Finance value for money indicators guidance

1) Introduction

This document sets out the indicators to be collected for the Finance Function.

The guidance below starts by defining the scope of the function and goes onto identify key questions which reflect the requirements of a modern, value for money Finance function that the indicators are aiming to help organisations achieve. The scope and key questions are included as background information as well as the primary and secondary indicators.

2) Scope

The following activities are within our definition of this function for the purposes of this project:

BUSINESS DECISION SUPPORT

- Financial analysis and operational support (including finance input to strategic planning, projects, programmes and plans)
- Cash management
- Investing and financing
- Risk management (re: exposure strategy, analysis, loss provisions)
- Financial planning, budgeting and forecasting

REPORTING AND CONTROL

- General accounting
- Financial reporting
- Management reporting
- Tax compliance and reporting (for example VAT)
- Fixed assets and capital accounting
- Cost and inventory accounting (where applicable)
- Contract accounting (where applicable)

TRANSACTION PROCESSING

Debtors (accounts receivable)

- Sales Order processing (where applicable)
- Accounts Receivable
- Customer invoicing (excluding customer services)

- Credit and bad debt collection

Creditors (accounts payable)

- Accounts payable
- Travel expense re-imbursement and reporting (but not if processed through payroll)
- Purchasing card administration

Note: the costs of the purchasing function are included in the definition of the procurement function

Payroll

Payroll and employee benefits processing (this is covered under the Finance Function although we recognise that in some organisations this falls under the HR Function).

The following activities are outside our definition for this function:

- Council Tax and NNDR administration
- Benefits administration (for example housing benefit, council tax benefit)
- Rent collection and accounting
- Cashiering (i.e. the operation of dedicated counters for face-to-face transactions)
- Pensions administration

3) Key questions

In order to help derive our VFM indicators for the Finance function, we have identified some key questions that reflect a modern, value for money Finance function which we hope the indicators will help to explore:

- Is the Finance Function cost-effective?
- Has the Finance Function achieved an appropriate balance in deploying staff resources between 1) processing financial transactions, 2) achieving compliance and 3) providing interpretation and advice regarding the financial results?
- Is the Finance Function proactively supporting the needs of decision makers across the organisation?
- Are transactional financial processes operated efficiently and effectively?
- Is appropriate use made of technology to support the Finance Function in achieving efficient and effective delivery, particularly for transactional financial processes?
- Does the Finance Function provide relevant, accurate and timely management information to support robust financial planning and management?
- Are internal customers satisfied with the services provided by Finance?

4) Summary list of indicators

Primary indicators	
Primary indicator 1	Total cost of the finance function as a percentage of organisational running costs (expenditure) and within this the proportionate cost of transaction processing and business decision support.
Primary indicator 2	Cycle time in working days from period-end closure to the distribution of routine financial reports to all budget managers and overseeing boards and committees.
Primary indicator 3	The percentage of variation between the forecast outturn at month 6 and the actual outturn at month 12. *Further development is still underway for this indicator*
Primary indicator 4	Scoring of the quality of the organisation's Board/Management/Executive reports against a good practice framework. *Further development is still underway for this indicator*
Primary indicator 5	Percentage of public sector organisation spend for which there are fully costed outputs which are measured by key performance metrics and for which a named individual is accountable. *Note: This indicator has been initially devised for central government bodies and will require further development and testing before its introduction into other sectors.*
Primary indicator 6	Commissioner and user satisfaction index - a composite indicator compiled from the responses to a set of statements by commissioners and users.
Primary indicator 7	**<u>For central government organisations</u>** Management practice indicator – CIPFA Financial Management Model *Further development is still underway for this indicator*
	<u>For all other organisations</u> Management practice indicator – the number of practices that have been adopted by the organisation out of a possible total of 10.

