getting the groundwork right

financial health for local authority trading units
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Summary

The creation of a best value duty in the Local Government Act 1999 gives local government an opportunity to develop distinctive approaches that are appropriate to local circumstances without the prescription that characterised some aspects of the compulsory competitive tendering (CCT) regime. This development has been widely welcomed. There is, however, a risk that removing the requirement to meet a statutory financial objective and the statutory accounting and reporting provisions in CCT legislation will lead to a relaxation of financial discipline in the case of services that were previously covered by the CCT regime and, potentially, more broadly in other areas of activity.

The best value framework emphasises the significance of demonstrating competitiveness in the delivery of services, so the likelihood is that an increasing number of local authority services will be provided on a trading or quasi-contractual basis. In any case, there will be a blurring of the distinction between services that have been, and will continue to be, provided on a trading basis and those provided on a cash-limited vote basis. This makes the maintenance of core financial disciplines and adequate reporting and monitoring systems for both financial and performance information more relevant than ever for members and managers.

The majority of direct labour organisation (DLOs) and direct service organisations (DSOs) operating under CCT legislation have been financially successful. However, it is important to learn the lessons from the problems that have confronted a minority of DLOs and DSOs in recent years in England, Wales and Scotland. For many years trading units have operated in complex and volatile environments. Even the best run organisations – whether in the private, voluntary or public sectors – can experience difficulties in particular service areas or with specific contractual arrangements. However, where authorities have experienced operational difficulties, the financial implications have often come to light very late in the financial year. It is obviously essential to avoid this under best value.

The key messages of this paper are:

1. All significant local authority trading units should have annual business plans, summaries or composites of which should be approved at member level. Business plans should:
   - conform to a corporate blueprint, be part of an authority's overall service and financial planning framework and reflect the authority's corporate ethos;
   - reflect discussions with all internal clients, giving early warning signals if clients plan significant increases or reductions in the level of work required;
   - address resource requirements, including capital requirements;
   - provide a range of key performance criteria, which will be monitored throughout the year;
   - provide budgets and indicate the basis on which performance against budgets will be monitored – in particular, indicating where income and expenditure is projected to fluctuate during the financial year;
identify key events during the year that may have a significant operational or financial impact;
address the approach to new and developing business areas such as schools; and
link to best value initiatives.
If they incorporate these features and processes, business plans can add real value to trading units, rather than be seen as yet another bureaucratic demand that is being imposed from the centre.

2. The reliability and timeliness of in-year accounting and performance data are at the core of sound financial arrangements for all services.

Unless an authority can be assured about its core financial and performance data, the whole reporting framework is at risk of collapse.

- in extreme cases, false assurance can be given about financial performance to all levels of the organisation.

Using an approach that recognises risk, authorities should evaluate the way that they deal with a number of key accounting areas, which can impact on the reliability of financial and performance information. These include:
  - debtors;
  - creditors;
  - work in progress;
  - apportionments;
  - holding and suspense accounts; and
  - claims.

3. The finance director has a key role in ensuring the stewardship of a local authority’s financial affairs.

This role/function should not be a rationalisation for an over-centralist, directive approach. Finance directors and their staff must understand the commercial imperatives that drive many trading units and the complex areas in which they operate. However, where trading units operate on a devolved basis, the finance director needs to:

- ensure that he or she is satisfied that any stand-alone systems are operating properly;
- be assured about the reliability of information and the way in which it is presented to all levels of the organisation; and
- ensure that periodic health-checks are carried out, even if no significant problems have recently emerged.

It is also important that while the nature, scope, outputs and timing of internal audit coverage are made transparent to trading units, its influence is not diluted so as to reduce assurance on the security of corporate assets.
4. **Financial reporting requires clarity about who receives what and when.**

This imperative implies a hierarchy of information. It is important that operational managers receive all the information that is relevant to the areas that they control. Key statutory officers and members should be clear about what reports they receive and the timing and basis on which they receive them. They need to receive information that highlights problems rather than conveying a great deal of unnecessary detail. Too much information can be almost as much of a risk as too little. In particular, consideration needs to be given to reporting arrangements under proposed new governance arrangements for the majority of those members who will exercise the scrutiny role. Reports need to highlight key financial and performance trends and engage members who may have not have financial expertise to understand arcane financial details. Authorities also need to consider developing member competencies, so that members are aware of the business environment in which trading units and other services are operating and can bring an informed perspective to the debate.
Introduction

Why has this management paper been written now?

