Costs Chargeable to Programme Budgets

Summary: This guidance document is relevant to all staff with delegated budget authority under the Scheme of Delegation. This provides guidance on the costs that may be charged either directly to programme budgets or transferred from administration costs, and includes the mechanism and approval process to do this, including a decision tree. Only costs specifically referred to in this guidance or cleared with the National Finance team may be recharged to programme budgets.

Supersedes: Guidance issued February 2006
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INTRODUCTION

1 This document consolidates the guidance issued to the LSC on the approach and accounting treatment that should be applied in respect of the charging of costs to programme budgets.

2 This document updates the guidance given in February 2006.

DfES FUNDING

3 Within the financial resources allocated to the LSC by the Secretary of State in the Grant Letter, a budgetary limit is set for spending on administration costs. The primary aim of making this distinction is to promote economical and efficient administration and ensure resources are focused on spending programmes that deliver or directly support frontline service delivery, rather than central bureaucracy.

Background

4 The initial baseline financial limit set for 2005-06 and 2006-07 to cover the costs of the Council’s administration is £218.0 million, reducing to £208.2 million in 2007-08.

5 The relevant HM Treasury guidance is PES (2002) 38 Public Expenditure System: Administration Costs Regime: Definition and Operation. While this guidance does not apply to Non-Departmental Public Bodies (NDPBs), such as the LSC, following discussions with the Department for Education and Skills (DfES), the Council has agreed to adopt the guidance as best practice in identifying administration and programme costs.

6 Previous guidance from DfES and Treasury classified costs according to the type, or method of expenditure. For example:

The cost of an external ‘expert’ or secondee contracted to assist
primarily with the implementation of policy and paid through the Creditors’ system, could be charged to programme budgets. However, a member of staff or secondee undertaking the same role, paid through the Council’s payroll, would be classified as an administration cost.

7 The revised Treasury guidance places the emphasis on the activity undertaken, rather than the type or method of expenditure.

Current Guidance

8 The revised Treasury guidance specifically identifies that direct frontline service provision or support activities that are directly associated with frontline service delivery should normally be classified as programme costs.

9 The key consideration when assessing whether a cost should be classified as administration, or may be charged to programme budgets, is the nature of the service provided, rather than the type or method of payment.

10 Appropriate staff costs may be classified as programme costs regardless of whether they are paid through the Council payroll. However, LSC staff costs must not be charged directly to programmes (see Pay Costs).

11 Routine operational costs, particularly IT charges that relate to the management of programmes, should be charged to the administration budget.

12 The costs of internal conferences and seminars, even though they may be primarily associated with programmes, are considered to be a cost of administration. The costs of conferences and seminars which are primarily aimed at providers to assist with the implementation of programmes may be charged to programme lines, as long as providers form the majority of the attendees.

13 A review of costs may identify a number of activities currently classified as administration that are directly related to, or support, service delivery. Where such costs are subsequently charged to programme budgets, colleagues will need to maintain a robust audit trail and ensure they can justify the decision to move this expenditure, if subsequently challenged by auditors.

Specific Approvals

14 Within the LSC’s financial and budgetary planning process, it has been agreed that additional costs may be charged, up to a fixed amount, where further specific approvals have been given. These are listed in Annex 1.
15 Other areas of expenditure, where specific approval has been given to charge costs to programme budgets, are set out in paragraphs 16 and 20.

Please Note: Costs that may be charged to programmes are those direct costs leading, learning and skills.
Costs related to management of processes must remain classified as administration.

Additional DfES Funded Activity

16 Where the LSC undertakes additional activities, often on a fixed term basis, the DfES may provide funding to support the associated costs. The process for provision of this funding will be by one of three methods, which normally reflect the nature of the activity that is to be funded. The three methods are:

<table>
<thead>
<tr>
<th>DfES Action:</th>
<th>Example:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Amendment to the Council’s administration resource budget.</td>
<td>Learner Support Functions transferring to the LSC</td>
</tr>
<tr>
<td>2) Agreement that a specific value of programme funds be vired to meet administration expenditure.</td>
<td>Employer Training Pilots</td>
</tr>
<tr>
<td>3) Identify a specific programme resource that may be met through delivery by Council staff.</td>
<td>Health &amp; Safety</td>
</tr>
</tbody>
</table>

17 The first two methods reflect that costs incurred will be related to the development and management of the programmes. The third reflects that the costs incurred are from the provision of frontline service delivery.