Secondary indicators	
Secondary indicator 1	Professionally qualified finance staff (FTEs) as a percentage of total finance staff (FTEs) undertaking reporting, controls and decision support processes (i.e. excludes those staff involved in transactional processes)
Secondary indicator 2	a) Cycle time in working days from year-end closure to submission of audited accounts. b) Was the latest set of annual accounts qualified by external audit?
Secondary indicator 3	Cost of the Customer Invoicing function per customer invoice processed
Secondary indicator 4	Debtor days
Secondary indicator 5	Credit notes as a percentage of total customer invoices raised
Secondary indicator 6	Cost of Accounts Payable per accounts payable invoice processed
Secondary indicator 7	Proportion of all payments made by electronic means
Secondary indicator 8	Proportion of outstanding debt that is more than 90 days old from date of invoice
Additional indicators for use outside central government	
Secondary indicator 9	Cost of finance in relation to business decision support as a percentage of the total cost of decision support plus reporting and controls (i.e. excludes transaction processing)
Secondary indicator 10	Creditor days
Secondary indicator 11	Payroll admin cost per employee paid

5) Detailed definitions for Primary indicators

Reference number	Primary indicator 1
Description	Total cost of the finance function as a percentage of organisational running costs (expenditure) and within this the proportionate cost of transaction processing and business decision support.
Rationale and expected impact on behaviour	A standard and commonly used indicator that seeks to establish whether the costs of running the finance department are in proportion to the resources that are being managed. Measurement of the total cost of the finance function as a percentage of overall spend allows management to monitor closely the finance cost of their organisation and could be used to track trends across any given time-frame. Measurement of the cost of transaction processing and business decision support enables organisations to understand the resources devoted by finance on ‘value added’ activities as a proportion of finance cost. <u>Impact on behaviour</u> Over time, organisations should expect to reduce expenditure on transaction processing as a percentage of the total cost of the finance function. Similarly they should expect to increase the percentage of the total cost of the finance function spent on business decision support.
Definition	The indicator should be based on figures for the most recent financial year. (a) <u>To determine the total cost of the finance function as a percentage of organisational running costs (expenditure):</u> Total cost of the finance function should include: • Employee costs including employers NI, pension and recruitment costs • IT costs • Accommodation costs • Outsourcing costs • Other costs (for example supplies and consumables) Where finance staff are devolved in the organisation or are specialised (such as project managers), include the cost of those staff who spend more than 50 per cent of their time on finance activities. Organisational running costs (expenditure) are the costs for delivering the primary responsibilities / remit of the organisation.

	It should exclude transfer payments, capital and programme spend, grants, precepts and other funds which simply flow through to another body, for example grants made to voluntary organisations. It should include payments made to any contractors for services which are within the main remit of the organisation (for example a refuse contract in a local authority. <u>Example A:</u> Cost of finance = £865,000 Running costs (expenditure) = £200 million £865,000/£200 million x 100 = 0.43 per cent (b) <u>To determine the proportionate cost of transaction processing and business decision support:</u> **Transaction processing is defined** as including: • Debtors (accounts receivable): o Sales Order processing (where applicable) o Accounts Receivable o Customer invoicing (excluding customer services) o Credit and bad debt collection • Creditors (accounts payable): o Accounts payable o Travel expense re-imbursement and reporting (but not if processed through payroll) o Purchasing card administration *Note: the costs of the purchasing function are not included here because they are included in the definition of the procurement function in the Procurement indicator set.* • Payroll: o Payroll and employee benefits processing (this is covered under the Finance Function although we recognise that in some organisations this falls under the HR Function). The following activities are outside our definition: • Council Tax and NNDR administration • Benefits administration (for example housing benefit, council tax benefit) • Rent collection and accounting • Cashiering (the operation of dedicated counters for face-to-face transactions) • Pensions administration **Business decision support is defined** as:

	• Financial analysis and operational support • Cash management • Investing and financing • Risk management (for example regarding exposure strategy, analysis, loss provisions) • Financial planning, budgeting and forecasting (More generally, it is recognised that some degree of estimation may be necessary to calculate this indicator unless a detailed time analysis has been undertaken). <u>Example B:</u> Cost of business decision support = £160,000 Overall cost of finance function = £865,000 Proportion of cost of finance function spent on business decision support is (£160,000/£865,000 x 100 per cent) = 18.4 per cent

