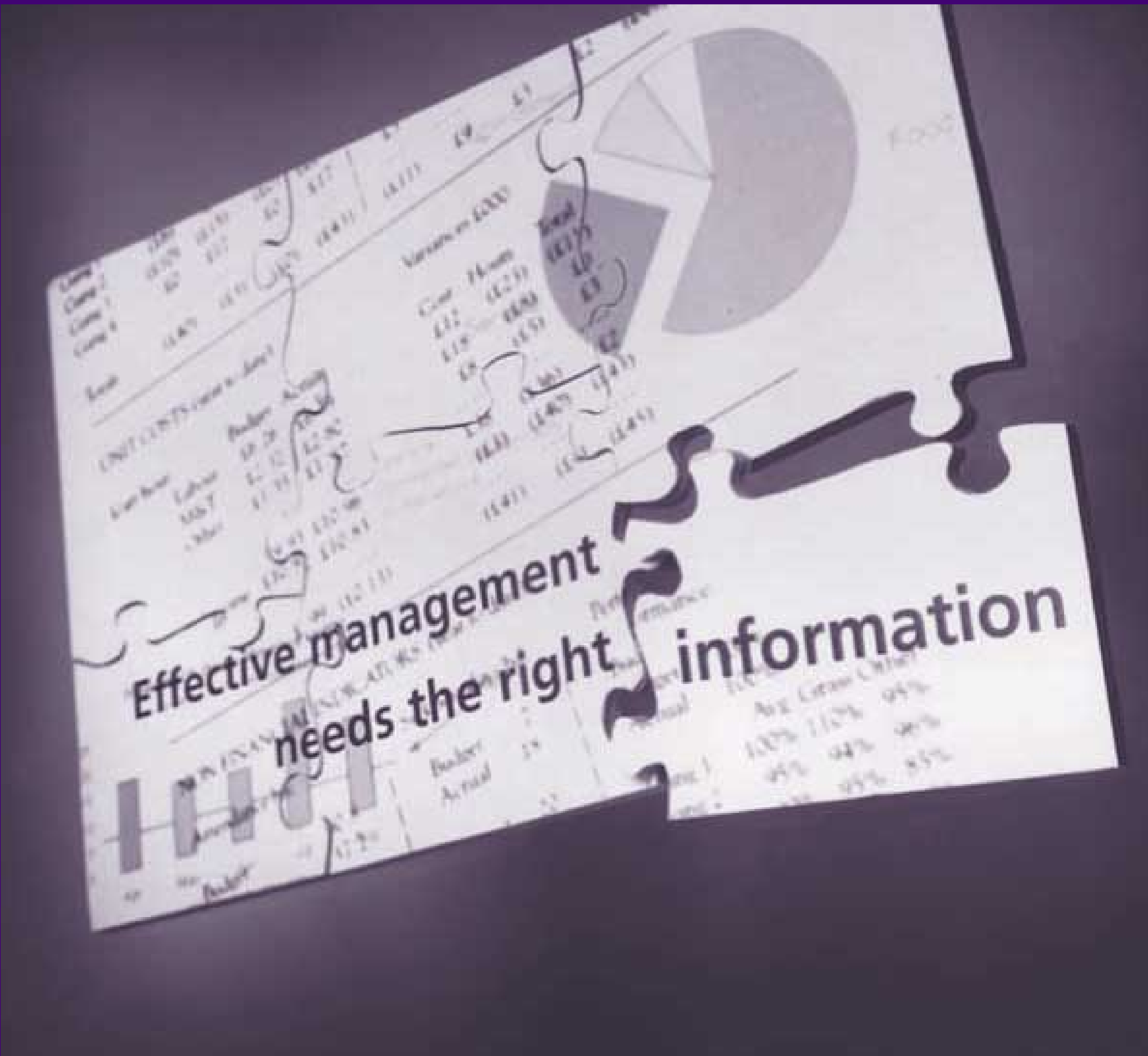
Accounts Commission for Scotland

Understanding our business

MANAGEMENT INFORMATION FOR DLOs AND DSOs AND OTHER OPERATIONAL SERVICES



DECEMBER 1999

The Accounts Commission is a statutory, independent body, which, through the audit process, assists local authorities and the health service in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources.

The Commission has five main responsibilities:
- securing the external audit
- following up issues of concern identified through the audit, to ensure satisfactory resolutions
- reviewing the management arrangements which audited bodies have in place to achieve value for money
- carrying out national value for money studies to improve economy, efficiency and effectiveness in local government and the NHS
- issuing an annual direction to local authorities which sets out the range of performance information which they are required to publish.

The Commission secures the audit of 32 councils, 34 joint boards (including police and fire services), 15 health boards, 28 NHS trusts and six other NHS bodies. Local authorities spend over £9 billion of public funds a year and the NHS in Scotland spends over £4 billion.

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The Accounts Commission takes sole responsibility for the contents of this report. Any comments or queries should be directed to Miranda Alcock.

CONTENTS

Summary

This report aims to improve understanding of the importance of management information and corporate management practices to the successful operation of DLOs and DSOs.

Best Value requires a continued emphasis on the need to demonstrate competitiveness - not just within DLOs and DSOs (Direct Labour Organisations and Direct Service Organisations), but across the council. The messages in this report are relevant to a wide range of service areas, although the case studies and examples of good practice are drawn primarily from DLOs and DSOs.

The report is organised into three main sections, and provides guidance and examples of good practice within these areas:

- the role of councillors
- corporate management
- managing DLO and DSO businesses.

The role of councillors

Councillors, as committee members, have distinct responsibilities where DLOs and DSOs provide services. They may:

- represent the users of services
- have responsibility for setting the overall objectives for the services (a client role)
- have responsibility for the supervision and control of DLO or DSO operations.

These different responsibilities may all be included within the terms of reference of single committees, or separated into committees with distinct client and contractor remits.

Whatever their organisational or committee structures, councils need to ensure there are clear responsibilities and lines of accountability in relation to the supervision and control of their DLOs and DSOs. This will ensure that the decision-making process is open and transparent, and the information presented to committees is relevant to the agreed responsibilities.

To enable councillors to fulfil their responsibilities effectively, regular monitoring reports on DLOs and DSOs should contain, as a minimum, the following information:

- trading performance summary
- progress against targets in the business plan
- information on levels of service provision.

The performance information on DLOs and DSOs submitted to committee must be at a level appropriate to the judgements that the committee needs to make.

Questioning and discussing the contents of a report can clarify the key messages, and promote greater understanding between councillors and officers.

The report identifies the kinds of questions councillors might ask about DLO or DSO reports.

Corporate management

This section of the report covers the roles of the chief executive, corporate management team and finance director, and the importance of effective partnership working between clients and contractors, and between central support services and contractors.

The benefits to councils of adopting a corporate approach to the overall management of DLOs and DSOs are identified as:

- a more informed budget planning and setting process
- improved understanding of the impact of corporate policy decisions on DLOs and DSOs
- ensuring DLOs and DSOs have access to the appropriate skills and information necessary for effective management.

A corporate approach can ensure that the twin objectives of DLOs and DSOs to achieve their financial targets and deliver quality services, have equal emphasis. This minimises the historical tendency to assume that if the DLO or DSO is achieving its financial break-even target, it is delivering a good quality service.

Role of the chief executive, corporate management team and director of finance

The report considers the role of the chief executive, corporate management team and director of finance in promoting understanding of DLOs and DSOs within the council, and in realising the potential contribution of these services to the achievement of Best Value.

The role of the chief executive includes:

- promoting a corporate understanding of the environment within which DLOs and DSOs operate, and how corporate policy decisions may affect their efficiency and effectiveness
- ensuring the particular roles and responsibilities of the director of finance in relation to DLOs and DSOs are clarified, agreed and implemented
- managing the complex relationships within the council that involve DLOs and DSOs - in particular by promoting closer partnership working between client departments and contract services, and between central support services and DLOs and DSOs.

The role of the corporate management team involves:

- identifying priorities and allocating resources
- developing and reviewing corporate policies in relation to DLOs and DSOs
- providing a forum for reviewing and improving the performance of DLOs and DSOs at a corporate level
- ensuring the corporate understanding of the environment within which DLOs and DSOs operate is reflected throughout their service departments.

The unique role of the finance director, in relation to the financial administration of DLOs and DSOs, comprises:

- providing independent advice to members on the financial performance of DLOs and DSOs
- assuring the council that there are effective financial controls in place
- ensuring financial information systems are capable of providing regular and timely accounts prepared on an accruals basis throughout the financial year

- providing financial advice and expertise to managers of DLOs and DSOs
- providing financial services, such as payroll administration, which meet the requirements of DLOs and DSOs
- ensuring the professional competence of finance staff employed in DLOs and DSOs.

Developing client-contractor partnerships

Poor client-contractor relationships are often at the heart of difficulties experienced by councils in relation to their DLOs and DSOs. The introduction of Best Value is an opportunity for councils to review the roles of the client and contractor in the delivery of services provided by DLOs and DSOs. Service reviews should result in shared objectives for service delivery and promote closer working relationships between client and contractor. Greater sharing of information is an important factor in improving client-contractor relationships.

The report highlights encouraging evidence of councils moving towards more effective partnership working between clients and contractors.

Corporate support services

Central support departments need to recognise the particular importance of their position as a supplier of services to DLOs and DSOs, and to work with service managers to look at how their services could be improved to ensure they provide value for money.

As DLOs and DSOs need to achieve a financial target, the amount they pay for support services is important to managers. Central recharges, whether based on service level agreements (SLAs) or allocations made at the year-end, must reflect the actual cost of services provided to DLOs and DSOs.

In order to manage these costs, DLO and DSO managers need to be provided with:

- as accurate an estimate as possible of the likely level of charges for support services, when setting their budgets
- regular and timely information throughout the year, detailing their actual use and cost of these services, compared with the budget estimate.

