, including the then termed computer section. It was a powerful unit with the Treasurer and separate Chief Executive who was Leamington's previous Treasurer, providing a very strong financial lead for the authority.
- 3.3.2 The one and only "Treasurer" of Warwick District Council retired in 1992, and the death of the Chief Executive at the same time enabled thought to be given to revising the structure of the authority by the new Chief Executive.
- 3.3.3 A flattening of structures evolved with the removal of all deputy posts across the authority and the whole of the Council's support services were amalgamated under two Units. One of those units was the Directorate of Corporate Resources which included the main finance functions (Accounting, Audit, Exchequer Services, Cashiers, Council Tax, Benefits) along with the Property and Personnel functions.
- 3.3.4 In 1996 the next restructure followed which abandoned the Directorate approach and set up a Commissioning Team which would commission services from various Business Units. As far as financial management was concerned, the top financial employee role was combined with that of a Strategic Director. So, the senior management team of the authority was the Strategy Team which comprised; the Chief Executive and three Commissioning Directors, one of which had the Section 151 responsibility.

- 3.3.5 The financial type work that was commissioned by the Section 151 Officer would be commissioned from the Finance Business Unit. This set up, reflecting the separation of the strategic work from the operational work, with a small high powered unit assisting the Section 151 officer within the Policy Services Unit, is how things currently operate.
- 3.3.6 The driving force for the above structure represented a need in the mid nineties to respond to the issues of compulsory competitive tendering. It isolated the client role at the centre and created a business unit which would supply the services purchased.
- 3.3.7 During all of the various financial structures set up to manage the Council's financial affairs, there has been an overwhelming desire to provide a high standard of financial services. It has been of paramount importance to place the authority in a strong financial position where it can respond to new and ever changing circumstances from a strong financial base.
- 3.3.8 It has been essential to achieve all statutory deadlines in respect of accounts closures, audit of accounts and grant claims. The processes of both revenue and capital budgeting have been developed over the years to respond to the ever increasing constraints on funds available, in order that identified key issues can be financed.
- 3.3.9 In tandem with these developments it has been essential to ensure clean unqualified external audit reports. It is believed the succession of external annual audit letters support a view of an authority that has been very well financially managed over the previous years.
- 3.3.10 It is also worth considering the contribution of the members at this early stage. There is a history of very strong support by members for developments that lead to robust standards of probity, and systems of budgeting and accountability that place the authority on the strongest possible financial footing. The evidence for this ranges through active support of past committees such as Performance Review and the Contract Services Board, to support for anti-fraud measures such as early creation of a Benefit Fraud Section.

3.4 **National Context for Review**

3.4.1 **The White Paper**

The key background feature from the National perspective relates to the Government's vision of local authority services in the 21st century. This has been set out in its White Paper, "Strong Leadership - Quality Public Services", and taken further with the publication of a draft Bill for which the consultation period ended on 23rd August 2002.

- 3.4.2 There is a separate part II to the White Paper and the proposals covering many aspects of financial matters will affect the need for change issues that will have to be brought into any proposed service improvement plan.

3.4.3 **2002 Spending Review**

Whilst there are proposals in the National Spending Review 2002 to invest an average of 4.2% per annum in real terms for the three years to 2005/06, there is no reason to believe significant sums will come the way of District Councils. In addition the consultation paper on Formula Grant Distribution is unlikely to result in a significant boost to Warwick District Council's revenues. The importance of these two items is to recognise that whilst there are national announcements of funding increases, the reality may very well be that for this authority, the need for local funding solutions is of much greater importance. This is an aspect that could influence the balance of the service improvement plan.

3.4.4. **Comprehensive Performance Assessment (CPA)**

Whilst the concept of the Comprehensive Performance Assessment is part of the proposals in the White Paper mentioned above, it is only now that the significance of the financial aspects are becoming apparent. The gateway to further future funding will rely on a good

CPA assessment and the make up of the final assessment will be significantly influenced by the Councils adjudged Financial standing. With this in mind it soon became clear that an important additional perspective needed to be added to the method of conducting the review.

4. THE METHODOLOGY OF THE REVIEW

- 4.1 The Council's best Value guidance deals with a review process which follows a process of; establishing the current position, consultation and comparison, challenge and gap analysis followed by establishing an improvement plan. The guidance envisages an interim report to the change board after the challenge and gap analysis has been completed and initial items for the improvement plan have been identified.
- 4.2 There are several discrete parts which can make up those broad stages of the review and these will be dealt with under the Council's guidance headings.

5. THE CURRENT POSITION

5.1 The Current Position - Service areas overview

- 5.1.1 A comprehensive description of the services provided by Finance and Policy Services was established as part of the collection of base data to assist in the review and that is enclosed at Appendix B.

A brief summary is provided below to give an easy overview of the services involved.

- 5.1.2 It will be apparent from the next section that brief reference has been made to some activities provided by Finance that are not part of this review. This is done simply to make clear the reasons for deciding on the final scope of activities for the review.

5.1.3 Direct Services provided to the public by Finance are:-

Assisted Travel Scheme

Discretionary Rate Relief

Grants to Voluntary Bodies

N.B. None of the above services is included in this review as the approved timetable of review agreed at the 11th February 2002 Executive, placed them in other reviews.

5.1.4 Services provided by Finance as Support Services to other council units are as follows:-

(a) Insurances/Risk Management

- Identified need for and arrange insurance cover.
- Process claims.
- Provide security advice and implement solutions.

(b) Cashiers Service

- Cash receipting service for direct payments made by the public visiting Riverside House.

N.B. It was agreed that this service would not be part of the review as there are two satellite offices providing cash receipting facilities at Warwick and Kenilworth, which are now

provided by Members and Customer Services. It was regarded as appropriate to review those altogether, and not as part of this review.

