

Cumbria Police Authority

Audit and Performance Committee

3 November 2005

Agenda Item No

ACPO Benchmarking study of the Finance function

A report by the Chief Constable and Treasurer

1. Summary

- 1.1 The purpose of this paper is to formally report to members the results of the ACPO sponsored benchmarking exercise of the finance function. The results were reported internally, to the Constabulary's Resources and Standards Board on 21 September. The study is, predominantly, a comparison of costs within the police service in England and Wales, although some data sets do allow an assessment of performance to be made in a number of functional areas.
- 1.2 The overall results appear to be encouraging, with overall costs below the adjusted average for the service as a whole and, perhaps of more relevance, lower than the adjusted average for the comparator group of smaller forces. The result has been recognised as 'good' by HMIC in his latest Finance and Resources assessment, and will reflect in the 2006 baseline score for the 'Use of Resources' section.
- 1.3 The report emphasises that benchmarking is not an end in itself, but is, rather, a means to investigating particular areas identified in the analysis. To that end, it has been agreed to produce an improvement plan, which will incorporate areas where realisable and measurable improvements in performance are possible.

2. Recommendations

- 2.1 Members are asked to note the contents of the report.

3. Details

3.1. Background and History

- 3.1.1 This paper reports on the results of the latest ACPO commissioned benchmarking study of the finance function. The results of the study, based on forces in England and Wales, was published in May 2005, since when, some work has been undertaken to analyse the results. The expectation of ACPO is for most if not all support functions to benchmark themselves, and indeed, all four teams within the Finance and Resources Department have submitted, are submitting or will submit to ACPO or alternative benchmarking initiatives.

3.1.2 Notwithstanding the above, from the information available, it would appear that only 75% of forces in England and Wales were part of the 2004-05 study. However, it is perhaps ironic that, as part of the new efficiency regime, forces not taking part in the benchmarking work have been asked to provide identical data to the Home Office in any event.

3.2 Purpose

3.2.1 It is important to remember that benchmarking is not an end in itself. Benchmarking studies produce a range of information that allows further analysis to be undertaken in relevant areas. The benchmarking exercise now reported upon, is, essentially, a comparison of the costs of providing financial services and hence, in this instance, areas of further work will, fundamentally, revolve around activities which are either more costly than average or generally unusual as compared with the benchmarking group.

3.2.2 However, this benchmarking study does contain some performance data, which can and will be used to assess Cumbria's position, both against the family averages and the 'best in class'. Wherever possible, measurable improvement targets will be set and incorporated in an improvement plan.

3.3 What is measured

3.3.1 The study seeks to measure the full cost of the finance function in policing. However, to provide clarity, a formal definition of those costs to be included in the exercise is produced to ensure a proper comparison takes place. The study incorporates financial activities in Police Authorities and includes BCU financial activities. The study includes in house costs as well as the costs of outsourced activities. Finally, recognising that a good number of staff outside the main finance have relatively minor financial responsibilities, the study ignores these de minimus costs.

3.3.2 The study divides the finance function into eight distinct areas, as follows: -

- The Police Authority
- Accountancy
- Payroll
- Creditors
- Debtors
- Income
- Internal Audit
- Pensions

The data provided in support of the exercise is used to provide a range of benchmarking information. As the inputs are, in the main, financial, most of the analysis also compares costs. However, some information also indicates relative performance in areas where performance measurement is possible. In addition, some data is used to benchmark a range of HR issues, such as levels of pay and relevant qualifications.

3.4 Summary of results

3.4.1 The results of the full benchmarking study contains two reports each of which run to more than 20 pages of analysis. The first study compares Cumbria to the service as a whole, which is supplemented by a second discretionary report, where an option was taken to compare Cumbria with a group of similar forces. For this purpose, nine forces with budgets and establishments closest to Cumbria were chosen. The analysis and interpretation below shows, wherever possible, the Cumbria results against both the similar force group and the wider service. In the ranking scale for financial comparisons, 10 represents the least expensive and 1 the most expensive. However, for most performance comparisons, 1 represents the best ranked performance and 10 the worst.