Managing DLO and DSO businesses

This section of the report highlights the importance of business planning, and the need for good management information.

Business plans are the foundation stone for the development and management of DLOs and DSOs. The process of compilation should clarify thinking, provide a medium term framework for the service, and result in milestones and targets to direct management action. The report includes a suggested framework for developing a business plan for DLOs and DSOs, and includes an overview of the related management information requirements including:

- financial and workload forecasts
- assumptions and risks
- targets for key business ratios and service quality measures
- structure and staffing levels.

Each section of the report concludes with a series of questions designed to aid review and encourage discussion and action. Councils will be expected to consider these questions as part of their ongoing commitment to delivering Best Value in the services provided by their DLOs and DSOs. A management checklist is also included to assist councils review the quality of their management information.

Introduction

Both councillors and officers need relevant, accurate and timely information to achieve the sound management and continuous improvement that lies at the heart of Best Value.

Best Value requires a continued emphasis on the need to demonstrate competitiveness - not just within DLOs and DSOs (Direct Labour Organisations and Direct Service Organisations), but across the council. The messages in this report are relevant to a wide range of service areas, although the case studies and examples of good practice are drawn primarily from DLOs and DSOs.

This report aims to improve understanding of the importance of management information and corporate management practices to the successful operation of DLOs and DSOs.

The report is intended for the many different people within a council who have a responsibility for ensuring their DLOs and DSOs operate effectively and efficiently - including councillors, chief officers and service managers.

Councils will be expected to use the report to improve the information they use to manage DLOs and DSOs which, in turn, will help to improve performance and service delivery.

The report is organised into three main sections:

The role of councillors: including the roles and responsibilities of councillors in relation to DLOs and DSOs, and the information they need to meet those responsibilities.

Corporate management: including the roles of the chief executive, corporate management team and finance director, the importance of effective partnership working between clients and contractors, and between internal suppliers and contractors.

Managing DLO and DSO businesses: the importance of business planning and the need for good management information.

Each section concludes with a list of questions for councils to consider, and a management checklist is included as the final appendix.

Background to the study

Management information in DLOs and DSOs emerged as a priority in the Commission's recent consultation with councils on potential topics for value for money studies. This reflected a desire from councils for good practice guidance on what information was needed, and by whom, so that performance of DLOs and DSOs could be managed more effectively. The need for better management information was also a recurring theme in the Controller of Audit's 1998 and 1999 statutory reports on DLOs and DSOs[1].

This report is based on the findings from the Commission's study into management information for DLOs and DSOs, conducted during the summer of 1999. The study was designed to cover the strategic, management, operational and financial information needs of officers and councillors, in relation to their DLOs and DSOs.

Initial investigations suggested councils would welcome further support and guidance on two main topics:

- the different roles, responsibilities and accountabilities of councillors and officers in ensuring their DLOs and DSOs achieve their financial and performance targets
- the information used by councils to manage and monitor the performance of their DLOs and DSOs.

Information was gathered through a series of 'expert panels'[2] of contract managers, and from discussions with councillors, chief officers and client-side managers during field visits to councils. Results from external auditors' previous surveys of councils' DLOs and DSOs, and other reports from council auditors, were also used.

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1 *'An Overview of DLOs and DSOs in Scotland'*, S.R.98/1 and '*1998/99 Overview of DLOs and DSOs in Scotland'*, S.R.99/6, Accounts Commission for Scotland.

2 'Expert panels' were held with senior managers from four areas of contracted work - building maintenance, roads and highway maintenance, fleet management and catering and cleaning. Participants were selected to reflect a range of different councils. The panellists discussed the factors affecting the success of their services, and the information they required to manage effectively.

The role of councillors

Clarifying roles and responsibilities

A council, through its committees, has the responsibility for ensuring public funds are used economically, efficiently and effectively in the delivery of local government services.

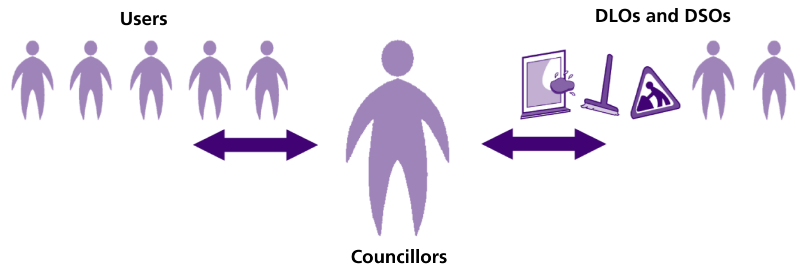
Councillors, as committee members, have distinct responsibilities where DLOs and DSOs provide services. These are illustrated in Exhibit 1. They may:

- represent the user of services
- have responsibility for the overall objectives for the services (a client role)
- have responsibility for the supervision and control of DLO or DSO operations.

These different responsibilities may all be included within the terms of reference of single committees, or separated into committees with distinct client and contractor remits.

Exhibit 1: Councillors have different responsibilities to users and to DLOs and DSOs

Councillors should clarify how they will manage their responsibilities to service users and to DLOs/DSOs.



In his 1998 report, the Controller of Audit stated that "councillors who are on DLO/DSO committees have in practice responsibilities not dissimilar to those of non-executive board members in companies."

Non-executive directors have both a strategic and monitoring role. They should "bring an independent judgement to bear on issues of strategy, performance, resources and standards of conduct"[3]. Their function is two-fold; to lead the organisation into the future by determining strategy, while monitoring and controlling its performance in the present.

Ensuring there are clear responsibilities and lines of accountability is a fundamental requirement for sound corporate governance and management of DLOs and DSOs. This enables open and transparent decision-making, and ensures that the information presented to committees is designed to meet the agreed responsibilities.

3 *'Report of the Committee on the Financial Aspects of Corporate Governance'* known as the Cadbury Report, 1992.

Whatever the committee structure, councils should ensure that specific responsibilities for DLOs and DSOs are clearly defined, agreed and documented. Exhibit 2 illustrates how Glasgow City Council clarified the committee responsibilities for DLOs and DSOs, through the development of a code of practice. The code reflects the client and contractor committee structure that exists in the council. Other councils will have different committee structures, and may prefer to include the detailed responsibilities for DLOs and DSOs within the terms of reference for service committees.

Exhibit 2: Clarifying the roles and responsibilities of councillors

Extract from Glasgow City Council's *'Code of Practice for DLOs and DSOs'* stating the different responsibilities of client and contractor committees.

To discharge their function in respect of DLOs and DSOs, the council should separate the function of client and contractor at sub-committee level.

The client sub-committees have an overall responsibility for achieving value for money in the provision of the service. The specific responsibilities include:
- setting the standards and level of services the council wishes to achieve
- awarding contracts
- monitoring performance and compliance with the contract.

Contractor sub-committees have the following responsibilities:
- to supervise and control the DLO/DSO in the context of the council's overall strategy in relation to competition and Best Value
- to ensure the function is discharged with regard to all appropriate legislation
- to consider the required structure and establishment of the DLO/DSO
- to maintain the confidentiality of DLO/DSO matters
- to approve an annual business plan, which includes estimates of expenditure and income, and monitor performance against it
- to ensure that the specified financial target is met and take corrective action where this is not likely to be the case.

Meeting councillors' information needs

The Cadbury Committee agreed that the effectiveness of non-executive directors depends to a considerable extent "on the quality of information they receive and on the use which they make of it".

Councillors need access to relevant information to meet the kinds of responsibilities outlined above. Information presented to committees on performance of DLOs and DSOs has tended in the past to be highly summarised and rarely challenged. In some cases, monitoring reports on DLOs and DSOs have not included enough information to enable councillors to make sound judgements.

There are complex cultural and organisational reasons for this, identified through the study research. These include, for example:
- lack of experience and confidence among councillors in understanding financial reports and questioning their content
- the traditional 'backward-looking' emphasis of many committee reports - focusing on why something has happened - rather than a forward-looking management emphasis - 'here is what has happened and this is what we are going to do in the future'
- the perception among some managers that much information on the performance of DLOs and DSOs is commercially sensitive, and should not be presented to councillors.

Councillors are demonstrating increasing interest in the performance of DLOs and DSOs, and the quality of the information provided to committees is improving. Councillors depend on their officers for guidance, but also need to hold them to account for their performance, through regular reporting.

Reviewing the financial and operational performance of DLOs and DSOs effectively requires specific skills. Councillors need to be able to:

- understand the external environment within which the business is operating
- understand basic financial and performance information
- ask relevant and challenging questions.

Councillors also need to have confidence in the accuracy of the information contained in reports. This has been addressed in many councils, by committee reports being jointly signed by directors of finance and heads of service.

What information should be reported to committee?

Performance information on DLOs and DSOs submitted to committee must be at a level appropriate to the judgements that the committee needs to make. The information should relate to the *overall* business performance, not day-to-day management issues.

To enable councillors to fulfil their responsibilities effectively, regular monitoring reports on DLOs and DSOs should contain, as a minimum, the following information:

- trading performance summary, on a fully accrued basis[4], which should include:
  - actual and forecast income and expenditure for the month, year to date, and projected to year-end
  - variances between forecast and actual income and expenditure
  - significant variances highlighted and explained
  - brief explanations of the assumptions used for projection to year-end

- progress against targets in the business plan, including outcome measures and quality targets. These should be presented as trends or comparisons - to demonstrate clearly to councillors whether the business is improving.

- information on levels of service provision, such as actual business volume, compared to plan and projected to year end. Again, to be meaningful, this information should be presented as trends or comparisons.

Reports on performance information are presented to committee on a regular basis and there should be consistency in the forecast budget from month to month. If the forecast budget changes, the reasons should be explained in the report.