Reference number	Primary indicator 2
Description	Cycle time in working days from period-end closure to the distribution of routine financial reports to all budget managers and overseeing boards and committees.
Rationale and expected impact on behaviour	This indicator measures the typical number of days it takes the finance department to produce management information and so identifies the extent to which budget managers, and overseeing boards and committees, can take timely financial decisions based on up to date financial information. <u>Impact on behaviour</u> In most circumstances organisations should aim to reduce the number of working days to produce financial reports. Organisations should interpret their achievement against this indicator in conjunction with the response to the commissioner statement ‘The financial information provided for financial planning and management is accurate, timely and easy to access’ (contained in primary indicator 6) and secondary indicator 2b (which asks whether the year-end accounts were qualified by external audit).
Definition	Period-end closure is the point at which all financial ledgers are closed to routine financial transactions in preparation for financial reporting. The cycle time is the actual number of working days it takes to: • review the general ledger for completeness, • undertake a review of the balance sheet including control accounts • complete journals, accruals, prepayments and other adjustments • perform appropriate reconciliations • assemble/prepare and distribute management reports or accounts electronically or otherwise for review and action by budget holders and the Board, members etc Routine financial reports should provide a subjective analysis of expenditure for each organisational cost centre and provide a variance to an agreed budget on a monthly and cumulative basis. Where business units are producing information on different timescales an average should be used across all business units.

Reference number	Primary indicator 3
Description	The percentage of variation between the forecast outturn at month 6 and the actual outturn at month 12.
Rationale and expected impact on behaviour	This indicator assesses the accuracy of forecasting. <u>Impact on behaviour</u> Organisations should aim to reduce the level of variation between their month 6 forecast and the year-end outturn by improving forecasting and budgetary control. *Note: This indicator has been initially devised for central government bodies and will require further development and testing before its introduction into other sectors.*
Definition	Central government bodies should measure the variance between the forecast year-end outturn for resource Departmental Expenditure Limit spend as at month 6 and the actual outturn at month 12. This calculation should be conducted in respect of both cash and resource expenditure and should be consistent with the figures reported through the COINS system. Example: Forecast year-end spend at month 6 = £550 million Actual spend = £532 million Percentage variance = (£550 million - £532 million)/ £550 million x 100 per cent = 3.27 per cent

Reference number	Primary indicator 4
Description	Scoring of the quality of the organisation's Board/Management/Executive reports against a good practice framework. (Note: further development and consultation is still underway for this indicator. HM Treasury are currently working in conjunction with Finance Directors of central government departments to more fully develop a framework to be used to measure this indicator. It is expected that the framework will be published in summer 2007. There are no current plans to develop and test this indicator in the local government, health and other sectors.)
Rationale and expected impact on behaviour	This indicator assesses an organisation's Board/Executive/Management reports against a generic world class standard set of characteristics of financial and performance management information that the Board/Executive/Management should be considering on a regular (preferably monthly) basis. <u>Impact on behaviour</u> Organisations should aim to improve the standard of the reports produced (for example by greater integration of reporting on financial and operational performance) and so increase their score against the framework over time.
Definition	A full definition for this indicator will be developed once the framework has been published.

Reference number	Primary indicator 5
Description	Percentage of public sector organisation spend for which there are fully costed outputs which are measured by key performance metrics and for which a named individual is accountable. *Note: This indicator has been initially devised for central government bodies and will require further development and testing before its introduction into other sectors.*
Rationale and expected impact on behaviour	High performing organisations are likely to ensure that the totality of their spend is allocated against outputs, supported by key metrics which measure performance with clear lines of accountability. <u>Impact on behaviour</u> Over time, organisations should aim to increase the percentage of their spend that meets the criteria of this indicator.
Definition	**Public sector organisation spend** Public sector organisation spend is defined as the total budgeted capital and revenue expenditure in the current financial year. For the purpose of calibrating this measure, revenue and capital expenditure should (as far as possible) be allocated to the outputs of the organisation. **Fully costed outputs** For the purposes of this indicator an output is defined as a deliverable (often within a defined timeframe) that is • an identifiable and tangible product or service • measurable; and • aligned to the strategic priorities and supports the achievement of the organisation’s objectives To count towards the achievement of this indicator, performance information on the outputs and Key Performance Indicators should be routinely (at least quarterly, but preferably monthly) set out in their Board/Executive/Management Report. An output is considered to be <u>fully costed</u> where all direct costs (such as front-line staff and travel and subsistence costs) and indirect overheads (such as accommodation costs) associated with the output are identified, fully supported and allocated using a recognised method of apportionment. **Key Performance Indicators (KPIs)**