1. The introduction of the statutory duty of best value in the Local Government Act 1999 has been widely welcomed by local authorities. Best value gives local government an opportunity to develop distinctive approaches that are appropriate to local circumstances without the prescription that characterised many aspects of the compulsory competitive tendering (CCT) regime. Best value will mean organising services in new and different ways from those with which we have become familiar during the last two decades.

2. There is a risk, however, that the removal of the requirement to meet a statutory financial objective and statutory accounting and reporting provisions may lead to a relaxation of financial discipline for some services. In fact, it is likely that many local authority services will continue to be provided on a trading or quasi-contractual basis – in other words, that their income stream will not be a straightforward recharge of cost. Even where recharges are straightforward, continuing financial constraints make the maintenance of core financial disciplines and adequate reporting and monitoring systems more relevant than ever across a wide range of services, not just those that were formerly covered by CCT legislation.

3. This paper highlights aspects of financial and performance management and reporting for local authority trading units that authorities should re-evaluate. Its core is a focus on in-year accounting arrangements – defined as the processes for compiling accounting and performance information which authorities provide to all levels of management (both operational and corporate) and members. The Audit Commission has recently published a management paper that stresses the importance of service and business planning. It is important that attention is also focused on the nuts and bolts of service planning and reporting processes to ensure that the information that underpins them is robust.

4. This paper does not provide guidance as to which services should be provided on a trading basis. This is a matter for individual authorities and should emerge from best value reviews (BVRs), along with other decisions on the method of service delivery, charging methods and contracting arrangements. It is likely to depend on a range of factors, including the nature of the service, the results of consultation, the maturity and reliability of the local market and local decisions on the grouping of services. Evidence from a survey conducted for this paper suggests that the number of trading units operated by local authorities is likely to increase in the future.

For whom has this paper been written?

5. This paper has been written for a very wide audience. Although many of the problems that it identifies have their roots in the CCT regime, its messages are highly relevant for local government generally. With the introduction of best value, the distinction between services subject to the previous statutory framework and those outside that framework will become increasingly blurred.

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Footnote:
6. The paper emphasises that operational managers should be aware of the financial implications of their decisions and receive up-to-date and reliable financial and performance information. They should not rely on accountants to provide financial information and analysis at year-end, but evaluate the reliability of the information that they receive during the year and the format in which they receive it. Finance managers should review key accounting arrangements.

7. Second, key statutory officers (such as chief executives, monitoring officers and members of the corporate board or equivalent) and key members need to receive the right amount of information at the right time. The performance of trading units in delivering quality services is critical in meeting corporate objectives and the challenge of best value. Weak financial performance can damage an authority’s corporate financial standing. An inability to meet performance targets can endanger the attainment of broader corporate objectives, including many that may be related to key central government initiatives. It is therefore important that the chief executive is apprised regularly of performance using a level of detail that highlights problems clearly. This will require clear reporting structures. Non-executive members also need to receive information at the right time, and with the appropriate level of impact to engage their attention so that they can exercise this scrutiny role actively and constructively.

8. Regardless of their level in the organisation, those within the reporting hierarchy need to know that they can rely on the reports that they receive, both in terms of accuracy and relevance. Finance directors must ensure the adequacy and effectiveness of financial systems and financial reporting. If the finance director becomes marginalised, the risk that information may be inaccurate, irrelevant or inconsistent increases.

How should this paper be used?

9. Authorities should use this paper to review their existing approaches to the financial administration and management of trading units. The paper suggests that authorities need to take an approach to in-year accounting and performance monitoring that recognises the different levels of risk that apply to different services. Authorities also need to review the way in which a number of accounting risk factors are dealt with. These are complex accounting areas that, if not dealt with soundly, can easily distort information. The paper includes a number of case studies and examples from both local authorities and the private sector. Some of these organisations have reassessed their approaches as a result of taking on work in new markets or encountering unexpected problems. The approaches discussed are not offered as the only way forward and, as with all examples, their adoption without proper regard to local circumstances is likely to prove counter-productive. They do, however, provide a valuable perspective on the way in which similar problems have been tackled.
Research behind the paper

10. The paper is based on field visits to 14 local authorities in England and Wales and to 2 public limited companies that have experience in delivering services in the local authority sector. The Commission is particularly grateful to everybody who participated in these field visits, not only for the examples that they provided of current practice, but also for their insights.