3.4.2 In summary, the 'headline' results are as follows:

	Cumbria	Service *	Comparator Group *	Rank in Comparator Group
	Cost / £m	Cost / £m	Cost / £m	
Overall costs	7,972	8,281	9,859	9/10
Function				
Accountancy	4,520	4,581	5,600	8/10
Payroll	1,700	1,496	1,741	5/10
Others	1,460	1,913	1,982	10/10
Police Authority	292	291	536	7/10
	<u>7,972</u>	<u>8,281</u>	<u>9,859</u>	

The asterisk is to reflect that the costs of the comparator groups are adjusted to Cumbria's size, in terms of annual budget, to facilitate a more relevant comparison.

The figures show that the overall (headline) costs of the finance function compare well, especially with the comparator group of similar sized forces. Cumbria's overall costs of £7,972 / £m of budget are 96% of the adjusted figure for the service as a whole and 80% of the adjusted figure for the comparator group. In coming to a view as to why there should be so much differential, it is difficult to overlook comparative salary costs, which make up about 75% of the total cost base for Cumbria, where comparative data used in the exercise would seem to suggest that salary costs are, as a whole, smaller in Cumbria. More comparative analysis of salary costs is set out below at paragraph four.

3.4.3 In terms of the functional areas in the exercise, the main results can be summarised as follows: -

(i) Accountancy

	Cumbria	Service	Comp Group	Rank
	Cost / £m	Cost / £m	Cost / £m	
Corporate / Strategy	806	464	649	3/10
Budgeting / Accounting	1,957	1,241	1,623	3/10
Systems Support	93	318	476	10/10
Research & Projects	343	403	586	7/10
BCU Support	1,131	1,790	1,795	8/10
Support Costs **	190	357	471	n/a
Total	4,520	4,573	5,600	8/10

** Support Costs include IT, Other Direct Costs and Income

Whilst it is pleasing to report that overall costs of accountancy are slightly below the adjusted service cost and are only 80% of the costs of the comparator group, the breakdown of activities reveals some contrasting variations. More work is needed to determine the precise reason for the scale of some of the variations, although some broad conclusions can be drawn from the information, including: -

- a. The relative cost of corporate / strategic finance probably overlaps with the small cost of Police Authority finance
- b. The small cost of system support reflects, amongst other things, the lack of a dedicated systems accountant, and, during the time of the study, a permanent accountant with systems responsibilities at all.
- c. The low cost of providing project support reflects the difficulties felt in the department about supporting the growth in that work
- d. The comparatively high cost of budgeting and accounting needs to be investigated further, although the manual nature of some elements of this work in Cumbria may contribute to this.
- e. Different structures for financial support in BCU's elsewhere.

(ii) Payroll

	Cumbria	Service	Comparator Group	Rank
Cost / Employee	£49	£64	£74	10/10
O/T Claims / Employee	£0.32	£0.66	£0.54	8/10
Expenses	£0.09	£0.25	£0.22	10/10
Special Payments / 1000 Employees	5	51	54	10/10

It is pleasing to report that the cost of a service, which everyone has some personal link to, benchmarks so well against other forces, at £49/ employee, which is 75% of the adjusted service cost, and 66% of the cost of the comparator group. The overall figures include an element of third party costs, which varies according to individual circumstances, but which for Cumbria, amounts to £17 (or 35%) of the total cost. Similar results can be found in relation to the costs of managing overtime and expense payments.

The final measurement in relation to special payments, which reflects the number of corrections made for errors, is a good proxy for payroll 'performance', where the lowest score is ten times less than the average, both for the service and comparator group.

- (iii) Others (Creditor payments, Debtors, Internal Audit and Pensions Admin)

	Cumbria	Service	Comp Group	Rank
Creditors				
Cost / £m	268	669	816	10/10
Cost / Invoice	£1.05	£2.99	£3.66	10/10
% Central input	100	56	74	3/10
% BACS	94	65	67	2/10
% Paid on time	71	75	76	8/10
Debtors				
Cost / £m	70	177	206	9/10
Internal Audit				
Cost / £m	444	432	414	2/10
Days / £m	1.79	1.65	1.53	3/10
Cost / day	248	270	279	9/10
Pensions Administration				
Overall cost of provision / member	£21.60	£16.20	£15.42	2/10

In relation to Creditor payments, the benchmarks relating to costs show the function in a favourable light. The measures which can be taken as relating to performance also paint a generally good picture, with 100% central input (seen as a more effective arrangement) and 94% electronic BACS (as opposed to cheque) payment. However, the proportion of invoices paid on time is less good. A procurement card scheme soon to be piloted will, hopefully, see some improvement in this area when rolled out across the constabulary.