	In many cases organisations will already have KPIs covering many areas of expenditure. Where it is necessary to devise new KPIs, organisations should: • be clear about why they want to measure the output and which business objective it relates to • in most cases, have a time-bound target to improve the level of performance to a stated standard • be clear about who will collect the necessary data, how often and from where it will be collected • know who the resultant performance information will be reported to and how they will act upon it • ensure that the performance measure is unambiguous and does not inadvertently lead to 'gaming' or other undesirable behaviours • ensure that the performance measure is consistently applied across the relevant areas of the organisation • ensure that performance information is produced promptly in a form that is easily understood **A named individual is accountable** To count towards the achievement of this indicator, accountability for the output should rest with a named person (at management team level or a direct report to a management team person) whose name appears on the budget/business planning information and the performance management information referred to above. <u>Example:</u> Overall organisation spend: £550 million Spend for which there are fully costed outputs measured by key performance metrics and for which a named individual is accountable: £375 million Achievement = £375 million/£550 million x 100 per cent = 68.1 per cent

Reference number	Primary indicator 6
Description	Commissioner and user satisfaction index - a composite indicator compiled from the responses to a set of statements by commissioners and users.
Rationale and expected impact on behaviour	This indicator examines the effectiveness of the finance function by assessing the perceptions its commissioners and users. The indicators have been identified because they are considered to indicate whether the function communicates effectively with its commissioners and users, and is responsive to the requirements of the organisation. <u>Impact on behaviour</u> Over time, organisations should seek to increase the proportion of commissioners and users agreeing with the statements. (Organisations may wish to incorporate these statements into existing surveys of users and commissioners.)
Definition	The commissioner and user statements are as follows: Commissioner statements: • The Finance function supports the financial implications of the organisation’s strategy, policy and delivery discussions by providing effective support and challenge. • The financial information provided for financial planning and management is accurate, timely and easy to access. • The organisation's financial systems are secure and efficient. • The Finance function proactively anticipates my needs. • The Finance function provides value for money. User statements: • Finance regularly provides the information needed to understand the level of delivery in my area of responsibility and the related cost • Finance policies and procedures are clear and understandable • The organisation has clear and easy to use financial systems • Appropriate financial management training for non-finance

	staff is provided • I know who to contact if I have a query regarding finance.

Reference number	Primary indicator 7
Description	<u>**For central government organisations**</u> Management practice indicator – CIPFA Financial Management Model *Further development is still underway for this indicator*
Rationale and expected impact on behaviour	This framework offers a robust overall assessment of the organisation's financial management capacity and capability, highlighting both strengths and areas for improvement. <u>Impact on behaviour</u> Well run organisations would expect to increase their score against the Model over time.
Definition	CIPFA is currently revising its Financial Management framework, due to be issued in July 2007. The current framework is structured around three styles of financial management: •*Securing stewardship*—an emphasis on control, probity and meeting regulatory requirements. •*Supporting performance*—responsive to customers, efficient and effective, and with a commitment to improving performance. •*Enabling transformation*—strategic and customer led, future orientated, pro-active in managing change and risk, outcome focused and receptive to new ideas. The CIPFA model is also organized by four management dimensions: •*Leadership*, which focuses on strategic direction and performance management, and the impact on financial management of the vision and involvement of the organization's board members and senior managers. •*People*, which includes both the competencies and the engagement of staff. •*Processes*, which examine the organization's ability to design, manage, control and improve its financial processes to support its policy and strategy. •*Stakeholders*, which deals with the relationships between the organization and those with an interest in its financial health, whether government, inspectors, taxpayers, suppliers, customers or partners.

	It also deals with customer relationships inside the organization, between finance services and their internal users. The Model enables organisations to score themselves against a matrix comprising each of the five management dimensions applied to each of the three financial management styles. They should complete the Model and then prepare an action plan to be implemented to address the key areas of weakness.