NON-DfES FUNDING

18 In furthering the strategic objectives of the LSC and meeting the wider needs of the post-16 sector, the Council may undertake additional activities, such as the establishment of strategic partnerships and building links with employers. Financial resource may be sought outside of the Grant-in-Aid detailed in the Grant Letter, to deliver such provision. Usually referred to as external income.

External Income

19 Where the Council receives a contribution from external bodies towards the cost of running specific projects, the contribution should be netted off against the costs incurred on that project. Where possible, the basis for
determining the costs of the project and the contribution offered by the external body should be agreed in advance.

**European Social Fund (ESF) Funding**

20 DfES has agreed that the administration costs the LSC incurs on ESF-related activities that are additional to those it would normally incur, and are not funded from ESF, can be recharged to mainstream programme budgets, rather than borne on the LSC’s administration budget.

21 This dispensation covers administration costs incurred on such activities as the general management and administration of co-financing arrangements, the related ESF funded contracts, and also costs incurred on administering match funded contracts.

22 The costs incurred on core activities cannot be recharged to LSC mainstream programmes, and therefore where such costs are included in the total eligible expenditure for a Measure they must be funded wholly by ESF.

**MECHANISM FOR CHARGING COSTS – ACCOUNTING TREATMENT**

23 Charges received by invoice wholly relating to programme delivery should be coded directly to the relevant programme line nominal code and processed as a normal invoice. The cost needs to be approved by the programme line budget holder and normal approval procedures followed.

24 Where costs form part of other administration expenditure and a proportion is to be charged to a programme budget, this must be done through a journal. Again it is imperative that the budget holder agrees and approves the journal prior to processing and incurring the cost.

**Pay Costs**

25 Re-classification of staff from administration costs to programme costs does not remove those staff from the requirement of the annual total reporting department staff numbers, for publication in the Public Expenditure Statistical Analysis (PESA). Therefore, where salary costs are to be charged to programme budgets, they must be identified for accounting purposes.

The LSC has to record, in its accounts, the full costs of administration, which will then be netted down to reflect those costs relating to programmes.

26 The table below identifies where the pay cost must, initially, be charged to enable the correct recording of administration costs. Costs may subsequently be netted down to reflect those relating to programmes via journal.

<table>
<thead>
<tr>
<th>Type of Staff</th>
<th>Paid Via</th>
<th>Occupying position in Steady State</th>
<th>Initial Charge</th>
<th>Subsequent Journal to Programme Budget?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permanent</td>
<td>Council</td>
<td>Yes</td>
<td>Administration</td>
<td>If Applicable</td>
</tr>
<tr>
<td>Temporary</td>
<td>Council</td>
<td>Yes</td>
<td>Administration</td>
<td>If Applicable</td>
</tr>
<tr>
<td></td>
<td>Payroll</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Costs Chargeable to Programmes
06 November 2007
MECHANISM FOR SEEKING NEW APPROVAL TO CHARGE COSTS TO PROGRAMMES

27 The Corporate Finance team in the National Office at Coventry will be responsible for coordinating all requests for Specific Approvals from DfES and for notifying colleagues where dispensations have been received.

28 With the exceptions identified in Annex 1, no other specific approvals for charging costs to programme budgets have been agreed. Where colleagues receive an indication from a funding organisation (including DfES) that a recharge of administration costs to programme budget(s) will be allowed, they should notify the Financial Planning and Forecasting team, which will seek confirmation from the finance team in DfES. The recharge of costs to programme budgets is not permitted, unless confirmation is received and communicated by the Financial Planning and Forecasting team.