(c) Internal Audit

- There is a statutory requirement via the section 151 requirements of the Local Government Act 1972 and the Accounts and Audit Regulations 1996 to maintain an adequate and effective internal audit of the Council's accounting records and control systems.
- These services comprise:-
 - Establishment Audit - Assurance work in relation to sound probity within service departments.
 - Managed Audit - in conjunction with external audit.
 - Contract Audit - review of contractual award processes, including payment of contractors.
 - Systems Audit - analysis of systems and processes used in the delivery of services.
 - Special Investigations and Fraud - One-off investigations especially in to instances of suspected fraud.
 - Computer Audit - Review and analysis of computer systems, especially those of a financial nature.
 - Value For Money Audit - Value for money reviews.
 - Advice and Support of Corporate Issues, including Best Value - input to corporate decision making processes.
 - Ad hoc control advice on the establishment and maintenance of effective controls in service departments.
- The service is provided by an in house team of 3 senior auditors, supplemented by a partnership arrangement with a private firm of internal auditors operating a call off contract.

(d) Accounting Services

- Budget preparation under statutory requirement of Section 32 to 36 Local Government Finance Act 1992 for setting Council Tax.
- Final Accounts preparation in accordance with the Audit Commission Act 1998 and the Accounts and Audit Regulations 1996, and publishing of Statement of Accounts within statutory deadlines.
- Provision of financial advice and information to council business units.
- Treasury Management

Publish a Treasury Management policy and manage the Council's cash flows by borrowing and investing funds as appropriate.

Arrange Council's banking facilities.

- The service is provided by 11 in house staff and uses an external fund manager to manage part of the Council's investments, and a treasury management advisor to assist us in the formulation of treasury management policy and strategy.

(e) **Exchequer Service**

- Creditors service to pay 26,000 invoices a year.
- Payroll service to pay 760 staff.
- Debtors service for 14,000 invoices a year.
- The service is provided by 5 staff currently using inhouse systems, but a partnership arrangement is being developed to provide the payrolling service with Warwickshire County Council, and an arrangement currently exists with Debt Recovery Agents to pursue bad debts.

5.1.5 **The Policy Services Unit provides services of a strategic nature.**

- Services of Section 151 Officer.

Five Key roles identified by CIPFA as:

- Maintaining strong financial management underpinned by effective financial controls.
- Contributing to corporate management and leadership.
- Supporting and advising the democratic process.
- Leading and managing an effective and responsive financial service.
- Supporting and advising officers in operational roles.

- Concurrent services scheme.

Payments to Parish Councils to avoid double taxation for services provided by the District Council in the towns of Leamington, Warwick and Kenilworth

- Accountancy services.

Financial strategy.

Capital strategy.

Budget target system.

- Commissions major services from Finance Business Unit.
- Overall leadership of Governance and Risk management issues.

5.2 **The Current Position - Benchmarking.**

- 5.2.1 Finance has for several years participated in the various benchmark clubs run by the Chartered Institute of Public Finance and Accountancy (CIPFA), in respect of those services typically provided by a Finance function in local government. As far as this review is concerned we have information on the following functions:-

Internal Audit

Accountancy

Treasury Management

Creditors

Payroll

Debtors

In addition, whilst there is no CIPFA benchmark club for Insurances, we have organised our own surveys to provide comparator information for that function.

5.2.2 Full details are within the base data already assembled for the review group, but headline information only is included within this interim report.

5.2.3 **Internal Audit Benchmarking Results**

5.2.3.1 **Headline Findings**

Cost	Warwick District Council	Average
Audit cost per £m Turnover	£3,051	£3,301
Cost per audit Day	£306	£224
Overheads	£11,500	£10,000
Staff		
Cost per Auditor	£47,000	£38,901
Pay	£35,000	£29,000
Audit Days per £m	9.98	15.20
Days per Auditor	154	177

- Service quality

Service quality issues not highlighted.

5.2.3.2 **Identification of Areas Not Meeting Best Quartile**

All.

5.2.3.3 **Summary of Findings**

With reference to staff costs per , 1m turnover, which is one of the PIs in the Finance Best Value Performance Plan (AS2), out of 19 authorities WDC is the 5th lowest and is in the lowest quartile. Clearly we have come out well on this measure because, despite the higher than average pay levels, we have only 3 auditors.

It was seen from the scrapbook information supplied by other club members that several Districts of WDC=s size have 4 auditors. During meetings of the club I have had some conversations with the Internal Audit Manager of Maidstone Borough Council. Maidstone is, according to the Audit Commission, a good comparator authority. This has been confirmed by discussions with their Manager on the auditable areas at Maidstone. Maidstone has 6 auditors as well as the Audit Manager. Chelmsford, another from the comparator group, has an Audit Manager and 5 auditors.

Chargeable days per auditor are significantly lower than the average for the comparator group. Non-chargeable time has had a tendency to increase in the past year or so for various reasons e.g the Management Development Programme, production of an Audit Manual, presentations to Members and various administration tasks. However, action has already been taken to address the situation. The current target (AS3 in the FBVPP) is to achieve a chargeable time of 78%.

5.2.4 **Accountancy Benchmarking Results**

5.2.4 **Headline Findings**

Total Accountancy Cost

	WDC £000	Group (13) £000 Average	Shire (64) £000 Average
Staff	305	369	373
Running Costs	22	26	30
Accommodation	39	27	25
IT	30	84	85
Central Charges	40	53	51
Total	436	558	564
Accountancy Cost Per GRT	7.91	10.21	10.24

The above table shows that Warwick's total accountancy cost is below the average for both the family group and the Shire Districts.

This is partly due to low staff and IT costs. Warwick is committed to implementing a new accounting system, as a result IT costs may be higher in the future.

Warwick's higher accommodation costs are due to indirect costs resulting from the recent move to Riverside House.

5.2.4.2 Comparison of Accountancy Cost per £'000 GRT (Gross Revenue Turnover) with previous years.

Warwick's total accountancy cost per £'000 (GRT) is in the CIPFA Best Quartile. The trend is downwards.

Year	Total Accountancy Cost Per £'000 GRT(GRE)	
	WDC	Group Quartile
1999/00	£9.02	£6.00
2000/01	£8.15	£9.00
2001/02	£7.91	£8.05

5.2.4.3 Quartile figures - An analysis of the type of work shows that in areas such as, Strategy & Advice, Financial Advice, Budgets & Accounts and monitoring WDC is in the lower quartile for costs. The only exception to this is Treasury Management which is in the Upper Quartile.