Receiving committee reports is only one side of the coin. Councillors also need to make sure that they understand what the reports are actually saying about the DLO or DSO performance and that appropriate action is being taken where required.

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[4] Accruals is an important accountancy concept which recognises that income and expenditure is incurred before cash is received or paid out. So, income and expenditure are matched to the actual services provided in the same accounting period. Trading statements should always be prepared on an accruals basis.

Questioning and discussing the contents of a report can clarify the key messages, and promote greater understanding between councillors and officers. The kinds of questions councillors might consider asking about DLO or DSO reports include:

- where there are significant variations from budget, why these have occurred, and what is being done to rectify the situation
- the implications of proposed actions on DLO or DSO performance, both in the current year and in future years
- the implications of proposed actions on the council's corporate policies and its approach to Best Value.

As part of the study, a selection of DLO and DSO monitoring reports was reviewed by an experienced non-executive director. Most of the reports contained some of the information recommended above, few contained all of it. Given the similarities in responsibilities between non-executive directors and councillors with responsibilities for DLOs and DSOs, the purpose of the exercise was to identify the kinds of questions councillors should consider asking of their officers. The director's questions are summarised in Exhibit 3.

Exhibit 3: What questions should councillors ask?

Questions identified by an experienced non-executive director reviewing a typical DLO monitoring report.

The following are the questions our non-executive director would have asked the officers who produced the report he looked at - a typical DLO monitoring report:

"What is the projected year-end outturn?"

"I can see the actual figures after nine months, but I want to know what the nine month budget was too. Otherwise, how can I tell if the business is on target?"

"The projected savings are not enough to eliminate the deficit, yet the projection is for break-even. What else is being done?"

"How confident can I be in the forecast surplus next year, given the projected deficit for this year?"

"Some of the contracted services are more successful than others; are there lessons to be learned?"

If the report had contained the level of information proposed in this study, the answers to the first three questions would have been provided, and the director would have been able to ask the other questions from a more informed perspective.

Our director summarised the general questions which, in his view, councillors ought to be asking:

- are there significant variations from budget?
- when were the variations identified?
- what were the reasons?
- what corrective action is being taken?
- what are the implications for the current year?
- what are the implications for future years?

Providing the basic information clearly and concisely will assist councillors identify the relevant and appropriate questions. However, some councillors are not familiar with financial information. It can be helpful therefore, if reports include concise supporting text which describes, in plain English, what the figures are showing.

COSLA, and individual councils, may wish to consider providing training for councillors to increase their understanding of financial reports presented to committees.

Balancing commercial confidentiality with public accountability

The McIntosh Commission[5] recommended that the guiding principles for the conduct of council business should be:

- accountability to the public
- accessibility, openness, responsiveness
- a participative approach to service planning and delivery.

Clarifying the responsibilities of councillors in relation to DLOs and DSOs, and providing them with the information outlined above, will assist councils to adhere to these principles.

With the increased level of interest among councillors in the performance of DLOs and DSOs, councils are developing a variety of mechanisms to review their financial and operational performance at a corporate level. For example, joint councillor/officer budget monitoring groups have been established in a number of councils.

There are, however, considerations of commercial confidentiality which councils need to recognise. The customer base for DLOs and DSOs is restricted by legislation - they are limited in their ability to pick up business elsewhere if they lose major contracts. There are times when performance information on DLOs and DSOs will be highly sensitive - in particular just prior to tendering. However, the 'commercially confidential' label should not be used to exclude councillors from information they need to know to review the performance of DLOs and DSOs. Councillors can, for example, be bound by a code of practice (as in the Glasgow code of practice, Exhibit 2).

The study research indicated that many service managers are welcoming the more open culture of reporting that is developing between councillors and officers. They believe they run successful and efficient businesses and are enthusiastic about demonstrating this and accounting for their performance.

Checklist of questions

- Has the council clarified and documented the roles and responsibilities of councillors in relation to DLOs and DSOs?
- Has the council reviewed its arrangements for the supervision and control of DLOs and DSOs at committee level?
- Does the information provided to committees on the performance of DLOs and DSOs meet the suggested specification?
- Does it include relevant narrative (in plain English) as well as financial information, highlighting the key points?
- Has the council planned training for councillors to improve understanding of financial monitoring reports?
- Does the council have clear procedures for identifying commercially sensitive information and how it should be considered by councillors?

[5] *'Report of the Commission on Local Government and the Scottish Parliament'*, chaired by Neil McIntosh. Scottish Executive, 1999.

Corporate management

The chief executive and corporate management team have a crucial role in promoting understanding within the council of the issues facing DLOs and DSOs, and in realising their potential contribution to the achievement of Best Value.

Benefits of a corporate approach to DLOs and DSOs

A corporate approach to the management of DLOs and DSOs can improve the overall efficiency of service delivery, and make a positive contribution to a council's achievement of its corporate objectives, through:

- A more informed budget planning and setting process
  A corporate approach to budget setting ensures that the consequences of implementing savings, identified by one service department, on other areas of council activity, are fully understood. Budget saving measures may seriously affect income streams and on-costs for DLOs and DSOs. For example, if a council freezes new vehicle purchases, it will cost the fleet management service more to maintain its existing vehicles, as they become older.

- Improved understanding of the impact of corporate policy decisions on DLOs and DSOs
  Some corporate policies may have a major impact on the costs incurred by DLOs and DSOs. For example, changes in personnel policies negotiated centrally may result in significant increases in employee costs for DLOs and DSOs.

- Ensuring DLOs and DSOs have access to expert advice and quality information
  DLOs and DSOs require access to both skilled accountancy and technical staff, and dedicated administrative support. The timely processing of source data is crucial for effective management information, and access to dedicated administrative staff reduces the risk of key information being late, inaccurate or unavailable.

- Ensuring a continued focus on the quality of services provided by DLOs and DSOs
  A corporate approach can ensure that the twin objectives of DLOs and DSOs to achieve their financial targets and deliver quality services, have equal emphasis. This minimises the historical tendency to assume that if the DLO or DSO is achieving its financial break-even target, it is delivering a good quality service.

Greater corporate understanding of the business environment within which DLOs and DSOs operate was identified by senior contract managers as a key requirement for improving the efficiency of DLO and DSO operations.

DLOs and DSOs have a 'hybrid' status which poses particular challenges to councils. They are an integral part of the council, but they are different from other service departments in that under CCT (Compulsory Competitive Tendering) they have to achieve a statutory financial target (ie, break-even). However, they are also different from their private sector competitors in the legislative restrictions on their activities.

Local government reorganisation had a major impact on DLOs and DSOs. Many efficient information systems were fragmented, and councils had to manage a variety of contracts delivering the same basic service.

Since reorganisation, councils have put considerable energy and resources into reviewing the efficiency of their DLO and DSO operations and rationalising and improving information systems. Developing a corporate understanding and strategic approach to DLOs and DSOs will enable councils to realise fully the benefits of such investment.

Role of chief executive

The chief executive has a key role in relation to promoting a corporate approach for DLOs and DSOs, through:

- ensuring the corporate management team develop and promote a corporate understanding of the DLO and DSO environment, and how corporate decisions affect DLO and DSO effectiveness
- ensuring the particular roles and responsibilities of the director of finance in relation to DLOs and DSOs are clarified, agreed and implemented
- managing the complex relationships within the council that impact on the efficiency and effectiveness of DLOs and DSOs.

Two key relationships have a significant impact on the ability of DLOs and DSOs to achieve their financial targets, and on the quality of the service being delivered:

- the relationship between client departments and DLOs and DSOs
- the relationship between DLOs and DSOs and corporate support services - the internal supply chain.

These two key relationships are discussed later in this section.

Role of corporate management team

The role of the corporate management team is crucial in ensuring that DLOs and DSOs deliver customer-focused services efficiently and effectively. This role includes, for example:

- identifying priorities and allocating resources
- developing and reviewing corporate policies in relation to DLOs and DSOs
- reviewing and improving the performance of DLOs and DSOs - providing a forum for issues to be considered corporately at officer level.

To deliver the benefits of an improved understanding of the DLO and DSO environment, members of the corporate management team need to ensure this understanding is communicated throughout their departments.

Many councils are now developing corporate approaches to their DLOs and DSOs, through their commitment to Best Value. Examples of two approaches are illustrated in Exhibit 4.

Exhibit 4: Role of the corporate management team

Examples from two councils of how the corporate management team can contribute to improving effectiveness of DLOs and DSOs.

Clackmannanshire Council

The implementation of a corporate approach in Clackmannanshire Council has resulted in a range of initiatives designed to ensure that services provided by DLOs and DSOs are customer-focused and provide best value. Examples include:

- customer focus groups at which contract managers and the users of their service meet on a regular basis (eg, head teachers with property maintenance, catering and cleaning services)
- Best Value review of client services, which examined client/contractor relationships and resources/costs associated with the specification, instruction, monitoring etc. of contracts. Positive outcomes included:
  - improved teamwork geared to service delivery
  - ensuring client resources were appropriate to need
  - clear identification of client costs enabling the council to know the "full cost" of a particular activity.
- Best Value review of housing repairs, resulting in an agreed service improvement contract between housing and advice services and the building works unit.

Renfrewshire Council

Responsibility for DLOs and DSOs in Renfrewshire Council has been allocated to four service directors, who, with the chief executive and three other directors, comprise the corporate management team. All corporate initiatives - budget strategies, corporate plans, service plans, Best Value reviews, community plans and other initiatives such as managing absence policy - are discussed and agreed at the corporate management team.

The Director of Finance and IT reports regularly to the corporate management team on the financial performance of the DLO/DSOs. Discussions relating to DLO and DSO operations have included:

- the reasonableness of any assumptions within the financial projections
- difficulties in achieving financial targets and options for recovery action
- problems of inadequate financial systems
- inefficient bonus schemes
- client budget shortfalls
- client/contract/agent differences
- absence management policies.