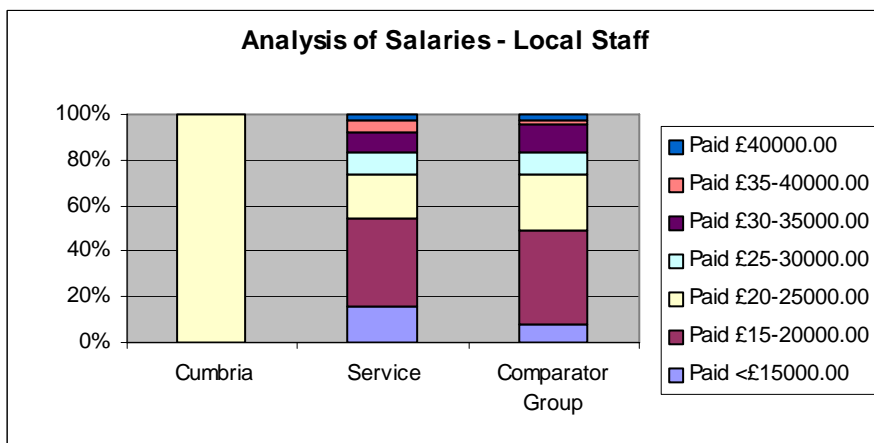
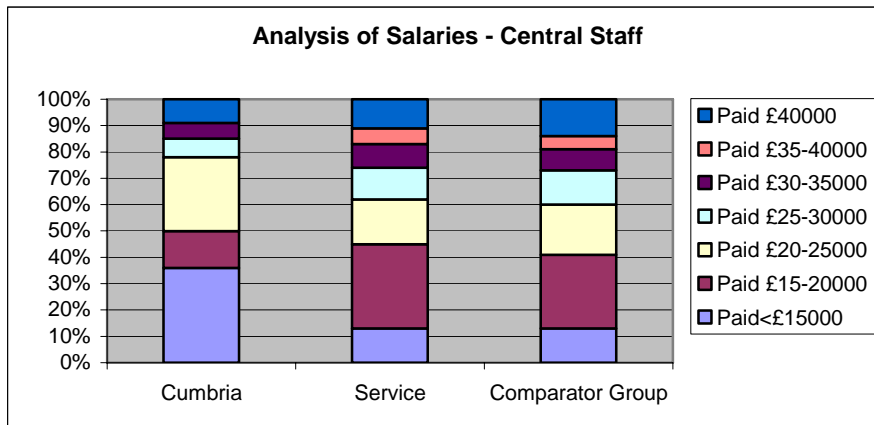
So far as debtors is concerned, this is a relatively low cost activity, but nevertheless, compares well with other forces.

Internal audit is the responsibility of the Police Authority, although, for the purpose of this exercise, is reported separately. It paints a mixed picture for Cumbria. On the one hand the overall cost of audit, as adjusted for size, is higher than both the service and comparator force average, although the daily cost is less than both comparator averages. The relatively high cost is brought about as a result of higher than average audit activity.