5.2.4.4 **Service Quality**

Warwick has met the following quality targets:

- Advice given within 10 working days 100%
- % of bank reconciliations effected within 1 month 100%
- General Fund Revenue budget completed per timetable February
- HRA Revenue Budget completed per timetable February
- General fund/Statement Accounts completed per timetable September

5.2.4.5 Examples of Good Practice

- Use of Service Level Agreements
- On-line Creditor/Commitments system
- Financial Services User Group

5.2.4.6 Identification of areas not meeting best quartile

Warwick performs well in terms of the overall Accountancy Cost Matrix. However, accommodation costs are higher than average and in the highest quartile.

5.2.5 Treasury Management Benchmarking Results

5.2.5.1 Investment Management Costs

These were expressed in £ per million invested and split into a) total cost b) staff costs and c) external costs (fund managers costs).

Investment Management Costs (£ per million invested)		
	Warwick D.C.	Group Average
Total Cost	1,077	921
Staff Costs	641	440
External Costs	1,373	1,513

The results show that the treasury management functions cost was marginally above the group average and the staff costs were considerably higher whilst the external fund managers costs were below average. At the time the questionnaire was completed we had a relatively low level of investments which accounts for why our costs appear to be so high given that a significant amount of the time charged to daily cash flow forecasts and investment management is fixed. Our current investment level is over twice that used in the questionnaire but the amount of time charged to investment management will not have increased proportionally so our staff costs per £m will show a significant decrease in the 2001/2002 benchmarking exercise.

It is interesting to note that when one examines the raw data from which the above comparisons are drawn, the total annual cost of in house investment management ranges from £10,000 to £28,000 per year with Warwick District Council's cost at £22,000 which is 5th= out of 9.

As our staff costs are so far adrift of the average whilst we appear to be mid table with regard to overall cost it does call into question the validity of the data provided by the other comparators particularly their method of time allocation which may not be as accurate as ours. This view is supported by anecdotal evidence and this issue will have to be addressed by the CIPFA Steering Group when it meets to discuss the 2001/2002 questionnaire. There may well be other issues with regard to allocation of overhead costs such as office accommodation which may be distorted in that they are usually allocated based on staff costs so if as suspected the staff costs of some of our comparators are understated so will their overhead costs.

The fees we pay Invesco, our external fund managers, are historically low when compared with fees being charged on more recent portfolio's so it is quite likely that this will account for why our costs are below average.

5.2.5.2 Investment Returns

This again was split into three categories a) fixed investments b) call investments and c) externally managed funds.

Investment Returns (%)		
	Warwick D.C.	Group Average
Fixed Investments	6.11%	6.19%
Call Investments	5.66%	5.88%
Externally Managed Funds	6.61%	6.88%

In all three areas WDC performed below or slightly below average. In terms of position within the group, we came 5th out of 9. An examination of our comparators credit rating criteria and lending limits contained within the scrapbook information suggests some have a less cautious approach to capital risk both in terms of being prepared to invest with counterparties who have a lower investment grade credit rating than WDC operates and also in terms of the amount deposited with any one counterparty, which in one case is as high as £9m. This type of approach may well result in higher returns as lower grade counterparties tend to pay slightly higher interest rates in order to attract deposits but also exposes the Council to a higher risk of losing its capital investment.

In addition the exercise does not distinguish between core and cash flow driven investments so without knowing the relevant proportions for our comparators it is difficult to ascertain whether their out performance is due to them having more core investments which can be actively managed. This will need to be addressed in the 2001/2002 questionnaire and is an area that WDC has begun to look at with a view to actively managing its core investments.

Invesco is also subject to the same risk averse approach as the in house team and this may well account for their underperformance of the group average. Our treasury management advisors have informed us that Invesco has in fact performed well against other fund managers with a similar strategy which is probably a more accurate measure than comparison with others within this exercise. This is because it is not clear what strategies are being followed by fund managers used by other comparators which may produce higher returns but at greater risk to the capital. Again this would be a useful thing to include in the 2001/2002 questionnaire. It is also worth noting that at the time of the exercise WDC had the smallest (£5 million) external fund managers portfolio of the group.

5.2.5.3 Overall Cost of Treasury Management

This was not included in the published benchmarking results but has been extracted from the comparators raw data which was sent to us by IPF. This shows that the annual cost of treasury management ranged from £30,000 to £111,000 per annum in 2000/2001 with WDC's cost at £92,000. which is 8th out of 9. Again the validity of the data is questionable. It is known that we were the only member to include bank charges as part of the cost of treasury management which appears very strange when the CIPFA definition of treasury management includes the management of the Council's banking activities and therefore any costs arising out this activity. Bank charges account for £30,000 of our cost so when they are excluded we move up from 8th to 4th place.

5.2.5.4 The Scrapbook

This did not form part of the statistical information but was a collection of information provided by each club member (not just those in our group) on such things as local performance indicators, lending limits, investment strategy, borrowing strategy, best value approach and market dealing experiences. This document was used to gain some insight into the reasons why other group members may have done better or worse than us as described in the relevant paragraphs above.

This is probably the most useful document arising out of this exercise as it enables us to see what others are doing and provides an opportunity to share best practices. A good part of best value in treasury management is about adopting best practice and to that extent the scrapbook has been a very useful tool and one which should be expanded in years to come.

5.2.5.5 Identification of Areas not Meeting Best Quartile

Investment costs for £m invested
Investment returns (%)
Overall cost of treasury management

5.2.5.6 Actions for Improvements

Participation in this benchmarking club has been a useful exercise, unfortunately the numerical results have been compromised by a certain slackness in definitions and also a lack of background information required to enable an accurate interpretation of the results. It is to be hoped that this will be redressed in the next exercise. A clearer picture of the areas where WDC needs to improve will emerge after the 2001/2002 data exercise but in the meantime we have already begun to look at improving our investment returns by :-

1. More actively managing the core investments both in house and potentially through Invesco by placing more funds with them.
2. Looking at our investment criteria to ensure that they are not unnecessarily restrictive in their attempt to balance return against risk.
3. Make use of the expected Debt Management Account facility with the Bank of England where it offers better rates than we can obtain in the market in order to enhance our returns.
4. Explore whether direct dealing on the Money Markets as opposed to the use of brokers will improve our investment returns.
5. Look at our processes to see if any efficiency gains can be made.