The corporate management team discussions are generally a precursor for similar discussions with senior members and the convener of the commercial operations sub-committee - the council's DLO/DSO scrutiny committee.

As this process has evolved, the corporate management team has recognised DLO/DSO issues are not just a matter of financial performance. The standard financial reports have been reviewed and now include commentary on operational as well as financial performance. Business plans have been developed and business targets corporately agreed. The corporate management team will be receiving regular reports on actual performance against these targets.

As DLO/DSO service areas increasingly come under Best Value scrutiny, the corporate ownership of DLO/DSO performance is seen as a key force in securing Best Value in the provision of these services.

Role of finance director

The finance director has a particularly important role in relation to the financial administration of DLOs and DSOs. This involves:

- providing independent advice to members on the financial performance of DLOs and DSOs
- assuring the council that there are effective financial controls in place
- ensuring financial information systems are capable of providing regular and timely accounts prepared on an accruals basis, throughout the financial year
- providing financial advice and expertise to managers of DLOs and DSOs
- providing financial services, such as payroll administration, which meet the requirements of DLOs and DSOs
- ensuring the professional competence of finance staff employed in DLOs and DSOs.

Glasgow City Council analysed the different roles and responsibilities of their director of financial services in relation to DLOs and DSOs for inclusion in their code of practice. The council based their analysis on the more general recommendations of the role of finance directors, prepared by CIPFA (Chartered Institute of Public Finance and Accountancy). A summary of CIPFA's proposals and the relevant section of Glasgow's code of practice is included in Appendix 2. While this analysis may not be appropriate for all councils, it has been included to inform debate and encourage councils to clarify the responsibilities of their directors of finance.

Finance directors need to be confident that in-house accounting systems run by the DLOs and DSOs are sound, and provide accurate and reliable information. To fulfil this role, the finance department in Renfrewshire Council developed a checklist that staff use when discussing the production of DLO and DSO financial reports, with the services' accountants. This covers both financial and performance monitoring information, and is included in Appendix 3.

In providing financial advice and expertise to managers of DLOs and DSOs, a key emphasis must be on ensuring they have access to management accountancy skills. These skills are essential to DLOs and DSOs to enable the basic financial information to be analysed, interpreted and presented so it informs the management agenda and highlights areas requiring management attention.

Finance directors must ensure that the council establishes common accounting principles and policies for both management accounting and financial reporting purposes.

Developing client-contractor partnerships

In some councils, the establishment of DLOs and DSOs through CCT legislation led to internal fragmentation and a 'them and us' culture between clients and contractors.

Poor client-contractor relationships are often at the heart of difficulties experienced by councils in relation to their DLOs and DSOs. These can lead to:

- contracts which are highly input-based and inflexible – leading to poor quality service delivery
- excessive claims and disputes which are costly to resolve and may lead to a backlog of non-payments
- insufficient information to forward plan work programmes
- lack of joint programming - leading to a rush to spend budgets in the last few months of the financial year.

The introduction of Best Value provides an opportunity for councils to identify, cost and review all the elements involved in delivering a particular service. Best Value reviews of DLO and DSO services should result in shared objectives for the service and define the client and contractor functions required to achieve those objectives. This process will identify those functions which add real value to the service being delivered, and those which are primarily a cost burden.

Service reviews need cost and performance information from both client and contractor, to identify, for example:
- the different client and contractor processes involved in service delivery
- transaction costs between client and contractor
- ratios of productive: non-productive staff.

Working relationships between clients and contractors can also be improved by greater sharing of information. If information on service delivery is managed through shared systems, duplication of data is minimised, and data becomes objective and neutral. Details of what work has actually been carried out should not be in dispute - so both parties can move on to agreeing improvements in service delivery.

These developments have implications for the kind of management information required by both clients and contractors. For example, clients may need more information about the needs of service users, but less complex systems to monitor performance against the contract specification.

There is encouraging evidence of councils moving towards more effective partnership working between clients and contractors. Exhibit 5 describes a review of street lighting by Aberdeenshire Council, and Appendix 4 contains examples of two approaches to developing school catering services - in Dumfries and Galloway and Stirling Councils. The partnership approach is clear from the examples.

Exhibit 5: Client and contractor partnership working

Best Value reviews should be carried out by clients and contractors working in partnership.

Street lighting in Aberdeenshire - a Best Value review
Client and contractor worked together on the review. The project team comprised head of transport and roads (client), design manager, lighting engineer, commercial operations manager, electrician and technician from commercial operations, and union representatives.

The team used information from both the client and contractor sides of the organisation, and external sources of information, to:
- identify relevant objectives for the review
- set realistic targets
- identify user groups and appropriate methods of consultation
- analyse performance, costs, materials and procedures and benchmark these against other councils
- ensure that options for future service delivery were robust and realistic.

The partnership approach enabled the whole cost of the service to be identified, led to shared ownership of the results of the review, and ensured that the options identified for future provision were based on shared objectives.

Corporate support services

The costs many contract managers identified as being among their least controllable and predictable were central council overheads. Yet, the overall management of these costs is entirely within the control of a council.

As DLOs and DSOs need to achieve a financial target, the amount they pay for the support services they receive is important to managers. Central recharges, whether based on Service Level Agreements (SLAs) or allocations made at the year-end, must reflect the actual cost of services provided to DLOs and DSOs.

To manage these costs, DLO and DSO managers need to be provided with:
- as accurate an estimate as possible of the likely level of charges for support services, when setting their budgets
- regular and timely information throughout the year, detailing their actual use and cost of these services, compared with the budget estimate.

The budget estimate should be clearly justifiable, based on the actual cost of providing the service (within CIPFA guidelines[6]), documented and agreed with contract managers.

Finance and other support departments should monitor the use of their services by DLOs and DSOs, and provide contract managers with regular and accurate information on the volume and costs of service usage. The systems and procedures for monitoring should be transparent and robust, to ensure the usage information is a reliable basis for decision-making.

The availability of regular management information on support services will enable managers of DLOs and DSOs to monitor and control these costs more effectively.

Suppliers of services must be responsive to the needs of their customers, and this is as true for internal suppliers of services as for commercial suppliers. Support services need to work with their DLO and DSO users to ensure their services are providing value for money. Some councils are now establishing mechanisms to promote dialogue between their internal customers (eg DLOs and DSOs) and support services - for example, through finance forums involving service accountants and finance department staff.

Councils often have policies relating to corporate purchasing - for example, inventory management, IT strategy and procurement, or insurance may be provided by a central unit. In order to reduce the uncertainty associated with these central purchasing arrangements, contractors need to know the service they will receive and how much it will cost. Central purchasing departments need to ensure that the procured services meet the needs of DLOs and DSOs and provide value for money.

Checklist of questions

- Does the corporate management team monitor and review DLO and DSO performance on a regular basis?
- Are the implications of council decisions, including budget-saving measures, for DLO and DSO operations considered systematically by the corporate management team?
- Has the council clarified the role of the finance director in relation to DLOs and DSOs?
- Has the council reviewed the existing management information systems to ensure their suitability for DLO and DSO purposes?
- Do DLOs and DSOs have access to skilled support staff to produce the information they require for management purposes?
- Has the council identified where client-contractor relationships could be improved and/or developed an action plan for promoting greater partnership working between client departments and DLOs and DSOs?
- Are mechanisms in place to ensure that services provided by central support departments meet the needs of DLOs and DSOs?
- Is the basis for budget allocations for central recharges objective, justifiable and transparent?
- Are DLOs and DSOs provided with regular and accurate information on their use of central support services throughout the year?

[6] The CIPFA *'Code of Practice for Compulsory Competition'* 1996 describes the accounting framework to be used for support services charges to DLOs and DSOs.

Managing DLO and DSO businesses

DLO and DSO managers need relevant, accurate and timely management information to perform successfully and efficiently. In order to demonstrate Best Value, they need information that is at least as good as that available to their potential competitors.

Senior contract managers need to develop business plans that will assist them to achieve the agreed financial and operational targets. This section of the report focuses on the information needed for the development and effective implementation of business plans.

The Commission's publication *'Getting to know you'* [7] describes a systematic approach to enable managers to identify the different kinds of information they require for effective management of any service. This promotes the concept of information portfolios for service managers. The following discussion on business planning and management information is intended to complement and expand the section in *'Getting to know you'* concerned with operational information.

Business planning

Business plans are the foundation stone for the development and management of DLOs and DSOs. The process of compilation should clarify thinking, provide a medium term framework for the service, and result in milestones and targets to direct management action. The benefits of a good business planning process are illustrated in Exhibit 6.

Business planning should complement, not duplicate, the council's service planning process. To be effective, business plans need to be designed as active management tools, rather than vehicles of communication. They must be developed, owned and used by the managers.

Business planning provides an opportunity for DLO and DSO managers to discuss with their clients the factors that are likely to affect client budgets, and therefore the amount of work potentially available to the DLO or DSO. Managers need to know the predicted financial constraints on their key clients, in order to build realistic business plans.

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[7] *'Getting to know you: building and using an information portfolio - a guide for service managers'*, Accounts Commission for Scotland, 1999.

Exhibit 6: Benefits of business planning

The process of business planning will clarify objectives for DLOs and DSOs.

Dundee Contract Services

During 1997, it became increasingly clear to the director of Dundee Contract Services that the business plan then in place was geared more towards meeting the requirements of corporate policy than it was to addressing the harsh financial realities facing the DLO in a competitive and restricted market.

The DLO needed a plan which set hard, financial targets aimed at ensuring the efficient, effective and economic use of resources and achieving the required financial objectives. More importantly, if the objectives were to be met, the entire DLO management team must adopt ownership of the plan.