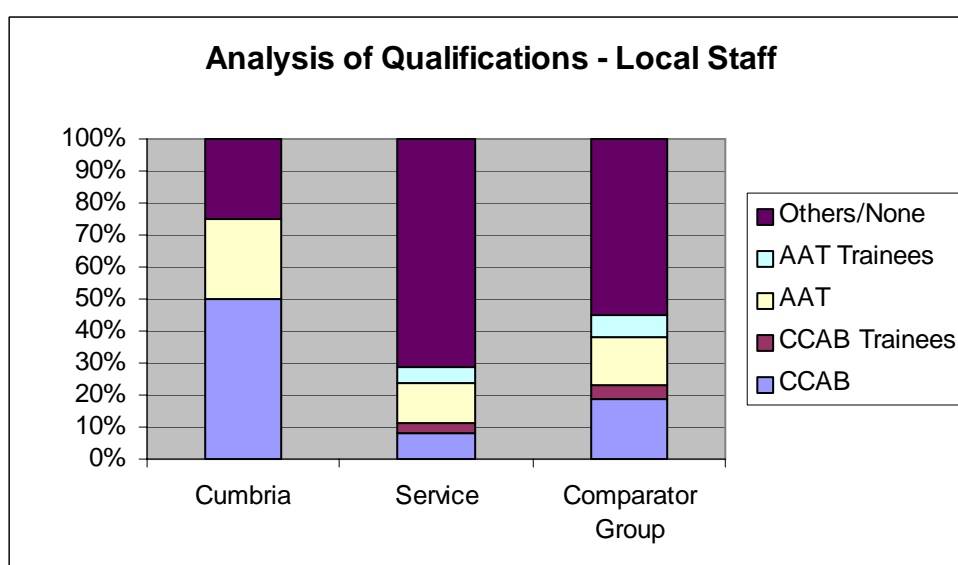
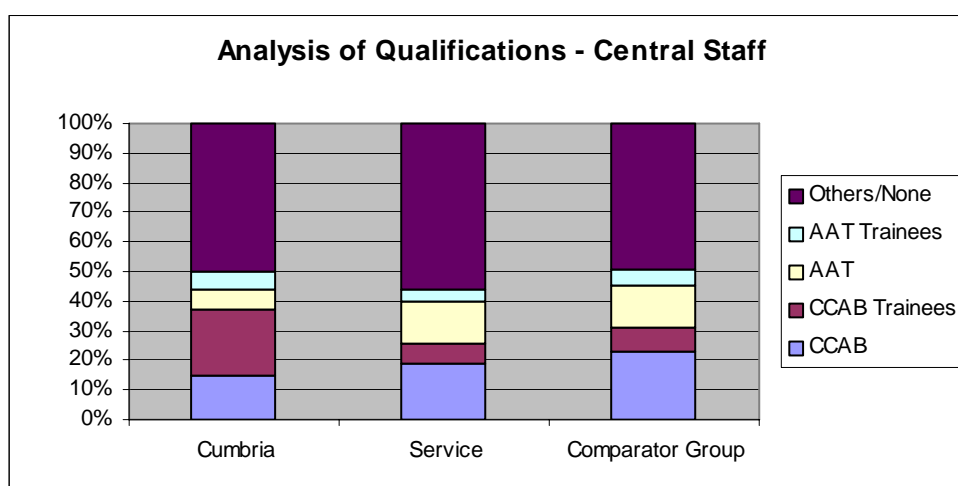
Finally, for pensions administration, the nature of the diverse way in which this service is provided requires some explanation of the figures. Most forces share pensions service provision with a third party, as does Cumbria. The benchmarking results show that the costs per 'member' for Cumbria are £21.60 (of which £16 is from a third party contractor). This ranks the Cumbria costs as second highest of 10 from the comparator group and 5th highest from within the wider service. The Payroll and Pensions Manager is aware of this issue and is involved in national work in relation to outsourced Pensions support. More recently, national work of the Support Services Group of the Police Efficiency Group (PEG) is looking more broadly at some finance and some HR activities being undertaken on a shared and possibly national basis. This initiative may well help to shape how pensions support is provided in the future.

4 Human Resources Issues

4.1 The benchmarking study contained two final data sets, which have been loosely termed 'HR issues'. The first of these relates to comparative salary levels. The first two charts set out below contain a breakdown of the relative salary levels, both for HQ and local staff. In summary, for HQ staff, which represents about 70% of the size of the finance team, it shows a greater proportion of salaries at the bottom of the salary scale, and a lower proportion at the upper end. This is not particularly surprising, as it is most probably influenced by regional pay rates.



4.2 The second 'HR' analysis measures the proportions of staff holding professional qualifications. It reinforces the comment made by HMIC in the last Finance and Resources assessment that there were too few qualified accountants in the HQ team. However, since the publication of the report in May, the Constabulary has appointed a Head of Financial Services and a Technical Accounting Manager. Regrettably, the analysis of qualifications is limited to accounting staff and omits the professional base in other areas. In particular, the Payroll and Pensions Manager (PPM) and assistant PPM are both qualified members of the institute of Payroll and Pensions Management, with two staff in that unit progressing towards the same qualification.



3.5 What next?

3.5.1 The results of the study are being analysed by the Head of Financial Services and his senior staff. It is intended that an action plan will be prepared, setting out those areas where it is believed improvements can be made, and setting improvement targets where possible. However, any action plan must, in the current situation, have regard for the agenda's for change, both in relation to:-

- (i) Emerging plans to change the existing arrangements for providing support services within the service
- (ii) The future structure for policing in England and Wales generally.

With regard to the former, forces have been asked to provide a position statement by mid November.

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October 2005

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Contact point for further information.

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