29 Colleagues seeking dispensation to charge administration costs to programme budgets must send in a written request to the Financial Planning and Forecasting team. This request should include:

• the reason for the request for a Specific Approval
• a brief description of the work that is being undertaken
• the programme to which the costs are to be charged
• a reason why the costs should be a charge on the programme budget
• the level and nature of the costs that will be charged.
• any relevant DfES correspondence/contacts.
ANNEX 1

Specific Approvals

The Council has been given specific approval via correspondence with DfES to charge specific costs to programme budgets. The items that may be charged can be summarised as the costs of:

<table>
<thead>
<tr>
<th>Area of Expenditure</th>
<th>Nature of Approval</th>
<th>Timescale</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.  IT development related to programme management</td>
<td>Limited to those costs which are contracted out.</td>
<td>Recurring</td>
</tr>
<tr>
<td>b.  The ISR Audit</td>
<td>Limited to those costs which are contracted out.</td>
<td>Recurring</td>
</tr>
<tr>
<td>c.  NCS external contracting</td>
<td>Limited to those costs which are contracted out.</td>
<td>Recurring</td>
</tr>
<tr>
<td>d.  Marketing, market research</td>
<td>Limited to those costs which are contracted out.</td>
<td>Recurring</td>
</tr>
<tr>
<td>e.  Evaluation activities, which are contracted out.</td>
<td>to those costs which are contracted out.</td>
<td>Recurring</td>
</tr>
</tbody>
</table>

Within the Council’s financial planning and budgetary strategy additional costs may be charged, up to a fixed amount, where further specific approvals have been given:

<table>
<thead>
<tr>
<th>Area of Expenditure</th>
<th>Nature of Approval</th>
<th>Timescale</th>
</tr>
</thead>
<tbody>
<tr>
<td>f.  Health and Safety</td>
<td>Regional Offices and National Groups may recharge legitimate Learner Health and Safety pay costs (Salary, ERNIC and ER Pension) and non-pay costs (T&amp;S, Lease car costs and costs associated with local Health and Safety events and publications) to a centrally held budget.</td>
<td>Recurring</td>
</tr>
<tr>
<td>No.</td>
<td>Description</td>
<td>Details</td>
</tr>
<tr>
<td>-----</td>
<td>--------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>g.</td>
<td>PFA</td>
<td>Already existing recharges to ESF stay in place (subject to the normal ESF criteria); the remaining PFA pay (Salary; ERNIC, ER Pension) and non-pay costs (T&amp;S including lease car costs) to be recharged to a nationally held budget.</td>
</tr>
<tr>
<td>h.</td>
<td>Some Area Inspection Costs</td>
<td>Some Area Inspection Costs Limited to the salary costs of Implementation Managers, who are implementing outcomes from Area Inspections</td>
</tr>
<tr>
<td>i.</td>
<td>National Modern Apprenticeships Task Force</td>
<td>The LSC may charge the £400,000 annual staffing and other MA Task Force costs, to an appropriate programme budget. This specific approval applies to London West LSC only</td>
</tr>
<tr>
<td>j.</td>
<td>Framework for Excellence</td>
<td>Salary costs, travel and subsistence costs and training costs for fixed-term Framework for Excellence posts</td>
</tr>
<tr>
<td>k.</td>
<td>Information Learning Technology</td>
<td>Agency costs and travel and subsistence costs for the 3 ILT posts agreed by the staffing group (plus the cost of the administration support relating to these posts)</td>
</tr>
<tr>
<td>l.</td>
<td>Learner Agreement Pilots</td>
<td>Regional Offices and the Learning Group may recharge legitimate pay costs (salaries) and non-pay costs (T&amp;S including lease car costs) relating to Learner Agreement Pilot posts. This also includes equipment and training relating to these posts and the cost of specific research being carried out by the Black Country LLSC.</td>
</tr>
</tbody>
</table>
ANNEX 2
Costs Chargeable to Programme Budget Decision Tree

Start

Is the expenditure direct front-line service provision?

Yes

Programme Budget

No

Is the expenditure on a support activity directly associated with front-line service delivery?

Yes

Programme Budget

No

Has a specific approval been agreed with DfES/HM Treasury?

Yes

Programme Budget

No

Administration Budget
Glossary

Other Publications