Reference number	Primary indicator 7
Description	**<u>For all other organisations</u>** Management practice indicator – the number of practices that have been adopted by the organisation out of a possible total of 10.
Rationale and expected impact on behaviour	The aim of this indicator is to assess the extent to which the finance function achieves a set of key management practices which will provide an indication of whether it is a well-run, modernised and mature function. <u>Impact on behaviour</u> It is not anticipated that most organisations will have adopted all of the practices listed when first measuring themselves against this indicator set. However organisations should expect that the number of practices that they have adopted would increase over time. (The list of practices will be updated, if appropriate, in future revisions of the indicator set).
Definition	The management practices indicator consists of 10 statements of management practice. The respondent should assess whether their organisation follows each practice as set out below: 1) The responsibilities of budget holders are clearly understood and embedded in performance appraisal. 2) Service levels and expectations have been set with key internal customers using a documented approach such as an SLA or Customer Charter, with regular service review meetings held. 3) A rolling programme of reviewing and benchmarking the organisation's costs is in place across major service areas. 4) Standardised organisation-wide integrated software is in place with centralised data processing. This should cover as a minimum purchase to payment of supplier and invoice to cash receipt from a customer. 5) The organisation can demonstrate that it has used at least two of the following to streamline financial processes in the last 3 years: • bar coding • invoice scanning/imaging • workflow, • web technologies to build extranets with external stakeholders

	- intranet to build self service capabilities for staff to check status and run reports - on-line travel and expense system used by claimants that is fully integrated with the accounting system. 6) A fully automated accruals system based on purchase order and good/services received information held within a fully integrated accounting system. 7) Budget holders have on-line, real-time insight into the status of their budget and can run standard financial and manpower reports through their desktop PC. 8) A needs- based budget, based on activity levels rather than historical baselines, is prepared at least every 3 years. 9) Customer satisfaction surveys are conducted at least annually with results openly published and acted upon. 10) A comprehensive professional development programme is in place for Finance staff which ensures that they receive at least five days of continuing professional development per annum. For each practice tick 'yes' if the organisation has fully implemented that practice. For each practice tick 'no' if the organisation: - does not have that practice in place; - has the intention to develop this practice but it is currently not in place; or - is currently implementing this practice but it is not yet fully in place. The organisation should then count the number of questions where they answered 'yes' in order to calculate their score. The maximum score is therefore 10. The list below provides some further definitional details for specific practices: Management practice 2: "Regular service review meetings" means at least every quarter. Management practice 3: "Rolling programme" means a programme of continuous improvement activities that produce monthly output for reviewing and benchmarking purposes. "Major Service areas" are defined as the key components of the operation of the organisation. Management practice 5: "Streamlining" is defined as the reduction of cost, headcount and cycle time of the operation. Management practice 7: "Standard reports" show as a minimum a subjective analysis of actual expenditure and budget for the current period, and on a cumulative basis for specific cost centres (with

	associated variances). There should be the ability to drill down into the underlying transactions. Management practice 8: A ‘’needs-based budget” takes into account the underlying volume/activity and price associated with the budget heading, as opposed to building a budget that is based on a previous period's funding with adjustment for inflation etc. Management practice 9: Customer satisfaction surveys will be distributed across all finance customers as opposed to a selection of customers.

6) Detailed definitions for Secondary indicators

Reference number	Secondary indicator 1
Description	Professionally qualified finance staff (FTEs) as a percentage of total finance staff (FTEs) undertaking reporting, controls and decision support processes (i.e. excludes those staff involved in transactional processes)
Rationale and expected impact on behaviour	This indicator assesses the capacity and competency of the finance department by examining the proportion of staff with a professional accountancy qualification. <u>Impact on behaviour</u> In most cases organisations would aim for a period-on-period increase in this percentage. Organisations should interpret their achievement against this indicator alongside primary indicator 6 (the commissioner and user satisfaction index) and secondary indicator 2 (the length of time necessary to produce year-end accounts and whether those accounts required qualification).
Definition	The indicator should be based on figures for the most recent financial year. “Professionally qualified” is defined as full-time equivalent staff holding a qualification recognised by any of the 6 members of Consultative Committee of Accountancy Bodies (CCAB). The 6 CCAB members are: • The Institute of Chartered Accountants in England and Wales (ICAEW) • The Institute of Chartered Accountants of Scotland (ICAS) • The Institute of Chartered Accountants in Ireland (ICAI) • The Association of Chartered Certified Accountants (ACCA) • The Chartered Institute of Management Accountants (CIMA) • The Chartered Institute of Public Finance and Accountancy (CIPFA) Total Finance Staff is calculated as the total full-time equivalent (FTE) staff (including part-time staff who should be calculated on the basis of the proportion of time of a full-time equivalent that they work). Where finance staff are devolved in the organisation or are specialised (such as project managers), include those staff who spend more than 50 per cent of their time on finance activities. For staff leaving / joining during the 12 month period, calculate on a full-time equivalent basis the proportion of the year that they worked. For example if someone left 3 months into the year they would be a 0.25 FTE, or if they served 6 months it would be 0.5 FTE etc. The