11. The paper draws on an analysis of data on the outturn performance of trading units that were operating under the CCT regime in the 1997/98 financial year, the most recent year for which complete financial information is available. In addition, a small survey was carried out that ascertained the extent to which authorities expect to operate trading units under best value.

12. Audit reports and annual audit letters have been reviewed for details and analysis of problems that have recently affected a minority of DLOs and DSOs. These include both public interest reports and more detailed audit reports.

The object of this exercise was not to trawl over particular operational problems, but to highlight common issues and problems in financial administration and reporting. Reports issued by the Accounts Commission in Scotland have also been discussed and reviewed. The Audit Commission is very grateful to colleagues from the Accounts Commission for these discussions because the issues identified are relevant on both sides of the border, and in Wales.

13. An advisory group commented on the initial specification for the project and reviewed the findings of the study. The Audit Commission gratefully acknowledges its assistance. Responsibility for this paper, however, rests solely with the Audit Commission.

The structure of this paper

14. This paper has five sections.

Section 1: A brief review of the most recent available and analysed data on the performance of trading units under the recently repealed CCT regime. The results of a small survey, which highlights the fact that a majority of respondents expect the number of services to be provided on a trading basis to increase under best value.

Section 2: How business planning can be made more meaningful for trading units.

Section 3: A detailed consideration of in-year accounting, including an examination of the accounting risk factors, which can quite easily distort the robustness of financial reporting.

Section 4: The role of the finance director, monitoring officer and internal audit.

Section 5: Reporting approaches for operational management, key statutory officers and members.

15. The questions at the end of each section of the paper are intended to prompt discussion and review by local authority officers and members.
1. Financial background

16. While a lengthy discussion of the recently dismantled CCT regime may not be particularly helpful, it is worth considering some of the financial performance issues that emerged during the sunset years of the regime: first, to demonstrate the scale and significance of activities that have operated under CCT; secondly – and more importantly – to provide some pointers for the future.

17. Trading units have provided services that are central both to the overall performance and image of individual authorities, but which also go to the heart of central government priorities. They carry out repairs to social housing and highways, clean streets and run sports and leisure centres. They therefore have more of an immediate impact on local populations than virtually any other part of an authority. Their importance will continue under the best value regime.

18. Local authority trading units operating under the CCT regime have been highly significant in terms of their organisational and financial scale. In 1997/98, the last financial year for which analysed data is available, English authorities operated over 2,000 DLOs and DSOs, with annual turnover of almost £5 billion. In Wales, the 22 unitary authorities operated a further 195 DSOs and DLOs, with annual turnover of around £540 million.

Trading units have provided services that are central both to the overall performance and image of individual authorities...

19. Most of these units achieved their statutory financial objective – to break even. However, around 12 per cent of DSOs, and DLOs in England and approximately 17 per cent in Wales failed to break even.

20. On occasion, there has been emotive and ill informed discussion about deficits incurred by DLOs/DSOs. A deficit does not necessarily result in a financial loss to local taxpayers. Ascertaining whether deficits have led to hard losses requires data on the extent to which bids submitted by DLOs were lower than those submitted by unsuccessful external tenderers. Such data do not exist in summarised form.

21. Moreover, deficits can occur for a variety of reasons. While deficits can indicate possible inefficiencies in carrying out work, they may be caused by other factors, such as over-optimistic bids or changes in workflows. Nevertheless, deficits do indicate potential flaws in decision-making and may also lead to market distortions. They should therefore be thoroughly investigated. This applies as much under best value as it did under CCT.

