Audit and Governance Committee 13 January 2009

Report of the Assistant Director of Resources (Customer Service & Governance)

Audit Commission National Report: Back to front. Efficiency of back office functions in local government.

Summary

1. This paper gives a brief overview of, and response to, the national review by the Audit Commission called 'Back to front. Efficiency of back office functions in local government' published in October 2008. The report followed on from the announcements from CSR07 on cashable savings that are to be made by councils over a three year spending cycle. In the last cycle (SR04) 79% of efficiency gains were cashable. The report looks at experiences of councils over the previous cycle and makes recommendations on how to make efficiency gains while retaining quality of services. For the terms of the report back office functions are defined as finance, human resources, IT support, procurement, legal services, facilities management, travel services, marketing and communications.

Background

2. Councils were successful in making efficiency gains during the last spending review period but it is anticipated that it will be harder in the future to make these gains during the CSR07 period. The report highlights the need to move on to transformational strategies in order to make sustainable savings. The 'quick win' of past transactional strategies will not be enough.

3. The report discusses the types of approaches taken in the SR04 which were
   - Transactional
   - Transitional or
   - Transformational strategies (with a strong link between the efficiency programme and corporate agenda).

4. During the SR04 period most councils used transitional approaches but now, according to the report, need to move to more transformational strategies in order to meet efficiency demands. The report shows that the proportion of council spending on corporate services has declined over the last three spending review cycles with a decline of 50% for a typical single tier or county authority. All councils are spending a smaller proportion of their budget on back office activity.

5.   The report discusses different type of methods used such as: internal (lean thinking, business process improvement, ICT), mutual (shared services) and external (outsourcing).

6.   Benchmarking is seen as effective in helping councils see how back office functions compare with others. Three types of successful benchmarking are mentioned:
- Strategic – objectives, polices, outputs and outcomes;
- Service – comparing organisational structures and processes;
- Data – comparing inputs and outputs.

7.   The report states that procurement efficiencies will be more difficult to achieve in the CSR07 period. Some underlying assumptions have already been made in terms of financial settlement for councils, which due to economic downturn, may now be out of date. The settlement was based on inflation at 2.75% - if inflation is greater then there will be a shortfall. In summary, many councils have responded to previous spending reviews by reducing the amount spent on corporate services but this is not likely to be enough.

8.   **Case Studies**

The report includes a number of case studies, but there is recognition that what can be done depends on what stage the council is already at and what local pressures it faces, for example, existing local contracts:

Some examples of identified good practice includes:

- improving financial systems and active monitoring to challenge over and underspends;

- using CPA to drive change;

- centralisation of administration services, sharing back office functions and sharing office space;

- on line recruitment;

- moving finance teams into directorates to integrate service and financial management;

- paperless procurement;

- challenge groups such as performance clinics for councillors to scrutinise and monitor performance.

There are also examples of poor and fragmented approaches such as rejection of shared service arrangements without full consideration or the lack of overall policy and leadership.

9. **Performance Measurement**

There is a single national performance indicator to measure efficiency gains: **NI 179 – the total value of ongoing cash releasing value for money gains that have impacted since the start of the 2008/09 financial year.**

Recordable cash-releasing efficiency gains must:

- be reported net of investment and the costs required for their implementation;

- be sustained;

- reduce the level of resources to achieve the same or better outputs and allow resources to be redeployed;

- have an impact on council expenditure after March 2008.

10. **Audit Commission Recommendations**

Recommendations from the report are as follows:

- Councils need to assess whether they fully exploited back office efficiencies in SR04 and identify priorities for future action. They need to use performance and contextual data to understand where they are on the journey;

- The need for a more strategic approach is highlighted, not just ad hoc or one off gains;

- Consideration of services from citizens perspectives;

- Efficiency priorities need to be linked to corporate objectives;

- Need for strong political support and leadership of the efficiency programme;

- Creation of an efficiency board or committee (officers and senior members) to lead, monitor and evaluate and challenge;

- Make use of benchmarking – the Corporate Services VFM indicators club is endorsed by all five UK audit agencies.

11. The Audit Commission does however, recognise that each council has its own unique starting point and needs to assess where it is positioned, then choose methods that are most appropriate for their local services and priorities. The focus on local solutions to fit local needs is in line with current government agenda. The annual Use of Resources assessment will be used to assess council efficiency and support councils to develop a transformational approach.

12. **Links with Central Government Agenda**

The Government Operational Efficiency Programme (OEP) was announced in July 2008, it will run during CSR07 period and consist of five strands:

- Back office/IT (building on Gershon/SR04)
- Collaborative procurement
- Asset management/sales
- Property
- Local incentives/empowerment.

The expectation is to review savings through the delivery chain and look at benchmarking, standardisation and simplification of processes identifying opportunities for additional savings.

The report also links to the Transformational Government agenda focusing on:

- Citizen and business centred services
- Shared services
- Professionalism.

13. **CYC approach:**

The report is a useful reference at a point where the council is facing a number of challenges not only from the tight financial settlement which will require efficiency savings of around £15 million over the next three years, but also from a significant programme of change which includes the major office accommodation project, replacement of many key information systems (such as finance and HR systems), new legislative changes around education, children's service and benefits, and the new Comprehensive Area Assessment. To date CYC has responded to the challenges of CR04 and CSR07 by:

- entering into an Efficiency Partnership to carry out a scoping study to identify sustainable efficiencies over the CR07 period and beyond;

- focussing on Citizen-facing services in developing its Customer & Engagement Strategies;

- integrating more services in to the York Customer Centre;

- transforming services through the Easy@York programme;

- planning to share Internal Audit and other professional services with North Yorkshire County Council;

- extending the range of automated telephone and on-line transactional services;

- introduction of electronic scanning and management of documents which includes centralisation of disparate scanning services and to achieve business efficiencies in relation to reduced paper flow;

- centralisation of IT support services - linked to recommendations highlighted in a review undertaken by Socitm consultancy services;

- streamlining financial and performance reporting to introduce an internal challenge process and ensure monitoring processes are timely and effective in order to ensure improvements in priority areas are being made;

- joining the Corporate Services VFM indicators benchmarking club mentioned in paragraph 10 above. This will build upon the work easy@york has done with Barnsley, Bolton, Gateshead, Wire & Manchester Councils to benchmark existing and planned YCC services.

Consultation

14. The Audit Commission report has been summarised in a briefing paper distributed to the Corporate Management Team.

Options

15. Not relevant for the purpose of the report.

Analysis

16. Not relevant for the purpose of the report.

Corporate Priorities

17. This report contributes to the overall effectiveness of the council's financial, governance and assurance arrangements in the achievement of all its prioirities.

Implications

18. There are no financial, HR, equalities, legal, crime and disorder, IT or property implications arising from this report.

Risk Management

19. By not complying with the requirements of this report, the council will fail to properly comply with best practice requirements, and its Use of Resources score in CPA/CAA assessments could be adversely affected.

Recommendations

20.   Members of the Audit and Governance Committee are asked to note the report and the course of action being undertaken and planned by the council.

Reason
To ensure that the council can meet the challenges of CSR07 and provide services in an efficient, effective and customer focussed way.

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Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All

For further information please contact the author of the report

Background Papers:

Audit Commission Report published October 2008: Back to front. Efficiency of back office functions in local government

Annexes

None