	same principle applies to the calculation for anyone who joined during the year (i.e. the calculation should be based on the proportion of the year that they worked translated into an FTE figure). Your calculation should include any temporary / agency staff who are brought in for periods of over 10 per cent of the working days available in the 12 month period Business decision support is defined as: • Financial analysis and operational support • Cash management • Investing and financing • Risk management (re: exposure strategy, analysis, insurance, loss provisions) • Financial planning, budgeting and forecasting Reporting and controls is defined as: • General accounting • Financial reporting • Management reporting • Tax compliance and reporting (for example VAT) • Fixed assets and capital accounting • Cost and inventory accounting (where applicable) • Contract accounting (where applicable) Example Number of Professionally Qualified Finance Staff = 10 FTEs Number of Total Finance Staff = 60 FTEs Therefore the percentage of professionally qualified finance staff is 10 / 60 x 100 per cent = 16.67 per cent

Reference number	Secondary indicator 2
Description	a) Cycle time in working days from year-end closure to submission of audited accounts. b) Was the latest set of annual accounts qualified by external audit?
Rationale and expected impact on behaviour	This indicator examines the effectiveness of the finance function by assessing their ability to produce a timely and accurate set of final audited accounts. <u>Impact on behaviour</u> In most circumstances organisations should aim to both reduce the number of days taken to prepare their year-end accounts and ensure that they do not require external qualification.
Definition	This indicator is in two parts. Part (a) looks at cycle time in working days from year-end closure to submission of the accounts to external auditors. Year-end closure is the point at which all financial ledgers are closed to routine financial transactions in preparation for financial reporting. The cycle time is the number of working days it takes to: • Review the General Ledger for completeness; • Undertake a full review of the balance sheet including control accounts; • Perform full reconciliations of control accounts etc; • Assemble/prepare and distribute management reports or accounts electronically or otherwise for review and action by budget holders and the Board, members etc; • Submit accounts to the external auditors. The cycle time does not include the time taken by external auditors to sign off the accounts. Part (b) requires a response of yes or no as appropriate in relation to whether the latest set of annual accounts were qualified by the external auditor.

Reference number	Secondary indicator 3
Description	Cost of the Customer Invoicing function per customer invoice Processed
Rationale and expected impact on behaviour	A standard and commonly used indicator that examines the efficiency of the invoicing function by identifying the cost of raising each customer invoice. Organisations should interpret achievement against this indicator alongside secondary indicators 4 (credit notes as a percentage of invoices raised) and 6 (cost of Accounts Payable per invoice processed). <u>Impact on behaviour</u> In most cases organisations should aim for a period-on-period reduction in the average cost of invoice processing. This indicator could additionally suggest the minimum value for which an invoice should be raised.
Definition	The indicator should be based on figures for the most recent financial year. Costs should include: • Employee costs including employers NI, pension and recruitment costs • IT costs • Accommodation costs • Outsourcing costs • Other costs (for example supplies and consumables) Where finance staff are devolved in the organisation or are specialised (such as project managers), include the cost of all those staff who spend more than 50 per cent of their time on finance activities. Total number of customer invoices is defined as the number of invoices raised to customers by the customer invoicing function in a year Example Total cost of Customer Invoicing function= £105,000 p.a. Total number of customer invoices = 12,000 p.a. The cost per invoice processed is therefore £105,000 / 12,000 = £8.75