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1. This paper defines trading units broadly as entities that provide services on a basis other than a straightforward recharge of cost. This is a broader definition than that adopted by CIPFA for financial and performance reporting purposes. Trading units may have internal or external customers. In addition, there are other local authority activities that are provided to external users and which result in an income stream – for example, car parks. These activities can be highly significant for corporate financial health.
22. In 1997/98, certain activities were more prone to financial problems than others. Interestingly, patterns of financial performance differed between England and Wales. In England, ‘other catering’ and sport and leisure management were the areas where trading units had most difficulty in meeting the statutory financial objective. In Wales, building maintenance caused the most financial problems. Around 30 per cent of Welsh building maintenance DLOs experienced financial difficulties in 1996/97, and this rose to around 40 per cent in 1997/98. Conversely, street cleansing gave rise to fewer problems in both England and Wales – in both countries, under 10 per cent of street cleansing DSOs did not meet their financial objective [EXHIBITS 1 and 2].

23. The figures are themselves less important than the indication that they give of continuing risk. The income stream for sports and leisure facilities, on which financial performance is often dependent, is particularly volatile, which may explain the problems in England. Not coincidentally, leisure management is an area where private sector contractors have

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**EXHIBIT 1**

**DSOs with deficits by service: England, 1997/98**

Other catering and sport and leisure management were the services that most commonly failed to meet the financial objective.

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**Percentage of DSOs not meeting statutory financial objective**

<table>
<thead>
<tr>
<th>Service</th>
<th>Percentage</th>
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<tr>
<td>Other catering and leisure</td>
<td>18%</td>
</tr>
<tr>
<td>Security work</td>
<td>16%</td>
</tr>
<tr>
<td>Highways maintenance</td>
<td>16%</td>
</tr>
<tr>
<td>Building cleaning</td>
<td>14%</td>
</tr>
<tr>
<td>Building maintenance</td>
<td>12%</td>
</tr>
<tr>
<td>Grounds and welfare catering and</td>
<td>10%</td>
</tr>
<tr>
<td>supervision</td>
<td></td>
</tr>
<tr>
<td>Vehicle repairs and maintenance</td>
<td>8%</td>
</tr>
<tr>
<td>Financial services</td>
<td>6%</td>
</tr>
<tr>
<td>Housing management</td>
<td>4%</td>
</tr>
<tr>
<td>Housing services</td>
<td>2%</td>
</tr>
</tbody>
</table>

*Source: Audit Commission analysis of DETR data*
also experienced failures. Building maintenance charging methods are complex and workflows can also be volatile. It is important to recognise that these characteristics will not suddenly disappear with the introduction of best value.

Local experience will, of course, not always have been consistent with these national trends. The key point is that risks identified under CCT need to inform decisions on the five-yearly best value review cycle and need to be considered fully during best value reviews (BVRs) especially when evaluating the competitiveness of current service delivery methods. It is also important that trading units that have experienced difficulties are properly addressed in best value performance plans (BVPPs) and that remedial action is clearly stated and subsequently monitored.

24. Decisions on how to approach financial management will flow from the results of the competitiveness component of BVR. Following BVRs, the year-end results of internal trading units will provide one – but only one – important indication of competitiveness.
The future of trading accounts

26. There has been considerable uncertainty about the future of trading accounts following the repeal of CCT. Some have argued that this development has provided an opportunity to get rid of accounting approaches that were associated with the CCT regime. Others have suggested that the best value principle – that services be provided at optimal quality but at a cost which local people can afford – implies the retention of trading accounts and their extension to new areas.

27. There is a certain amount of artificiality about this debate. First, simply maintaining a trading account will not of itself guarantee financial discipline, although it may provide greater transparency. Secondly, as already pointed out, the abolition of CCT is likely to bring about a blurring of the distinction between services that are subject to the rigours of a statutory regime and those outside that regime. All services will increasingly be subject to common financial disciplines, which will be reflected in accounting, reporting and monitoring arrangements.

This makes the messages in this paper relevant to all service managers, not just those who have had to live with CCT over recent years.

28. Nevertheless, as part of the research for this paper, a short survey was carried out into the current scope of trading accounts and authorities’ expectations of the extent to which trading accounts would be a feature of financial administration under best value.