To this end, external consultants were engaged both to convince the management team of the validity of the planning process and to begin development of a new plan. This was achieved through a one-day, facilitated workshop, involving all the management team.

Through this process, the critical success factors, and associated key performance indicators, vital to the DLO's continuing success, were identified and agreed. Managers are now required to provide monthly reports on progress against targets. This in turn has generated a demand for more and better management information systems.

The precise format and structure of business plans will be determined by individual councils. However, there are some elements which should be included in all business plans:

- business objectives
- financial forecasts
- workload forecasts
- assumptions and risks
- targets for key business ratios and service quality measures
- structure and staffing levels.

A suggested framework for developing a business plan for DLOs and DSOs is included in Appendix 5. This is not intended to be prescriptive - it is provided as a starting point for service managers to use in developing their own business plans. There are other models available for developing business plans, but all cover broadly the same key elements that managers should consider when developing their own business plans[8].

The management information required to inform the basis of business plan forecasts, and to manage performance to achieve them, is discussed in the following sections.

Financial information

Access to relevant, accurate and up-to-date financial and operational information is a fundamental requirement for DLOs and DSOs. The lack of accounts prepared on an accruals basis throughout the financial year was one of the main reasons that the deficits occurring in DLOs and DSOs in 1997/98 came to light too late for corrective action to be taken.

In order to manage the achievement of financial targets, managers need to have an accounting system which provides accounts on an accruals basis, fed with data in time to take decisions and corrective action. Most councils now prepare regular accounts on a fully accrued basis, although this has been a fairly recent development in some.

[8] For example, '*Application of business planning*', Local Government Management Board, 1997.

Financial information should be available on income and expenditure for the relevant period (typically a month, a quarter, a year), broken down into those elements which have a major impact on the business. Financial systems should provide this information at a level of detail that allows the DLO or DSO manager to draw conclusions about whether a cost or income element is on track or not, and, if necessary, to 'drill down' to discover reasons for variations or poor performance.

The usefulness of financial information for management is greatly enhanced when it is available on a spreadsheet as a 'flex budget' to enable simple 'what if' calculations and projections.

Workload information

Business plans should include an accurate estimate of future workload. Effective workload planning requires both sound management information and a good relationship between client and contractor. Exhibit 7 illustrates one approach to workload planning in a DLO.

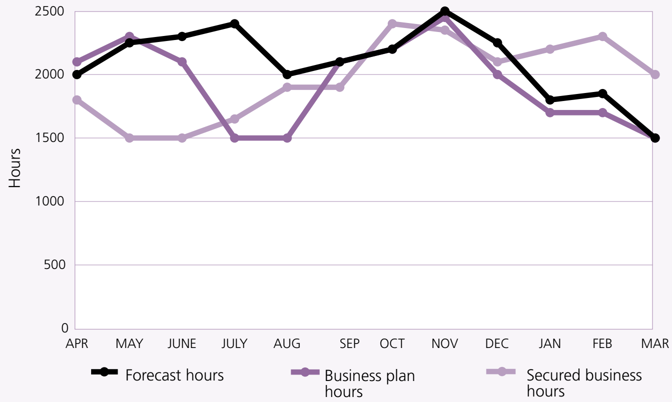
Exhibit 7: One approach to workload planning

Effective workload planning can only be achieved when the DLO or DSO and the client or customer jointly share the planning of the service to be delivered.

In South Ayrshire, systems for improving workload planning are being developed in building maintenance. The partnership approach between client and contractor allows the potential impact of any proposed changes in the work programme to be assessed and the workload planned accordingly. This enables the DLO manager to optimise the use of resources.

The three key elements in this process are:

- the client forecast of available workload
- the DLO/DSO business plan expressed as direct hours
- workload secured.



The hard 'currency' for workload planning in this example is productive hours (direct hours) ie, hours which can be charged directly to a project client.

To order to establish the level of productive hours contained in a project, the estimated rate and the ratios of Labour: Material: Plant should be established. These ratios will vary depending on the nature and scope of the work involved. Overhead recovery for the particular service unit will require to be spread across the different types of work to be carried out, depending on the market levels for that type of work and the availability of such work.

Profiling a budget - illustrating how income and expenditure change over time - can inform the process of predicting and managing workload, and also provide useful monitoring information. Profiling recognises that, for many activities, income and expenditure do not flow evenly throughout the financial year. Exhibit 8 is an example of budget profiling in school catering.

Business plans should use information from budget profiling analysis to inform financial and workload projections.

Exhibit 8: Profiling school meals income

Dumfries and Galloway Council collected income data for two years, to build an annual income profile.

Dumfries and Galloway Council – Commercial Services Group

Profiling school meals income

One problem with catering is that the school meals income depends on individual decisions made each school day by some 12,000 customers. Will they take a meal or not? In the secondary schools, how much will they spend? Is it possible to forecast accurately from any point in the year how the year's trading will turn out?

School meals have a seasonal fluctuation – sales fall in the spring and summer, and pick up again in the winter. In 1998/99, the DSO used the profiles from the previous year to make predictions for that year. These turned out to be very close to actual trading, despite the fluctuations in the number of school days in each month, and changes in the school holiday pattern.

Income for 1999/2000 is being monitored monthly against the profile targets. This enables any adverse trend to be identified and investigated at an early stage. The group is also now profiling income on the basis of trading days, as well as calendar months.

A simple spreadsheet, with the following information, is completed monthly and used for monitoring performance:

- income for same month last year
- income profile (ie percentage contribution to total income)
- cumulative profile (ie percentage contribution cumulated to 100% by end of year)
- income this month
- cumulative income
- projected out-turn
- variance on business plan
- better or worse than predicted in business plan?
- income this month compared with same month last year
- better or worse than last year?
- income per trading day.

Information on risks and assumptions

Much of the focus for the management of DLOs and DSOs will be directed at reducing risk to the business, in order to make the achievement of financial targets more predictable.

Where cost and income elements are both predictable and under managerial control, business risk is much reduced. Uncertainty and risk increase when managers have little or no control over elements of their costs or income, or they are unpredictable. Information can help managers lower the risk by increasing their ability to predict and control.

A simple two-dimensional matrix, describing costs and income in terms of managers' ability to control them, and the extent to which they are predictable, was discussed with members of the expert panels. An example of a matrix completed by a manager in a DLO is given in Exhibit 9. This is typical of many of the matrices completed by contract managers in a range of DLOs and DSOs, but there is no 'right' answer. Different elements will be included in different squares, depending on the type of business being managed, and different council environments. The exhibit is included here as a prompt for discussion - completing the matrix may assist managers to identify where risks exist in their own businesses, and the information they need to manage that risk.

Exhibit 9: Example of 'predictable/controllable' matrix

An illustrative example of how one DLO manager categorised expenditure and income according to their levels of predictability and managerial control. Management information can assist in improving control and increasing predictability.

	Predictable	Unpredictable
Controllable	• Size of workforce • Overheads recovery - ie those charged to clients • Material/plant costs • Workforce profile • Re-positioning - ie re-aligning workforce with market (eg re-training operatives for different work requirements) • Sub-contractors - building good partnerships with best sub-contractors • Suppliers - as above	• Ratio of direct work (ie chargeable to client) to indirect work (ie not chargeable) • Workload profile (eg by trade) and programmed workload - unpredictability comes from capital policies and political nature of the organisation • Sickness absence/attendance levels
Uncontrollable	• Central charges • Other professional and administrative services • Corporate strategy • Client/customer budget and spend profile	• Local factors - eg political decisions, local trade union activities

Financial risk may also be increased by customers requiring more choice and flexibility, making income and/or costs less predictable. To provide more customer-focused services and meet financial targets, managers need better information. For example, some vehicle-using departments may choose to negotiate annual lump sum maintenance contracts. As this results in fixed income but variable costs, the fleet manager needs to know:

- vehicle running costs
- past usage practices for that customer
- likely changes in operation (eg double shifting, increased usage)
- likely council or Government policy changes (eg use of green fuels, vehicle excise duty).

Alternatively, in other businesses, income may be variable, so the manager needs to lower the risk by making it more predictable and controllable. In school catering for example, to predict take-up of school meals, managers need to look at predicted school rolls, competition in the area, head teachers' attitudes, current customer satisfaction levels and where they can be improved, and inspection reports on facilities.

The Commission's recent management paper *'Shorten the odds'*[9] includes a section on managing operational risk, which provides guidance on developing a systematic approach to risk management for service managers.

Information for key ratios, indicators and quality targets

The identification, measurement and tracking of specific ratios is at the core of effective management information. Each type of business will have a set of ratios that help the manager focus on areas that are critical to that business. Some of these ratios will be common to most DLOs and DSOs - some will be specific to particular types of businesses.

[9] *'Shorten the odds'*, Accounts Commission for Scotland, 1999.

Councils may wish to agree a set of key ratios and indicators to be measured by DLOs and DSOs. Exhibit 10 lists some typical ratios that are likely to be relevant to many DLOs and DSOs, and could form the starting point for a corporate set of ratios and indicators.

Exhibit 10: Common business ratios and indicators used by many DLOs and DSOs

Financial and performance ratios and indicators that may be measured by several DLO or DSO businesses.

Common financial indicators and ratios:
- financial target
- percentage invoices paid by due date
- overheads as percentage of total cost
- ratio of direct cost to indirect cost
- hourly charge rate
- stock turnover, expressed as days
- overtime as percentage of staff cost.

Common productivity indicators and ratios:
- direct labour productivity ratio
- income per employee (or revenue-generating employee)
- ratio of productive: non-productive staff
- asset usage/fleet utilisation
- percentage sickness/absenteeism
- percentage downtime
- percentage of late jobs
- usage/attendance levels
- overtime hours as percentage of hours worked.