Reference number	Secondary indicator 4
Description	Debtor days
Rationale and expected impact on behaviour	A standard and commonly used indicator that identifies the average number of days for the organisation to receive payment for its invoices. <u>Impact on behaviour</u> Organisations should aim to achieve a period-on-period reduction in average debtor days.
Definition	The indicator should be based on figures for the most recent financial year. Total Debtors is defined as the outstanding value of debt at financial year end To calculate debtor days use the formula: (Debtors value at year end / Value of bills raised in year) x 365

Reference number	Secondary indicator 5
Description	Credit notes as a percentage of total customer invoices raised
Rationale and expected impact on behaviour	This indicator examines the accuracy of invoices raised by reviewing the number of credit notes required to make adjustments to invoices previously raised. <u>Impact on behaviour</u> Organisations should aim to achieve a period-on-period reduction in the percentage achieved for this indicator. Organisations should interpret achievement against this indicator alongside secondary indicators 3 (cost per customer invoice processed) and 6 (cost of Accounts Payable per invoice processed). (Note: The indicator is being used as a proxy for accuracy although it is recognised that organisations may use other mechanisms to make adjustments).
Definition	The indicator should be based on figures for the most recent financial year. Total number of credit notes is defined as the number of credit notes raised in the year Total number of sales invoices is defined as the number of customer invoices raised in the year Example Total number of credit notes = 100 p.a. Total number of sales invoices = 1,000 p.a. The number of credit notes issued as a percentage of the invoices raised is 100 / 1000 x 100 per cent = 10 per cent

Reference number	Secondary indicator 6
Description	Cost of Accounts Payable per accounts payable invoice processed
Rationale and expected impact on behaviour	A standard and commonly used indicator identifying the cost of processing each supplier invoice. <u>Impact on behaviour</u> Organisations should aim to achieve a period-on-period reduction in the cost achieved for this indicator. Organisations should interpret achievement against this indicator alongside secondary indicators 3 (cost per invoice raised) and 5 (credit notes as a percentage of invoices raised).
Definition	The indicator should be based on figures for the most recent financial year. Total cost should include: • Employee costs including employers NI, pension and recruitment costs • IT costs • Accommodation costs • Outsourcing costs • Other costs (such as supplies and consumables) Where finance staff are devolved in the organisation or are specialised (such as project managers), include the cost of those staff who spend more than 50 per cent of their time on finance activities. For the purposes of this function accounts payable is defined as activity which starts at the point where invoices are ready to be entered into the system and excludes any upstream activity. Total number of supplier invoices is defined as the number of supplier invoices processed by Accounts Payable in the same period Example Total cost of Accounts Payable = £85,000 p.a. Total number of supplier invoices = 15,000 p.a. The cost per invoice processed is therefore 85,000 / 15,000 = £5.67

Reference number	Secondary indicator 7
Description	Proportion of all payments made by electronic means
Rationale and expected impact on behaviour	This indicator identifies the proportion of all payments made electronically, particularly with respect to BACs and RfT1, since these methods usually offer the most effective savings of time and cost compared with manual payment systems. <u>Impact on behaviour</u> In most cases organisations would seek to achieve a period-on-period increase in the proportion of payments made electronically.
Definition	The indicator should be based on figures for the most recent financial year. Total number of payments will generally include those transactions relating to payroll, accounts payable and travelling and expenses. Example Total number of payments = 10,000 p.a. Total number of invoices paid by electronic means = 8,000 p.a. The percentage of invoices paid by electronic means is therefore 8,000/10,000 x 100 per cent = 80 per cent

Reference number	Secondary indicator 8
Description	Proportion of outstanding debt that is more than 90 days old from date of invoice
Rationale and expected impact on behaviour	This indicator examines the ability of the finance department to recover outstanding debts from customers. We have adopted the commonly used 90-day credit period as the basis for the indicator. <u>Impact on behaviour</u> Organisations should aim to achieve a period-on-period reduction in the proportion achieved for this indicator. This indicator should be used in tandem with Secondary Indicator 4.
Definition	Total Debtors is defined as the total outstanding debt owed to the organisation by customers (debtors) at period end. Debt that is more than 90 days old is defined as any trade debt owed to the organisation by customers (debtors) that has been outstanding for more than 90 days from the date of the invoice at the same period end. Note: Local authorities should exclude council tax, NNDR, rents and benefits. <u>Example</u> Total Debtors = £350,000 Debt that is more than 90 days old = £100,000 The proportion of debt that is more than 90 days old is therefore 100,000 / 350,000 x 100 per cent = 28 per cent