29. Three key points emerged. First, a large majority of authorities expect to continue to maintain trading accounts for services that are carried out in-house under ‘contractual’ arrangements awarded under CCT [EXHIBIT 3]. Secondly, a majority of authorities currently operate trading units outside the narrow set of CCT services [EXHIBIT 4]. Thirdly, a majority of authorities expect the number of trading units that they operate to increase under best value [EXHIBIT 5]. There can be little doubt that the experiences and lessons of the final years of the old CCT regime will be relevant to the less prescriptive, more flexible best value framework.

EXHIBIT 3

Trading accounts for services currently provided following CCT

A majority of authorities intend to maintain trading accounts for services that are currently provided under ‘contracts’ that were awarded following a CCT process.

| Not maintain (44%) | Maintain (56%) |

Source: Audit Commission
EXHIBIT 4

Current operation of trading units
A majority of authorities operate trading units more widely than was required under the recently repealed CCT legislation.

Not more widely (8%)
More widely (92%)

Source: Audit Commission

EXHIBIT 5

Expectations on increased use of trading units
Most authorities expect to operate an increased number of trading units in the best value era.

Decrease (17%)
Stay the same (28%)
Increase (55%)

Source: Audit Commission
KEY QUESTIONS

- Do corporate processes ensure that the recent experience of services operating under the repealed statutory CCT regime has been taken into account in developing a five-year programme of best value reviews?
- Do best value performance plans include an evaluation of the performance of trading units where financial problems have occurred under the CCT regime, and plans for remedial action?
- Has the approach to the maintenance, monitoring and internal reporting of trading accounts in the best value era been determined?

Do best value performance plans include an evaluation of the performance of trading units...?
2. Business planning

Introduction

30. One of the objectives of the Government’s and National Assembly for Wales’ agenda for modernising local government is to ensure that public services are efficient and of high quality. As part of the best value duty, authorities will have to carry out BVRs on a five-yearly cycle and produce BVPPs, which provide details of performance achievements (against targets). To deliver best value services, local authorities will need to have robust business and service planning processes.

31. Business and service planning processes are also an essential component of sound financial and performance management for trading and service units. Units without such plans may not be sufficiently informed of factors that have an impact on their performance and may be poorly placed to deliver services in accordance with corporate priorities at a time when joined-up working is essential to successful service delivery under best value.

32. Just as the overall service and financial planning framework should not be a process-driven exercise, business planning for trading units should look outward and reflect communication with main customers. It should be located within the corporate and financial planning framework and be part of the best value process. In particular, it needs to be closely linked to corporate resource allocation processes.

Principles of business planning

33. There is no single model for a business planning process. However, in its recent management paper, Planning to Succeed, which was published in July 1999, the Commission highlighted five key principles for effective service and financial planning, which apply equally to business plans for trading units as to other service areas [BOX A]. In assessing their service and business planning processes, operational management should review the extent to which the framework incorporates these principles.

BOX A

Key principles for service and business planning

Five key principles are needed for effective planning.

- **Openness:** reflecting a wide range of views from inside and outside the authority.
- **Anticipation:** adopting and evaluating options on the basis of priorities and local needs.
- **Intelligence:** reviewing information needs.
- **Coherence:** linking to different services and plans.
- **Action-orientation:** leading to beneficial change rather than just being process-driven.
Benefits of business planning

Well-developed business plans and the processes that underpin them can instil a number of important disciplines. First, they provide an annual opportunity for operational managers to take stock. The immediate demands of service delivery can preclude consideration of all but the most short-term priorities. However, the finance director of one of the private sector companies that we visited found that the business planning process provided one of the few chances in the year for all key managers to sit down, review operations and look to the future in a considered way.

Secondly, business plans require operational managers to communicate with their clients and become involved in best value initiatives. Such communication complements the budget and other corporate processes. Changing service priorities and funding problems can be detected at an early stage and their implications evaluated. Customers can be informed as to how their decisions are likely to affect the trading unit.

For instance, changes in housing subsidy entitlement, and reductions or increases in planned capital receipts affecting capital programmes, can have a significant impact upon programmed maintenance plans and therefore on the resource requirements of a building maintenance unit. Failure to identify the financial constraints on key clients can have an impact on resourcing decisions by trading units, and give rise to problems [BOX B].