Common quality and outcome measures:
- customer satisfaction levels
- service take-up as percentage of potentially accessible market
- cost of errors and reworks as percentage of total workload
- percentage of complaints/defaults/non-conformities/penalties
- staff turnover.

Source: Adapted from information supplied by Renfrewshire Council

When comparing these ratios and indicators between DLOs and DSOs within one council, it is important that the figures are based on agreed definitions.

The business plan will also contain ratios and indicators specific to that business. Many DLOs and DSOs are now working together through organisations such as ADLO, to agree key indicators and definitions for each business, as a starting point for benchmarking. There are also some statutory performance indicators that relate to DLO and DSO businesses which should be reflected in the business plan.

Staffing and structure

Most DLOs and DSOs are labour intensive, so staff costs are a highly significant element of their finances. Managers need to focus on the three labour components of workforce numbers, productivity and direct labour costs. To be competitive, the business must achieve an optimum balance between labour resources input and the available workload.

Over the years, councils have developed various different kinds of bonus schemes in an attempt to match output and performance with monetary reward. These have been discussed in detail in the Commission's publication *'Rewarding work'*[10].

[10] *'Rewarding work: performance incentive pay arrangements in Scottish local authorities'*, Accounts Commission for Scotland, 1995.

Bonus schemes are intended to be an incentive to productivity, and can provide valuable information. Managers should use the information generated by bonus schemes to review performance and actively monitor the assumptions in tenders. This applies in particular to bonus schemes where the targets are related to the contract price (tender-led bonus schemes). In these situations, adverse variations may affect the DLO's or DSO's ability to meet its statutory financial target.

The introduction of the single-status agreement for local government employees will have a significant impact on employee costs in DSOs and DLOs in the future. The agreement will affect both the length of the working week and bonus schemes. Managers will need full information on implementation plans and potential salary levels, in order to predict and manage the effect of the agreement on their ability to meet financial targets.

Information on the competitive environment

The DLOs' and DSOs' own performance information will be the main data used by managers to develop their business plans and set achievable and measurable targets. However, information on the external environment is also important, both to ensure DLOs and DSOs remain competitive, and to provide benchmarks for improving efficiency and service quality.

The competitive environment includes other local authorities, the private sector and - for some services, such as school catering - the existing and potential customer base. Information on competitor private sector businesses is often available but may be expensive to obtain. Information on indicators from other businesses can be a valuable source of ideas, and prompt questioning on whether performance can be improved. Direct comparison of performance, however, requires contextual information and common definitions to allow valid comparisons to be made.

The rapid growth of benchmarking clubs is encouraging, with ADLO and other professional organisations often involved in facilitating and promoting these. An example of the benefits of benchmarking, and the contribution it can make to enhancing management information is illustrated in Exhibit 11. Further information on benchmarking is available in the Commission's publication *'Measuring up to the best'*[11].

[11] *'Measuring up to the best'*, Accounts Commission for Scotland, 1999.

Exhibit 11: Benefits of benchmarking

A number of authorities formed a benchmarking club for school catering.

Catering benchmarking club

As part of the commitment to Best Value, a partnership of five local authorities was formed to benchmark a number of services within school and welfare catering. The benchmarking group looked at:

- financial appraisal at establishment level
- financial appraisal at authority level
- survey of customer views
- appraisal of quality control systems in kitchens and summary of best practice.

This benchmarking exercise was felt by authorities to be most successful, with the networking between all parties healthy and fruitful. Some of the findings are summarised below:

Financial appraisal at establishment level
A summary of the financial performance of individual kitchens in 1997/98 used industry standard indicators: meals served per year, meals served per staff hour, staff cost per meal, food cost per meal, and other costs per meal. Interestingly, the results indicated that differences created by circumstances particular to a type of kitchen were greater than those between different councils.

Financial appraisal at authority level
Outturn figures for the service were prepared by each authority, together with the total number of meals served. These figures were then used to calculate the cost per meal for a number of different cost categories. (Central recharges were excluded from the costing). This showed that some DSOs have considerably lower labour costs per meal than others. This was due to differences in staff grading, and different working patterns in kitchens. The DSOs concerned are already addressing this problem. Those councils with a high client administration cost tended to have low administrative costs in the DSO and vice versa.

Customer survey
Over 4,000 pupils and others who eat school meals, and some who do not, took part in a survey. Customer views on perceived quality of the meals served did not relate to the differences in cost between councils, discovered in the financial appraisal.

Quality control/best practice appraisal
This examined the systems in operation within the various authorities and established the areas where 'best practice' existed. The elements examined included management processes such as quality systems, supplier evaluation, service and delivery, training and health and safety.

Checklist of questions

- Have business plans been developed for all the council's DLOs and DSOs?
- Do the plans contain:
  - business objectives
  - financial forecasts
  - workload forecasts
  - assumptions and risks
  - targets for key business ratios and service quality measures
  - structures and staffing levels?
- Are the financial forecasts in the DLO and DSO business plans reconciled with client department budgets?
- Are the targets for business ratios and service quality measures justifiable, based on reliable past performance data and realistic assessments of future developments?
- Do the DLOs and DSOs have management information systems capable of measuring performance against business plan targets?

Conclusion

This report highlights the importance of sound financial and performance information in the effective management and control of DLOs and DSOs.

Councils are expected to use this report to review their current arrangements for the management and control of DLOs and DSOs, and to ensure that councillors, the corporate management team and service managers have access to the information they need to fulfil their responsibilities. Councils' work in this area may be included in the external audit review of their DLOs and DSOs.

The questions at the end of each section provide a framework for undertaking such a review, and a consolidated list of these questions is reproduced here for ease of reference. A management checklist is attached in Appendix 6 to assist councils review the quality of their management information.

While the report has concentrated on DLOs and DSOs, sound management information is important for the effective delivery of all services. Councils are encouraged to consider how they might apply the principles and good practice identified in this report, to other service areas.

Checklist of questions

The role of councillors

- Has the council clarified and documented the roles and responsibilities of councillors in relation to DLOs and DSOs?
- Has the council reviewed its arrangements for the supervision and control of DLOs and DSOs at committee level?
- Does the information provided to committees on the performance of DLOs and DSOs meet the suggested specification?
- Does it include relevant narrative (in plain English) as well as financial information, highlighting the key points?
- Has the council planned training for councillors to improve understanding of financial monitoring reports?
- Does the council have clear procedures for identifying commercially sensitive information and how it should be considered by councillors?

Corporate management

- Does the corporate management team monitor and review DLO and DSO performance on a regular basis?
- Are the implications of council decisions, including budget-saving measures, on DLO and DSO operations considered systematically by the corporate management team?
- Has the council clarified the role of the finance director in relation to DLOs and DSOs?
- Has the council reviewed the existing management information systems to ensure their suitability for DLO and DSO purposes?
- Do DLOs and DSOs have access to skilled support staff to produce the information they require for management purposes?
- Has the council identified where client-contractor relationships could be improved and/or developed an action plan for promoting greater partnership working between client departments and DLOs and DSOs?
- Are mechanisms in place to ensure that services provided by central support departments meet the needs of DLOs and DSOs?
- Is the basis for budget allocations for central recharges objective, justifiable and transparent?
- Are DLOs and DSOs provided with regular and accurate information on their use of central support services throughout the year?

Managing DLO and DSO businesses

- Have business plans been developed for all the council's DLOs and DSOs?
- Do the plans contain:
  - business objectives
  - financial forecasts
  - workload forecasts
  - assumptions and risks
  - targets for key business ratios and service quality measures
  - structures and staffing levels?
- Are the financial forecasts in the DLO and DSO business plans reconciled with client department budgets?
- Are the targets for business ratios and service quality measures justifiable, based on reliable past performance data and realistic assessments of future developments?
- Do the DLOs and DSOs have management information systems capable of measuring performance against business plan targets?

Appendix 1

Study advisory group

Bill Cunningham	Executive Director Environmental and Contract Services Clackmannanshire Council
Stewart Gilchrist	Director Housing and Technical Resources South Lanarkshire Council
Bill Hughes	Director Finance and Information Technology Renfrewshire Council
Bob Jackson	Director Dundee Contract Services Dundee City Council
Fiona Lees	Depute Chief Executive East Ayrshire Council
Alan Nairn	Director Information Systems and Technology Perth and Kinross Council
Albert Tait	Depute Chief Executive COSLA

Appendix 2

Extract from Glasgow City Council Code of Practice for DLOs/DSOs - relating to roles and responsibilities of the Director of Financial Services

Background

In 1999 Glasgow City Council agreed a code of practice for the financial management of DLOs and DSOs. The code includes a policy statement recognising the importance of DLOs and DSOs in achieving the council's corporate commitment to Best Value and the highest possible standards in service delivery.

The code clarifies the roles and responsibilities and reporting arrangements for:

- councillors and committees responsible for DLOs and DSOs
- the chief executive
- the director of financial services
- other relevant service directors
- service finance officers
- service client managers (when appropriate)
- service operations managers.

Only the section relating to the Director of Financial Services is reproduced here. Copies of the complete code are available from Director of Financial Services, Glasgow City Council, 285 George Street, Glasgow, G2 1DU.

Director of Financial Services

Section 95 of the Local Government (Scotland) Act 1973, states that every local authority shall make arrangements for the proper administration of its financial affairs and shall secure that one of its officers shall have responsibility for the administration of these affairs. In Glasgow City Council that officer is the Director of Financial Services. The council's financial regulations delegate much of the day to day financial administration to service directors.

CIPFA[12] have outlined the five key roles for the finance director as:

- maintaining financial administration and stewardship
- supporting and advising the democratic process
- contributing to the corporate management team
- supporting and advising officers in their operational roles
- delivering services and providing information to members of the public and community.