5.2.6 Creditors Benchmarking Results

5.2.6.1 Headline Findings

- a) Total Cost per Invoice 2000/01

Warwick performs well in terms of total cost compared to both the Comparator Group and the Shire Districts, although total cost at £1.67 is outside the Lower Quartile figure of £1.45.

However, the quartile figures should be treated with caution as they exclude members with >25% of invoices input locally who have not shown local costs in the benchmarking exercise. They also take no account of the work-load mix.

WDC	Group	Shire District	Lower Quartile	Upper Quartile
£	£	£	£	£
1.67	1.53	2.20	1.45	2.35

b) % payments by BACS

Warwick makes all payments by crossed cheque. The CIPFA best quartile for payment by BACS is 17%. Warwick is actively looking at implementing payment by BACS in the future.

c) % invoices paid on time

Warwick pays 94% of invoices on time which is in the CIPFA Best Quartile. However, this is below the Government target of 97.5% for 2001/02 and 100% for 2002/03. In response to this we need to investigate which departments are failing to meet the target.

5.2.6.2 Identification of areas not meeting best quartile

Total cost per invoice
% of payments by BACS
% invoices paid on time

5.2.6.3 Actions for Improvement

To follow up inconsistencies in data interpretation to have more reliable information. To consider implementation of payment by BACS in the future. To investigate departments falling below invoices target.

5.2.7 Payroll Benchmarking Results

5.2.7.1 Cost per Employee Paid

The cost per employee paid is made up of two elements :
- the number of payslips per employee
- the cost per payslip.

Warwick's Cost per Employee paid for a year is £107 compared to the Shire District average of £112.

5.2.7.2 Costs per Weighted Employee

CIPFA also provide figures for Cost per Weighted Employee based on a weighting of 1.0 for monthly paid, 0.3 for pensioners and 2.6 for weekly paid.

The weightings for weekly paid is higher than the figure of 2.2 used in last years benchmarking exercise.

	WDC £	Group Position	Shire Districts £	Lower Quartile £
Staff	51.98	28/38	44.49	34.30
IT	18.41	26/38	18.65	8.50
Other Costs	17.33	14/38	22.41	13.33
Income	0.00	-	(0.34)	-
Total Cost per Weighted Employee	87.72	20/38	85.21	56.21

Taking the CIPFA weightings into account Warwick's total cost per employee is higher than Shire Districts. This is due to higher staff costs at Warwick

5.2.7.3 Cost per Payslip

	WDC £	Group Position	Shire Districts (38) £
Staff	3.55	28/38	3.23
IT	1.26	20/38	1.40
Other Costs	1.18	13/38	1.64
Income	0.00	-	0.03
Total	5.99	22/38	6.24

Although total cost per payslip is lower than Shire Districts average, Warwick's staff costs at £3.55 are just outside the worst quartile, being 28th out of 38 Districts.

5.2.7.4 Comparison of Costs per Payslip with previous year

Year	Warwick £	Shire Districts £
1999/00	5.79	4.07
2000/01	5.99	6.24

Warwick's cost per payslip is lower than the Shire Districts this year despite having risen from £5.79 to £5.99. This is due to Shire Districts increase in cost per payslip compared to the previous year. This is because the group has different members this year compared to last year and different numbers attending.

5.2.7.5 Number of Employees paid

Warwick input a total of 13520 payslips in 2000/01 compared to 13640 in 1999/2000. The total number of employees paid in 2000/01 is 760 ,of these 110 are weekly paid, 632 monthly and 18 pensioners.

5.2.7.6 Payment Errors

Out of a total number of 13520 payments, there were 12 payments with errors. This is 0.10% compared to the average for Shire Districts of 0.25%.

5.2.7.7 Employee Turnover

Employee turnover is based on the average number of starters and number of leavers. For Warwick the average is 266 (35%). This is higher than the average for Shire Districts at 26%.

5.2.8 Debtors Benchmarking Results

5.2.8.1 Headline Findings

a) Total Cost per Invoice

	Warwick £	Shire Districts Average £	Lower Quartile Comparator £
2000/01	5.89	11.64	6.51
2001/02	5.71	11.68	6.39

Warwick's total cost per invoice is in the lower quartile and the trend looks set to continue based on the original estimate for 2001/02. It indicates that the service is at a reasonable level of cost.

Although Warwick is in the lower quartile for total cost per invoice, enforcement costs are higher than both comparator groups, whilst other costs such as running costs, accommodation, IT and other central charges are generally lower. It is felt that enforcement costs are higher mainly due to the use of an outside enforcement agency, unlike others who do it in-house, these figures are included either in running expenses or central charges.

Accommodation charges are also higher at Warwick than the average for the comparable group.

b) Age of Debt

	Warwick Days	Shire Districts Days	Lower Quartile Days	Upper Quartile Days
Sundry Debtors				
Debt *	52	75	46	104
Debt > 90 days **	11	29	7	45
Benefit Overpayments				
Days Debt	670	552	335	670
Days Debt > 90 days	590	482	288	590

Key : * = debt not referred to outside recovery agents

 ** = debt referred to outside recovery agents

 (e.g. Total debt : 90 days + 11 = 101 days)

The above table shows that for Sundry Debtors, which make up the vast majority of invoices processed, Warwick is just outside the Lower Quartile for Days Debt and Days Debt > 90 days.

Warwick undertakes the following measures for Housing Benefit Debtors :

- Active policy of recovering them
- Coming to instalment arrangements to repay over a period of time
- Strong Legal/Enforcement policy - lengthy period as it progresses through court
- Only write off when debtor becomes untraceable, it is uneconomic to pursue or is regarded as involving special circumstances identified in the Council's Corporate Debt Policy.

Other authorities in the group are not so vigorous in their pursuit of these debts and write them off much sooner than WDC.

c) Service Quality

Warwick has achieved its 100% target for answering all letters within 10 days and all invoices input within 5 days of receipt.