Thirdly, business plans provide an opportunity to inform senior management and members of the key events that may affect trading units and to indicate the options available to respond to them. The amount of detail that should be given to members needs to be considered. There is no need for members to be presented with a great deal of detail about operational matters such as employee terms and conditions, productivity or industrial relations. Therefore summaries or a composite document that covers a number of units may be useful.

BOX B

A building maintenance DLO reacted to an increase in central government grant entitlement for one of its key clients by taking on staff in order to meet the resultant increased workload. However, the increase in grant was due to one-off factors and did not signal a recurring annual increase in resources. The client was therefore unable to sustain the increased levels of work into the subsequent financial year. The DLO did not fully ascertain the implications of the subsequent reduction in grant and, in the following year, found that the work ordered was insufficient to support the increased capacity. A significant deficit resulted.
The business planning process also allows operational management to review tendering strategies. Trading units have long complained that the requirement under CCT for contracts to break even on an annual basis has prevented them from adopting more sophisticated pricing strategies. This has been contrasted with the ability of the private sector to review the financial viability of contracts over their whole lifespan. With the repeal of CCT, there is nothing to prevent trading units from modifying pricing approaches, provided that such approaches are prudent and reasonable, are in accordance with corporate financial strategies, are conducive to best value, and that the finance director is fully informed of, and endorses, the approach.

Business plans do not need to be particularly long or complicated...

Features of business plans

Business plans do not need to be particularly long or complicated documents. They should be informed by all staff and can also help to inform staff about corporate aims and objectives and, just as importantly, how operations fit into the overall picture such as best value initiatives. Adopting such an inclusive approach can be beneficial, particularly when the requirements imposed by CCT have in the past sometimes led to the feeling that trading units are peripheral to an authority.

39. Business plans can also come in a variety of formats, all of which can serve to provide a discipline/framework. Universal blueprints are counterproductive and will only have the effect of creating a straitjacket. There are key features that are likely to feature in business plans for trading units [BOX C].

BOX C

Key features of business plans for trading units

- Primary service objectives
- Links with corporate aims and objectives and best value initiatives
- Main customers: both internal and external
- Activity levels: how much work is to be carried out
- Key performance criteria (including indicators and targets)
- Key milestones
- Key resource requirements
- Legal changes with an impact on clients or the unit (such as employment legislation, amendments to EC directives)
- The competitive environment
- Training and staff development requirements
- Staff appraisal processes
- Marketing
- Approach to budget profiling
- New business areas

Source: Audit Commission
Business plans need to convey some detail about present arrangements and should review achievements. However, they are primarily forward-looking, action-oriented documents, so the review of historical and current performance should not be so detailed as to unbalance the plan and obscure key messages. It might be restricted to background on primary service objectives and activity levels, including a straightforward description of the service and its main customers. Plans should focus on the coming financial year, but need to have a longer horizon, which reviews commitments, forecasts, anticipates developments and outlines options over a medium-term period, perhaps three to five years.

The key milestones section is particularly important because it identifies significant events that will have an impact during the year. These are likely to include details of contracts that are due to expire in the year, together with their implications for the unit and the options for dealing with those implications, and accreditation or re-accreditation requirements for quality assurance schemes. Milestones will also include developments that have been identified in the BVPP that affect or are initiated by key customers, which may have an impact on the trading unit, by affecting either activity levels or quality or performance standards. They will also include corporate changes that may have a significant financial impact during the financial year – for example, possible changes to employers’ pension contributions as a result of an actuarial revaluation of the pension fund.
It is also essential that business plans recognise staff development and training issues.

The plan should include an analysis of the local market, highlighting competitors in particular service segments. A review of the impact of legal changes may identify those that have an impact on operational or financial performance, or which may invalidate the assumptions made in bids – such as changes affecting the terms and conditions of employees and modifications to procurement or tendering regimes.

It is also essential that business plans recognise staff development and training issues. It is often stated that people are an organisation’s main asset, but if this is to be more than a platitude it needs to be accompanied by details of what action is planned to develop staff and appraise their training needs. The finance director of one of the private sector companies visited regretted the fact that the need for regular and formalised staff appraisals was not always reflected in business plans.