In all of these duties, the responsibilities of the Director of Financial Services are no different in relation to DLO/DSOs than they are in relation to all council services. There exists, however, a significant degree of decentralisation of financial administration within the council and the responsibilities of the director of financial services must be seen in this context. Equally, on a day-to-day basis, the duties of the director will be delegated to staff within the financial services department, the extent of which should be outlined within a framework of job descriptions.

[12] CIPFA consultation paper on *'The role of the finance director in local government – a statement of principles'*, 1999.

In maintaining financial administration and stewardship the director of financial services should:

- advise on effective systems of internal control such as financial regulations
- ensure there is an effective system of internal financial control
- ensure that all staff are made aware of the existence of the DLO/DSO code of Best Practice.

Specifically the director of financial services will:

- advise on and implement the accounting framework in terms of relevant legislation and codes of practice

- under member direction set out budget strategy, formally agree the DLO/DSO business plan and co-ordinate the submission of the plan to committee

- ensure that income assumptions within individual business plans are reasonable and accord with sums available in spending department budgets or other funding that may be available

- agree with service finance officer any significant subsequent changes to the business plan and their effect upon profitability

- maintain the corporate financial systems and ensure that DLO/DSO systems correctly and timeously update the corporate ledger

- specify a standard form of financial monitoring and co-ordinate the compilation and submission of monitoring statements to the appropriate committees

- in accordance with financial regulations, discuss and agree DLO/DSO monitoring statements with the service finance officer ensuring that adequate back-up documentation exists that accurately calculates appropriate levels of accrued expenditure and income and any adjustment to budget profiles

- advise service directors and members on the options available with regard to anticipated reported losses and advise members on the use of anticipated reported surpluses

- secure effective systems of financial administration to ensure that income collected and payments made are accurate, complete and timely

- in conjunction with the DLO/DSO finance officer, prepare statutory and other accounts and associated grant claims in accordance with the legislation and accounting standards

- advise on anti-fraud and anti-corruption measures through an effective internal audit function, specifically;
  - in conjunction with the service director review current systems and processes operating in DLO/DSOs
  - upon obligatory notification by service directors, report on the adequacy of new systems and processes
  - report to the director of financial services (sic) and the relevant service directors any weaknesses in systems and processes and recommended improvements

- ensure that defalcation procedures are followed by employees of DLO/DSOs and in conjunction with a service director agree on procedures for investigating irregularities, misappropriations and frauds. Reports should be submitted by the head of internal audit on the results of investigations together with recommendations for improvements.

In supporting and advising the democratic process, the Director of Financial Services is expected to:

- provide councillors with clear, accurate and impartial advice when considering DLO/DSO business plans

- ensure that councillors have adequate access to financial skills and are provided with an appropriate level of financial training on an ongoing basis

- provide timely, accurate and impartial advice on reported financial performance of DLO/DSOs, including reporting any concerns and/or disagreements with service directors on the reported financial position or reliability of financial systems

- provide timely, accurate and impartial advice and information related to DLO/DSOs more generally to ensure that the council meets its policy and service objectives and provides effective stewardship of public money and value for money in its use.

In supporting and advising operational officers, the director of Financial Services should:

- provide timely, accurate and impartial advice to the chief executive on any concerns and/or disagreements with service directors on the reported financial position or reliability of financial systems of DLO/DSOs

- make arrangements to provide accurate, complete and timely advice in support of DLO/DSO development proposals or client proposals which may affect DLO/DSO viability or otherwise

- assist DLO/DSO managers in the development and regular review of budgets as represented in the business plan

- delegate responsibility for financial management and control to service directors ensuring that they have adequate access to financial skills. Each DLO/DSO should have access to a professionally qualified accountant, both internally within their own organisation and from within the financial services department

- ensure that service directors develop and maintain appropriate management accounting systems, functions and controls and that these are compatible with the corporate financial reporting systems.

Appendix 3

DLO/DSO financial checklist used by Renfrewshire Council

Renfrewshire Council finance staff use the following checklist to ensure monitoring reports on DLOs and DSOs are based on sound information and include all relevant indicators.

Financial monitoring

- comparison of actual spend vs phased estimate
- comparison of current period budget performance vs prior period
- assumptions regarding current period performance vs year-end projections
- tie-in client expenditure budget
- levels of work-in-progress and outstanding recharges
- outstanding pay awards and payroll lie time
- time delay on payment of invoices
- anticipated levels of variation payments
- statutory/non-statutory contract performance
- reconciliation departmental costing/management information systems to corporate financial ledger.

Performance indicators and business targets *(examples only - indicators will vary depending on the service)*

- financial target
- percentage of invoices paid by due date
- council house repairs/refuse collection uplift response times
- customer satisfaction levels
- absenteeism
- usage/attendance levels
- outstanding recharges
- direct labour productivity ratio
- fleet utilisation/vehicle availability
- recycling target
- staff turnover
- benchmark unit costs.

Appendix 4

Two approaches to partnership working between client and contractor

The following extracts describe how two councils have developed a partnership approach to service delivery. Although both examples relate to the provision of school meals, the principles and methods can be adapted to any DLO or DSO service.

Extract from the Service Level Agreement in Dumfries and Galloway Council for the delivery of school meals.

Key Principles and Policies

The over-riding principle shall be that education and commercial services operate the school meals service on the basis of a partnership of equals.

A service shall be provided in all primary and secondary schools to ensure, as far as is practicable, an equality of access to this service.

The menu plans for primary schools shall incorporate the principles of healthy eating and shall be devised on an agreed basis between the two departments.

The two departments will work together to maximise the uptake of the service, and to co-operate with headteachers, insofar as it is practicable, to achieve the wider social and educational objectives of the schools.

Service Levels

The major departure from the previous contract is the recognition of annual price increases for fixed meals, and a parallel, but more flexible pricing regime for cash cafeterias in secondary schools.

Differentiation of Responsibilities

The broad areas of responsibilities may be categorised as in the table below:

Sole responsibility of client	Sole responsibility of contractor	Joint responsibility
• Physical provision within premises including utilities	• Staffing and their management	• Liaison with stakeholders
• Fixed equipment	• Light equipment and utensils	• Price setting outwith standard meals
• Safe working environment	• Safe working practices	• Promotion of service
• Payments to contractor	• Claims for all payments due	• Continuous improvement
• Authorisation of free school meals	• Cash collection, banking and security	• EC Milk Subsidy claim
• Refuse removal	• Cleaning maintenance	
• Receipt/action of Environmental Health reports	• Risk assessment and hazard analysis	

Modifications to the Service

This service level agreement is founded on the principle of a joint, co-operative approach to the provision and development of the school meals service, rather than a rigid, contractual basis of working. As such it is agreed that changes may be required from time to time which depart from the detail of the previous contract.

Summary of Best Value in School Catering Services - Stirling Council

In October/November 1998 Stirling University Marketing Department was commissioned jointly by Education Services and Technical Services (the DSO) to undertake a research study on catering services in Stirling Council schools.

Catering services was one of the first council services to be the subject of a Best Value review and the results of the research programme provided useful information to aid the review process.

Following receipt of the research report, a catering review steering group was set up to identify the key areas for review within the service. The steering group was made up of senior mangers and officers from Education Services and Technical Services. At its first meeting the following areas were identified as the priorities for review:

- identifying the objectives for the catering service in educational establishments
- current perceptions (the research study was a useful aid in this process)
- type of service
- management structure / systems
- finance
- culture
- related services.

Preliminary work has been carried out in some of these areas and is outlined below.

Key objectives

Prior to the Best Value review, and as a result of CCT, there was a distinct client/ contractor split which led to, in some cases, conflicting objectives for the service. This was mainly exemplified in the current contract specifications. In order to address these issues it was necessary to find objectives which both met the needs of the users of the service and those delivering it.

As a result a policy statement has been drafted which puts children first and is conducive to effective teaching and learning. The policy reflects this objective by stating that the Catering Service should work towards the following aims:

- promoting the development of social skills
- providing maximum nutritional value and promoting the development of lifelong healthy eating habits and lifestyles
- keeping children safe within the establishment environment
- creating a fun, enjoyable and social eating environment
- promoting social inclusion by providing a service which is able to meet the needs of different religious, ethnic and cultural origins
- promoting pupil and student involvement and participation in the design, delivery and development of the service
- working in partnership with parents and guardians
- continually demonstrating value for money
- responding to changing circumstances.

Ultimately pupils and students (and parents/guardians) should derive a high satisfaction level from the service provided which encourages a positive frame of mind that is conducive to effective learning and teaching and is part of a whole school approach to promote personal, social and health education.

Current perceptions

Using the results of the work carried out by Stirling University, current perceptions of the service were analysed and collated into four key areas:

- food quality
- customer care
- service delivery
- marketing / promotion of the service.

Each of these areas has been further analysed and suggested actions are being considered by the steering group.

Type of service

Review of this key area suggests the following aims for the type of service:

- establish customer consultation forums, eg focus groups, to influence service delivery
- have stronger links with the curriculum
- develop new initiatives to assist with raising achievement eg breakfast clubs
- develop new services eg homework clubs
- meet the '45 minute barrier' eg cashless catering, multi-service points
- flexibility and continuous product development.

Management structures/systems

The key areas of this review are redefining roles and responsibilities of service users and service providers (the old client / contractor / client agent set up).

This is a particularly significant key area for review as it heavily influences the systems in place to deliver an effective service eg payment mechanisms, maintenance of equipment, environmental health issues, design and planning of catering services, advice, processing school meal returns etc.

It is proposed to streamline these processes to lead to a more effective support provision for the service users and providers.

Finance

An analysis has been undertaken on the uptake of meals in Stirling Council schools which has led to a plethora of statistics. Early analysis has identified key areas for closer investigation, such as low level of uptake of meals in certain schools, including both free meal uptake and paid meal uptake.

Culture

Most of the work in this area is covered by the work carried out on developing policy objectives. It is envisaged that working to common objectives will start to see a shift in attitudes eg towards being more child-focused.