Other service quality measures include :-

Write-Off Positions - Write-offs for sundry debtors are 0.7% compared to an average of 0.4% for comparable districts. Write-offs for benefit overpayments are lower than average at 1.9% compared to 12.1% and also for housing recharges at 12.5% compared to 22.1%.

d) Good Practice

Warwick has a Corporate Debt Policy.

As part of its Corporate Strategy Warwick operates a Code of Financial Practice, supplemented by a Statement of Rights and Responsibilities which sets out what is required of Business Units and identifies arrangements performed by finance. The delivery of the service is seen as a partnership between the Business Units and the finance department. Warwick also uses a fair debt recovery statement to guide debt recovery actions.

5.2.8.2 **Actions for Improvements**

Best practices revealed in the benchmark exercise which require further consideration include :-

Customer satisfaction survey
Documents to conform to Plain English standard
Acceptance of debit cards
Regular service review meetings.

5.2.9 **Insurances Benchmarking Results**

5.2.9.1 **Brief outline of exercise**

With IPF not offering a benchmarking group for insurance it was decided that the best way forward was to survey all District and Borough Councils who are members of the CIPFA Midland Insurance Group, some 29 in total.

A questionnaire was produced to give the Total Cost of insurance (Operating Costs, Premium Cost, Brokers Fees and all payments made to claimants less all income received from claims made) and measure this against the Council=s Gross Turnover to give a cost per , m.

5.2.9.2 **Headline findings**

- **Costs**

In 1999/2000 12 questionnaires were returned with the cost , m ranging from , 3,350 to , 8,762 with WDC coming out at , 3,613 and being second lowest.

In 2000/01 14 questionnaires were received ranging from , 2,243 to , 13,895 with WDC coming out at , 5,761 and being 8th.

If the two years are combined and averaged there are 18 returns ranging from , 2,797 to , 13,895 with WDC coming out at , 4,850 and being third lowest.

It is not surprising the our costs vary from year to year as we pay the first , 25k on all liability claims, therefore if there are a number of larger claims settled in that year it will cause this variation. An average over a longer number of years obtains a more accurate picture.

There is one interesting point to come out of the results so far, that Hinckley & Bosworth BC have been significantly lower (, 3,350 and , 2,797) over the two years than any body else.

Costs	Warwick District Council	Group Average
Cost per £m of Turnover 1999/2000	3613	6091
Cost per £m of Turnover 2000/2001	5761	6727
Combined	4850	6750
Staffing - 1999/2000	1.10	0.84
Staffing - 2000/2001	1.10	0.96
Staffing - Combined	1.10	0.88

- **Staffing**

Using the above returns not all of which answered the staffing question, WDC come out in the upper quartile in both years and in the overall average.

It is not clear how significant staffing levels are as a lot will depend on how insurance claims are handled in house and the number of claims each year.

However, again Hinckley & Bosworth BC have come out lowest.

- **Service quality**

Service quality issues not highlighted.

5.2.9.3 **Identification of areas not meeting best quartile**

None.

5.2.9.4 Actions for improvement

Visit Hinckley & Bosworth BC to find out how they are the best performer.

5.3 The Current Position - Consultation

5.3.1 Consultation surveys have been carried out in respect of all the services provided by Finance under the definition of Financial Management. These have been carried out under the three broad areas of:-

- Insurances
- Internal Audit
- Financial Services
 - Payroll
 - Creditors
 - Debtors
 - Accountancy Services

In addition there have been three focus group sessions organised by Policy Services with members of the Citizens panel maintained by the Council. These sessions were facilitated by an external consultant, and were much broader exercises to discover the taxpayers knowledge of the Council's financial affairs and their views on how they might wish to see expenditure patterns change, and also on the means of communication from the Council.

5.3.2 There are full details of the above two approaches to the issue of consultation within the file of base data, but the results are summarised below. In addition, consultation with members via Resources Scrutiny Committee and our External Auditors has resulted in further information being available, and this is also detailed below.

5.3.3 Insurances - Consultation Results

5.3.3.1 Brief Outline of Exercise

There have been three consultation surveys carried out, two internal and one external.

One of the internal surveys involved interviews with Heads of Business Unit and Service Managers to discuss the present insurance agreements making sure that it met their requirements and to discuss any new developments or changes that are likely to take place over the next twelve months.

The other involved completion of survey forms by employees who had contact with the insurance service.

The external survey covered three different sets of people, insurance companies and brokers, solicitors who act for us and solicitors who act for claimants, with different questionnaires designed for them.

5.3.3.2 Summary of Findings

On the internal survey 15 questionnaires were completed. On a scale of 0 to 10 the Insurance Section were scored:

7.75 for handling insurance claims

8.00 for the quality of advice

8.25 for meeting needs

Overall, everybody who responded rated the service provided by the Insurance Section as good or excellent.

Nearly all the comments were praising of the Insurance Section. The most often repeated was “helpful”.

10 responses were received in respect of the external survey. Again, the general consensus was that the service provided was very good and that the required information arrived on time and contained all the relevant details. One of the external consultees suggested we consider a more joined up approach to Risk Management, and this approach is now under revision and development.

As a result of the above and comments made an Insurance leaflet has been designed called “Your Insurance Claim” which explains to the claimant how their claim will be handled and what is expected from them and what they can expect from WDC. It also gives names to contact should they wish to make a complaint either to the Council or the insurance company. These are now sent out to every claimant when they first make a claim.

5.3.3.3 Actions for Improvement

Develop Risk Management approach in accordance with needs identified under CIPFA/SOLACE framework.

5.3.4 **Internal Audit - Consultation Results**

5.3.4.1 Brief Outline of Exercise

Internal Audit surveyed its customers towards the end of 2001. The survey comprised completion of a two page questionnaire inviting auditees to assess aspects of internal audit service on a scale of 0 to 10 and to record views on Internal Audit’s strengths, weaknesses and any potential improvements that they could foresee. The consultation was advertised on the intranet and anybody who had involvement with Internal Audit was invited to complete the questionnaire. In all, 31 people at varying levels within the organisation, completed the questionnaire.

5.3.4.2 Summary of findings

On a scale of 0 to 10 the average scores for internal audit were:

§ 7.10 for the usefulness of the audits

§ 7.48 for the quality of advice

§ 7.26 for meeting needs.