<table>
<tr><td>Reference number</td><td>Secondary indicator 9 (for use outside central government)</td></tr>
<tr><td>Description</td><td>Cost of finance in relation to business decision support as a percentage of the total cost of decision support plus reporting and controls (i.e. excludes transaction processing)</td></tr>
<tr><td>Rationale and expected impact on behaviour</td><td>This indicator measures the resources devoted by finance on ‘value added’ activities as a proportion of finance cost. The indicator excludes transactional activities which can significantly distort the picture.

<u>Impact on behaviour</u>

In most cases organisations should aim for a period-on-period increase in the proportion of finance function resources assigned to business decision support. However the optimal figure will always be a long way short of 100 per cent as work around reporting and controls will remain important.</td></tr>
<tr><td>Definition</td><td>The indicator should be based on figures for the most recent financial year.

Total cost of the finance function should include:

• Employee costs including employers NI, pension and recruitment costs
• IT costs
• Accommodation costs
• Outsourcing costs
• Other costs (for example supplies and consumables)

Where finance staff are devolved in the organisation or are specialised (such as project managers), include the cost of those staff who spend more than 50 per cent of their time on finance activities.

Business decision support is defined as:

• Financial analysis and operational support
• Cash management
• Investing and financing
• Risk management (for example regarding exposure strategy, analysis, loss provisions)
• Financial planning, budgeting and forecasting

Reporting and controls is defined as:

• General accounting
• Financial reporting
• Management reporting</td></tr>
</table>

	• Tax compliance and reporting (for example VAT) • Fixed assets and capital accounting • Cost and inventory accounting (where applicable) • Contract accounting (where applicable) It is recognised that this indicator is likely to be done on an estimation basis unless a detailed time analysis has been undertaken. Example: Business Decision Support Cost = £160,000 Reporting and Controls Cost = £186,000 The cost of Business Decision Support as a percentage of total cost is 160,000 / (160,000 + 186,000) x 100 per cent = 46.24 per cent

Reference number	Secondary indicator 10 (for use outside central government)
Description	Creditor days
Rationale and expected impact on behaviour	A standard and commonly used indicator that identifies the average number of days it takes for the organisation to pay for its purchases. <u>Impact on behaviour</u> Performance should be within the appropriate prompt payment requirements.
Definition	The indicator should be based on figures for the most recent financial year. Total creditors is defined as the outstanding value of debt at the end of an accounting period. To calculate creditor days use the formula: Creditors at year end / Total value of invoices x 365

Reference number	Secondary indicator 11(for use outside central government)
Description	Payroll admin cost per employee paid
Rationale and expected impact on behaviour	A standard and commonly used indicator that seeks to establish the cost of paying one single employee as an indicator of the cost effectiveness of the payroll function. <u>Impact on behaviour</u> In most cases organisations should aim for a period-on-period reduction in the average cost. (Note: This function may be a responsibility of HR in some organisations. In these instances the indicator should accordingly be completed by HR)
Definition	Should be based on the latest financial year. Total Payroll Admin Cost per annum is defined as the total cost for running the payroll admin function in a year which should include: : • Employee costs including employers NI, pension and recruitment costs • IT costs • Accommodation costs • Outsourcing costs • Other costs (for example supplies and consumables) Calculate the total number of employees by counting the number of employees on the payroll master file for whom at least one payment was made during the financial year. Do not include any dormant records. For organisations paying pensioners (for example County Councils) include in the calculation of employees but calculate the average number of pensioners and multiply by 0.3 (IPF figure). Example Total Payroll Admin Cost per annum = £80,000 Total number of employees = 2500 Cost per employee paid is £80,000 / 2500 = £32 per employee p.a.