Related services

This area of the review concerns relationship catering services has or can develop with other related services such as community services and janitorial services. The current review of janitorial services may, for example, complement work being carried out in the review of catering services.

The next steps

The above information provides a brief summary of the key areas of review and work carried out to date. The next step is to turn investigative and statistical analysis into action points. This is currently being developed jointly between Education Services and Technical Services. A short, medium and long term action plan will be developed which will address all the key issues.

Appendix 5

Business planning for DLOs and DSOs - a suggested framework

The primary purpose of the business plan is to show *what* the organisation needs to achieve during the period covered by the plan, with a summary of the risks and assumptions. This gives the organisation a specific basis on which to measure progress during the year, in time to take corrective action.

DLOs and DSOs have two primary objectives: to supply the contracted service and to achieve break-even. Their business plans will be different from the kinds of business plans produced by commercial organisations, where growth and market potential are significant risk areas in the plan. Business plans for DLOs and DSOs can focus mainly on the income and costs associated with delivering an already defined service.

The introduction to the plan should identify the agreed business objectives, other objectives (for example, supplying an enhanced service or providing training and staff development opportunities) and a brief description of the major factors likely to affect the service over the planning year. The remainder of the plan should be mainly numerical, with brief textual explanations.

The planning process and plan covers more than one year. In this example, we have imagined that the plan is being developed during 1999/2000, for implementation in 2000/2001. Actual figures for 1999/2000 will not all be known at the start of the planning process, but it is important that estimated figures are updated as soon as the actual figures are known.

The business plan needs to make it easy for management to measure progress and to identify corrective actions, where they are required. There are two types of corrective actions that managers can choose from: they can change the way they are operating, so targets are more likely to be achieved, or they can modify the targets if they are clearly unachievable.

Basic contents of a business plan for implementation in 2000/2001

Financial forecasts

a Trading statement
 1999/2000: by quarters
 2000/2001: by months
 2001/2002: by quarters
 2002/2003: for the year

b Cash flow forecast
 2000/2001: by months

While DLOs and DSOs are not measured on cash targets, cash availability can enable DLOs and DSOs to benefit from discounts offered by suppliers for prompt payment.

c Balance sheet
1999/2000: annual
2000/2001: end of year forecast

This allows standard 'profitability' and working capital ratios to be calculated, allowing comparisons with similar organisations and industry norms.

Workload forecasts

1999/2000: by quarters (or months, if there are seasonal variations)
2000/2001: by months
2001/2002: by quarters (or months)
2002/2003: annual

Workload forecasts ought to be expressed at the highest organisational level that is necessary to make sense of the plan. For example, significantly different types of services might need to be shown separately, or organisational units that operate on a significantly different basis. The forecasts for a building maintenance DLO could be broken down into consultancy service, emergency repairs and planned maintenance.

The plan should be built up from detailed data which needs to be preserved, but not necessarily included in the business plan itself. Lower organisational levels can therefore be provided with the detail that relates to them, so that they can measure progress during the year.

Workload should be expressed in a numerical format that is relevant to the contracted service - eg, extent (tonnage, acreage), units of output, inputs such as person days, timescales.

Assumptions and risks

The main assumptions on which the workload and financial forecasts have been based should be stated as brief notes. Obviously, the workload and the financial forecasts should be based on the same assumptions.

Examples of assumptions include:
- level of demand
- scheduling and forward planning
- budget profiles
- customer department budgeted spend levels
- relationship of the year being planned (ie 2000/2001) to historical experience
- council policies (such as replacement of fixed assets)
- remuneration assumptions
- government policies
- competitive forces
- overhead levels.

It may become clear that, if the organisation carries on as it is presently, it might not achieve the workload and financial forecasts. Any changes that need to be made to the current situation, with the actions planned, need to be summarised. If these changes are not enough, so that gaps remain, these need to be identified in the plan.

Risks in the assumptions, changes or gaps ought to be identified, using broad categories (high - medium - low, for example). Risks can be managed in a number of ways - for example, access to better information, communication and negotiation - but only if they are recognised and attended to by management.

Targets for key business ratios and service quality measures

There will be a limited number of key performance ratios that need to be tracked during the year, as part of the business plan, as opposed to lower level operational action plans. These ratios are those that have a *significant* impact on the performance of the organisation; there are unlikely to be fewer than five, or more than ten.

What the ratios are partly depends on what the overall plan is seeking to achieve. For example, to improve performance, or to maintain it at already acceptable levels. Examples of ratios that might be significant to a DLO or DSO are:

- service take-up, as percentage of potentially accessible market
- asset usage (useful when workload is not profiled smoothly)
- cost of errors, rework or repairs requiring multiple visits, as percentage of total workload
- productive staff time, as percentage of total staff time (especially useful where customer does not profile workload smoothly)
- absence levels expressed as percentage of total staff days or as cost
- overtime levels expressed as percentage of total staff time or as cost
- overheads as percentage of total costs
- percentage downtime (for example, of vehicles)
- percentage late jobs.

All of these can be shown graphically, enabling trends to be identified easily. The business plan should include information for the following periods:
1999/2000: performance monthly if possible, to show trends, otherwise quarterly or annually
2000/2001: monthly targets
2001/2002 and 2002/2003: if performance forecasts are relevant to the financial and workload forecasts.

Structure and staffing levels

For each year from 1999/2000 to 2002/2003.

Staff costs are significant in all DLOs and DSOs, and the remuneration policies may not controlled by the operational service's management. This is, therefore, a significant 'given' which needs to be included in the business plan.

Information on staffing costs and levels also enables productivity comparisons to be made with similar organisations and with industry norms.

Appendix 6

Management checklist

This checklist has been compiled to assist senior managers review the quality of the management information they currently receive, and to identify areas where it might be improved. The checklist is designed to be of particular relevance to DLOs and DSOs, and has a clear financial emphasis. It brings together the different elements of management information identified throughout the report.

Each business operates differently, so the relevance of each question may vary for individual DLOs and DSOs.

A more general checklist of the operational performance information needed by managers across a wide range of service areas is included in the Commission's publication *'Getting to know you'*.

Financial performance

- Do you receive a performance summary (prepared on an accruals basis) each month?
- Does this identify actual income and expenditure for the month, year-to-date, and projected to year-end?
- Is the actual income and expenditure compared with your forecast income and expenditure for the same periods?
- Are variances between actual and forecast identified?
- Are adverse variances highlighted if they exceed predetermined parameters?
- Is the information provided in time to make decisions that can improve adverse trends?
- Are categories of income and expenditure identified at a level of detail appropriate to management decisions? For example, does the system identify:
  -fixed and variable income and costs
  -internal overheads, overheads from central services and from general recharges
- Can the information be summarised at different organisational levels - for example, for the whole DLO or DSO and for individual cost centres?
- Are summary reports produced for divisional managers, or section heads, in the same format, and with adverse variances highlighted?
- Are the risks/assumptions used for projections to year-end identified?

Financial management

- Do you receive regular information on:
  - year-to-date operating surplus/deficit compared to plan, with projection to year-end?
  - projected cash position at end of next period (ie cash balance plus expected income minus projected payments)?
  - creditors and debtors turnover, expressed as days, if the relationship is significant to the business?
- Is your financial information available as a ‘flex budget’ spreadsheet, to enable simple ‘what if’ calculations on the projections?
- Have you developed budget profiles for your operation?
- Can you use your current information to forecast a potential surplus or loss, based on current trends and projections?
- If purchase of stock is a significant expenditure, do you receive regular reports of stock turnover, stock levels, obsolete stock and write-offs?

Staffing costs and productivity

Do your receive regular information on:

- income per employee (or per revenue-earning employee)?
- overtime cost as a percentage of staff costs (or other relevant comparator) and overtime hours as a percentage of hours worked, showing trends?

- bonus or overtime payments to identify any which exceed pre-determined limits?
- bonus payments in relation to productivity?
- employee productivity, using output measures that are relevant to the particular industry (eg, meals served per hour per employee)?
- absence levels, using a relevant measure (eg, cumulative cost of absence, days lost) against target improvements?

Operational management

- Do you receive monthly reports on your actual business volume (in units or percentages, as appropriate)?
- Is this information compared to your business plan?
- Is the information presented in a way that shows trends?
- Is it projected to year-end?
  (This is especially important where the schedule is determined by, or negotiated with, the client - for example, planned maintenance, road works)
- Have you identified the key ratios relevant to your industry? (eg, food cost as a percentage of meal cost, asset usage, percentage of 'first-time fixes')
- Do you have the information you need to measure the ratios identified?
- Do you receive regular reports on your performance in these key ratios against your business plan targets, and/or over time, showing trends?

Quality of your management information system

- In general, does the management information you receive provide comparisons to enable you to identify whether your performance is good or bad and whether it is getting better or worse?
- Does your information system allow you to 'drill down' and identify where losses are occurring or performance is poor?
- Does the information provided enable supervisors and/or cost centre managers to compare their performance?
- Do your management information systems provide you with the information you need to measure performance against all the targets identified in your business plan?
- Is the management information you receive all relevant and at the appropriate level?
- Does your financial system provide adequate information at the lowest possible cost?
- Is the cost control system itself cost effective?
- Are the key management messages in your information clearly identified?
- Have you considered whether the presentation of the information you receive could be improved to aid decision-making?

Examples of how this might be done include:

- using appropriate graphs to illustrate key messages, avoiding too much detail, combining graphs and tables with complementary (not duplicated) information
- including the management question that the information is designed to answer in the performance reports (eg ‘where should we target our marketing?’ used as a heading for a table of school meal uptake)
- numbers rounded off to a managerially significant level
- using spreadsheet formulae to highlight important messages (for example, printing figures in bold or larger type when performance is below target and requires attention).

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