Overall, everybody that responded rated the service provided by Internal Audit as at least satisfactory with 61% rating the service as good and a further 25% rating it as excellent. Internal Audit was praised for being approachable and for its objectivity and thoroughness when conducting audits. The most common criticism was that at times it fails to see the bigger picture and is not sufficiently strategic in its outlook.

5.3.4.3 Actions for improvement

Internal Audit is to attempt to bring a more strategic focus to some of its audits although clearly there is still a place for a belts and braces approach to some of the traditional audit areas such as establishments.

5.3.5 Financial Services - Consultation Results

5.3.5.1 A consolidated questionnaire covering Payroll, Creditors, Debtors and Accountancy Services was sent out to 500 customers of Financial Services, both employees of WDC and Councillors, and a copy was also available on the Council's Intranet.

5.3.5.2 Headline Findings

There was a very poor response to the questionnaire, with only 39 forms being returned. It is also clear from the returned questionnaire's that many of those who did respond do not actually have frequent contact with Financial Services (only 7 respondents indicated either daily or weekly contact).

Due to the low response rate, a secondary exercise will be undertaken to elicit information from administration/finance people in business units who use the service more.

Respondents were asked to complete, on a scale of 0 to 10 how they rated the quality of advice and the extent to which each Section met their needs (with 0 meaning not at all and 10 being completely).

Results for each Section were as follows:-

No of responses Rated Between	Extent to which Satisfied with Quality of Advice		Extent to which Section meets Needs	
	7-10	6 or less	7-10	6 or less
Payroll	28	5	28	6
Creditors	16	4	17	3
Debtors	16	3	17	2
Accountancy	19	4	20	3

From the above table it can be seen that respondents have more contact with the Payroll section than the other sections in Financial Services. Overall the responses are favourable for all sections, both for quality of advice and the extent to which the section meets their needs.

However, for each section there are a small minority of respondents who are not as satisfied with the service, which suggests some areas in each section do need to be looked at to improve this position in future.

5.3.5.3 Overall rating of the service provided by Financial Services

The questionnaire also asked respondents to rate the overall service provided by Financial Service on the basis of whether they thought it was excellent, good, satisfactory or poor. This was again split into the different sections (i.e. payroll, creditors, debtors and accountancy).

The results are as follows:-

	Excellent	Good	Satisfactory	Poor	Total Responses
Payroll	17	10	6	0	33
Creditors	9	9	2	0	20
Debtors	7	8	4	0	19
Accountancy	9	14	0	0	23

Again the overall response to the service provided by Financial Services was favourable with just over 87% of the responses rating the level of service as either excellent or good and no responses rating the service as poor.

5.3.5.4 Comments

The questionnaire provided the opportunity for comments to be made. The general gist of these comments are listed below:-

1) Views on Financial Services Strengths

- Helpful staff
- Clear, accurate information provided on request
- Quick response to salary/overtime payments
- Knowledge/experience of staff
- Availability
- Openness/approachability
- Efficiency/reliability
- Good support and advice provided when required
- Good advice/reasonably pragmatic
- Friendly/approachable staff
- Staff have extensive knowledge gained through experience and offer an effective frontline service to users.
- Reliable, solid and well organised service
- Willingness to help/advise
- Confidence in their help/advice
- Confidence in reports
- Diversity of expertise

2) Views on Financial Services Weaknesses

- Understaffed
- Time spent understanding other peoples difficulties with their system would be helpful
- Inability to provide consistent/clear payslip
- Inability to calculate holiday entitlement of casual workers
- Lack of flexibility in timesheet submission
- Not updating computer packages fast enough
- Need to see the wider perspective
- Need for closer and more open working by accountants with service providers

3) Views on suggested improvements

- A clear procedure manual for the order system
- Payslip to show clearly payment made to hours worked
- Automatic calculation of holiday entitlement
- Bank holidays not affecting timesheet submission
- E-mail payslip
- Less pedantry on payroll
- Hard copy, high-level, budget monitoring reports
- Debtors system for raising invoices is not very user friendly

5.3.5.5 Actions for Improvement

Payroll	-	Limited, as the payroll system is being replaced by a system which should increase efficiency and effectiveness.
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Debtors	-	New modules when the new FMS is introduced should improve ease of system usage.
Creditors	-	E- Procurement Payment by BACS New modules when the new FMS is introduced should improve ease of system usage. It is interesting to note the comment about a procedure manual for the order system, as one exists and is available on WDC's intranet. Perhaps, this needs to be advertised more and highlighted when new users are given training on the system.
Accountancy	-	The FMS will be replaced in the next few years in order to make it more user friendly. In the meantime extra reports are being developed to improve the management information available from the current system. The results of the follow-up exercise to main users will need to be examined to see if any further action areas are revealed.

5.3.6 Consultation - Citizens Panel

5.3.6.1 During 2001/2, we sought to get the views of the public on the way in which we informed about the budget and Council tax setting process. Members of the Citizens' Panel were asked to form a focus group to discuss the issues and this group met on three occasions.

5.3.6.2 It became apparent that there was confusion about what the Council does, and the connections with the County Council, Parish/Town Councils and the Police. After the three sessions it was clear that further work needed to be undertaken - the messages that we took from this start were that we need to explain:

- (a) who spends the Council Tax we collect
- (b) the proportions that are spent by each of the precepting authorities
- (c) the impact of Central Government's grant changes
- (d) the reasons for Tax increases - and particularly the effects of NOT increasing the Tax level - i.e. what we would have to go without.
- (e) the impact of savings

5.3.6.3 The general messages were that we need to consolidate the Best value and Council tax information in order to demonstrate value for money - and that the local media should be used to disseminate the information. It was recognised that different levels of information were required for different purposes - a general level for those who wanted the broad picture and the availability of more detailed information for those who wished to delve deeper.

5.3.6.4 This consultation will be developed to tie in the information with the Council's corporate communications strategy.

5.3.7 Consultation - Members

5.3.7.1 A report was prepared by the Strategic Director Finance, for submission to Resources Scrutiny on 18th June 2002. The report was to inform the Scrutiny Committee of progress to date, and specifically to request comment on the Members perception of the quality of financial management.

5.3.7.2 The Resources Scrutiny Committee verbally expressed their satisfaction with the quality of financial management, and a minute expressing that view was recorded.

5.3.8 Consultation - External Auditors

5.3.8.1 One of the issues that arose later in the review process was the availability of a draft self assessment document that is likely to be used in the Comprehensive Performance Assessment Indicator. This matter will be dealt with in more detail later in the report, but its significance at this stage is that the auditors have been consulted on the joint self assessment scored by the Strategic Director (Finance) and the Head of Finance.

5.3.8.2 Whilst you cannot expect auditors to commit themselves to an opinion on the assessment prior to their actually doing the audit, we did want to know if our own perception of our performance was realistic. The response from our auditors was; "Your self assessment scores don't look unreasonable".

6. CHALLENGE

6.1 Summary of the Process

The process of the review has centred upon the results of three significant tasks. These were:-

(a) Completion of self assessment against Audit Commission six key service outcomes

Relevant Appendices (i) Audit Commission judgement criteria - Appendix A
(ii) Summary of Review Teams view on strengths and areas for improvement - Appendix C relating to judgement criteria.

(b) Completion of self assessment against the Audit Commission Comprehensive Performance Assessment audit judgements.

Relevant Appendices (i) Comprehensive Performance Assessment - Appendix D self assessment answers.

(c) Collection of base data particularly relating to consultation and benchmarking relating to the services within the review.

Summary information in sections 5.2 and 5.3.

6.2 Gap Analysis of the three exercises undertaken

This part of the report will be used to bring together the summary versions of the results of those three exercises.

6.2.1 Gap Analysis - Audit Commission Draft Service Criteria

When considering the six desired service outcomes detailed in paragraph 3.1.7 of this report, a number of key themes can be identified from the assessment by the Review Team against the judgement criteria:-

(1) There is a strong emphasis on the need to invest in or enhance existing information systems. There is a perception that existing systems are unable to provide the flexibility in and range of information manipulation that is required of a modern financial system.

- (2) The real and perceived tension between maintaining tight corporate control whilst providing pro-active service directed advice arises in a number of areas. There is an underlying perception that financial management is not sufficiently service focussed.
- (3) As may be expected there is a view that the quality of service provided is dependent upon who is providing it. The experience of the quality of the service is not consistent across the organisation.
- (4) The strategic/operational split within the financial management function appears to cause uncertainty about roles and responsibilities.
- (5) The mechanisms for users to direct or influence the quality or cost of the service provided are limited. There is a perception that financial management is “done” to the organisation, rather than being seen as a tool to assist service providers.

6.2.2 Gap Analysis - CPA Audit Judgement

- 6.2.2.1 The Audit Commission issued draft judgement criteria during April 2002, and these were used by the Strategic Director and Head of Finance to make an initial assessment of the Council's Financial Management function. The detailed assessment is attached at Appendix D.
- 6.2.2.2 The self assessment was submitted to the External Auditors for their comments and as indicated earlier under the consultation comments, KPMG reported they felt our scores did not look unreasonable.
- 6.2.2.3 Whilst they had queries on evidence for certain assumptions, the queries on scores of 3 (out of 4) for adequate internal audit function and overall performance management cascading of objectives, as being possibly too generous were the only queries raised.
- 6.2.2.4 In overall terms the self assessment, and its consultation with KPMG presents a healthy picture of the Council's financial management function. However, there are a few key issues to arise out of the assessment and they are detailed below:-
 - (1) Reporting of financial performance to members is limited at present and there is a lack of focus by members on managing financial performance.
 - (2) There is a lack of formal risk assessment on the level of financial reserves and the assumptions within the financial strategy.
 - (3) Formal risk management is a weakness that has only recently been addressed through adopting a risk management policy. There is still much to do in this area.
 - (4) There is no designated Audit Committee or equivalent. There is no lead member for financial management, other than the leader of the Executive.
 - (5) Corporate governance arrangements are in their infancy and not fully established.
- 6.2.2.5 As later versions of the CPA Audit Judgement Criteria become available, it will be appropriate to revisit and revise, if necessary, the key issues identified above.

6.2.3 Gap Analysis - Consideration of Baseline Data

- 6.2.3.1 The review group has identified the following areas arising from their consideration of the data.
 - (1) Structure

Three comments were raised about the structure of the finance management function from the data provided. (1) The structure is based on a “commissioning” model with the corporate finance function located in a separate unit from the operational function. It was queried whether this is still an appropriate model. (2) Although not directly part of the current review it was noted that the cashier function is provided through two business units. (3) Finally, the current structure does not include capacity for information systems development. This has been evidenced recently in the benefits and payroll implementations and acknowledged in the bid for additional resources for the financial management systems implementation.

(2) Overall Financial Management Budget

The comparison of some of the benchmark data is confused by the split nature of responsibilities between Policy Services and Finance. It is not possible simply to fudge comparisons after the exercises have been completed, but it is pertinent to recognise that some portion of the three posts within Policy Services would need to be taken account of when making Financial Management comparisons.

By way of explanation, the benchmarking exercise within Finance for all services, had been done to compare the costs of Finance as a Business Unit. It is only with the revised cross cutting approach agreed in February Executive, that the need for a different aspect on the comparisons eventually became apparent. The Council does not have bench mark data for its Policy Services functions as a Unit.

There are also gaps in knowledge of the financial management costs within other business units, and more importantly, with all the changes which have occurred over the last few years, are there enough staffing resources available for the function of financial management.

(3) Systems

It was noted the principal systems were old and in need of replacement. The systems are in house written and now in need of replacement to allow for modern developments on e-payment and e-procurement.

(4) Benchmarking

The significant amount of data collected showed generally good levels of performance. Discussions revealed the following questions for further investigation:

- Insurance - whilst currently the main claims handling is already outsourced, is there further scope for handing virtually the whole function over to a company such as Zurich?
- Internal Audit - The pay costs per auditor are 24% higher than average, and this with the 24% higher overheads than average all leads to a 24% higher charge out rate per day than average.

However, in respect to the normal performance indicator of audit cost per £m turnover, the Warwick cost is 5th out of the comparator group of 19 and in the lowest quartile. This reflects the audit work being achieved with only three auditors, rather than the greater number but lower paid approaches at comparator authorities.

There is a need to be clear as to whether the authority wishes to continue with this approach or explore other partnership options with districts or the County.

It was clear, however, that the current call off contract arrangement with the private sector was already working well.

- Treasury Management - there were issues around cash flow forecasting and the cautious nature of our investment approach that need reviewing. Could we relax investment criteria to provide greater returns at an acceptable level of risk?
- Creditors - whilst acknowledging the development of the electronic orders/creditors system, and the use of data image processing for the whole creditors system, there was now a need to develop electronic payment methods.
- Debtors - the use of payment by debit cards had modernised part of the system, but greater developments were now needed for internet/direct debit payments.

(5) Consultation

As indicated earlier in the report there is a considerable mass of consultation data already accumulated. In general it is considered the consultation confirms the issues already identified within the self assessment. In particular they present a picture of:-

- General satisfaction with the staff who provide the services. They are generally assessed as helpful and efficient, and users express satisfaction with the service provided.
- However, the comments highlight that this is not always the consistent experience of users and who they deal with is a key determinant of their level of satisfaction.
- In addition, the comments highlight concerns that the service is not user focussed and that strict compliance with administrative rules may get in the way of providing the service the user wants.
- Finally, work with the Citizens Panel confirms the general view that the public's understanding of how the Council manages its financial resources is woeful.

The two gaps that existed at the time of the above work (comments from members and External Auditors), have been filled with good responses as indicated at 5.3.7 and 5.3.8 of this report.

An approach for feedback from the Trade Unions has currently not received any response.

Despite all the information that has been gathered, it was unanimously felt by the review team, that it would be good to have a meeting of all units within the authority to have an open forum on financial management. There are clear indicators on support service issues, and also on citizens issues, but we need views from Heads of Units and their finance related staff.

6.3 Review of the Challenge

6.3.1 Challenge of the Need for the Service

- 6.3.1.1 The issue of financial management is so vital to the operation of all local authorities, as evidenced by the Section 151 requirements of the Local Government Act 1972, there is simply no choice as to whether or not it needs to be done.

6.3.1.2 However, when the discrete parts which make up financial management are considered, it is possible to see that whilst they need to be done, there is a real choice to be made as to whether they need to be provided directly by in house staff or by some other means.

6.3.1.3 During the review it became evident that Finance was already exploring alternative provision in several areas. These are detailed below:-

- (1) Insurances - claims handling already outsourced, with further inquiries being made into cost/benefit of relinquishing all direct involvement in the function.
- (2) Payroll - Partnership arrangement with Warwickshire County Council to lead development of payroll facility for this authority that could then be used for other Districts.
- (3) Internal Audit - Partnership/call off contract with Bentley Jennison to supply internal audit work we are not able to perform internally. This arrangement gives flexibility for Internal Audit to be used to meet demand as required without the permanent overhead of more posts.

6.3.1.4 With regard to the consideration of wider externalisation of any more of the financial management function, there has been a strategic decision taken that this would not be performed as part of this review. The reasoning behind this mainly relating to issues of scale and the need for a wider approach to "support services" as a whole. The timetable approved at February Executive indicates a Council wide review of support services for 2003/04, and any externalisation issues for the financial management function will be considered as part of that review.

6.3.2 Challenge of Revised Objectives

6.3.2.1 Given the information obtained from the consultation and comparison exercises, and the two different self assessment exercises, it appears to the review team that revised objectives for the review were now required. It is suggested these are:-

- (1) To review the effectiveness of the current commissioning split within the financial management function and establish the most appropriate structure to take the function forward into the future.
- (2) To identify and specify the requirements of a new financial management system.
- (3) To identify what is required to develop the e-delivery of financial services and to progress e-procurement.
- (4) Harnessing the views of users and staff, to identify and implement quick measures to improve service delivery and to encourage a more proactive and user-focussed service.
- (5) To investigate the scope for partnerships with other authorities to deliver aspects of the financial management function.

6.3.3 Key Outcomes of the Review

6.3.3.1 Following on from the revised objectives it is felt that the key outcomes would be:-

- (1) A revised structure combining the corporate finance and finance functions in to a single unit.

- (2) A statement of user requirement for the financial management system.
- (3) Greater involvement of users in the specification of the service required.
- (4) An improvement action plan showing what improvements are to be made, by when, by whom and at what cost.

6.3.3.2 It is clear from the above that the fourth point covers the collection of the plethora of items that will need to be picked up and prioritised from that analysis work already done. In respect of the Appendix C self analysis against the Audit Commission Judgement criteria, there are forty-five areas for improvement identified. No action has currently been taken to prioritise the items. In addition the areas identified from the CPA judgement under 6.2.2.4 will need to be prioritised.

6.4 The Next Steps

6.4.1. The Change Board needs to give its view on the review to date and to consider the proposed next steps, which are as follows:-

- (1) Approve or revise the revised objectives for the review as indicated in 6.3.2.1.
- (2) Approve or revise the expected key outcomes of the review as indicated in 6.3.3.1.
- (3) Acknowledge that the action plan required as item (4) of the list of outcomes in 6.3.3.1 will include some of the following:-
 - (a) the five items from the CPA Audit Judgement discussed in paragraph 6.2.2.4.
 - (b) the forty-five items from the Audit Commission draft service criteria detailed in Appendix C, and for which a summary of key themes is given in paragraph 6.2.1.
- (4) Obtain further consultation information from Heads of Business Units and their finance staff (if they have any), in order to inform the main outcomes referred to in paragraph 6.3.3.1.
- (5) Consider if the Change Board has other key areas to be examined to inform the review, or does it accept the scope of work done to date to lead to the objectives and outcomes described above is sufficient.
- (6) Prioritise the items to be addressed from the exercise to date, as modified by any Change Board requirements or further consultation feedback.
- (7) Consider resource implications of proposed improvements to establish feasibility.
- (8) Prepare Revised Structure per 6.3.3.1.
- (9) Prepare User Requirements Statement per 6.3.3.1.
- (10) Prepare Service Improvement Plan per 6.3.3.1.