The business plan should also contain budget profiles that inform members of the projected income stream, direct and indirect costs, and surpluses and deficits for particular services over the year, and the reasons for these trends. This information prepares members for the monitoring reports that they will receive later in the year. At one authority visited, the timing of school holidays and the annual price increase for school meals meant that the schools catering operation moved into surplus only in the second half of the year. The reasons for this were presented and discussed with members as part of the business planning process, so that evaluation and discussion of in-year financial performance was more informed and relevant. Profiling is discussed in more detail in the next section of this paper.

Business and service plans should include a set of key performance criteria. Any set of indicators should be relevant both to the service provider and to customers, external and internal, and should reflect a balanced range. In particular, they should not be narrowly focused on cost, although cost indicators should definitely be prominent. The Commission’s paper, A Measure of Success: Setting and Monitoring Local Performance Targets provides guidance in this area.

North Lincolnshire Unitary’s plan is particularly strong on the establishment of performance criteria. It is also important to evaluate the reasons for past performance against targets and specify the action necessary to achieve revised targets. Any relevant best value performance indicators (BVPIs), Audit Commission performance indicators and locally determined performance indicators should be included.

CASE STUDY 1

Establishing performance criteria in business plans

As part of its service and business planning process, North Lincolnshire Unitary Authority is developing a series of performance criteria that are related to overall corporate objectives. These incorporate performance indicators and targets across five management factors:

- resource management;
- process management;
- productivity;
- quality; and
- impact.

The performance criteria and associated performance indicators for vehicle maintenance are specified.

The process is underpinned by detailed definitions and data sources. Indicators are therefore clear and easily collectable. The aim is to give a balanced view of performance, but one that is at the same time accessible and comprehensible.

Performance against targets is calculated monthly and is included in management information packs, which also include the trading statements for each service situated within the Commercial Services Department.
47. Historically, marketing and the analysis of new business areas have not been priorities. Local authority trading has been tightly constrained and opportunities for trading with other organisations limited. However, there have already been some marginal relaxations. In addition, during the passage of the Local Government Act 1999, the Government identified the need to enable local authorities to work in partnership with others in order to achieve best value and will be consulting on possible legislative changes to facilitate such partnerships. Opportunities for external work need to be fully evaluated, from best value, financial and legal perspectives. They carry very significant risks, as well as potential benefits.

48. Quite apart from external markets, legislative change can have a major affect on clients whose continued custom may sometimes have been assumed automatically. Trading units can use the consultation underpinning the business planning process to find out what existing customers like and dislike about current arrangements. The recent introduction of ‘fair funding’ for schools in England is a good example of an initiative that demands a different approach. Barnet London Borough Council has reacted to the greater discretion available to schools, as a result of the recent changes to funding arrangements, by modifying its approach [CASE STUDY 2].

49. Some managers are cynical about business planning and see it as another corporate-driven imperative with few practical benefits. Such cynicism has tended to be reinforced for trading units by the perception that their future is largely dependent upon factors over which they have little control. Whereas a private sector entity can react to the possible non-renewal of a major contract by analysing the market and evaluating alternative business opportunities, the development of alternative sources of work has been highly limited for local authorities. However, the benefit of linking trading units to corporate developments should encourage a more positive view of business planning.

CASE STUDY 2

Modifying the approach to schools under ‘fair funding’

Barnet London Borough Council has allocated responsibility for liaison with schools over a range of traded services to one officer. Schools now have a single contact point, rather than having to waste time contacting a number of individuals. This officer then calls off services from other trading units. The pricing structure provides discounts to encourage schools to procure a range of services from the authority and is being extended to larger groupings of services.
Do all significant trading units have business plans that are linked to strategic, corporate and best value processes?

**KEY QUESTIONS**

- Do all significant trading units have business plans that are linked to strategic, corporate and best value processes?
- Do business plans reflect the five key principles highlighted in this section:
  - Openness
  - Anticipation
  - Intelligence
  - Coherence
  - Action-orientation?
- Has consideration been given to including the following features in business plans:
  - Primary service objectives
  - Links with corporate aims and objectives and best value initiatives
  - Main customers
  - Activity levels
  - Key performance criteria (including performance indicators and targets)
  - Key milestones
  - Key resource requirements
  - Legal changes with an impact on clients or the unit
  - The competitive environment
  - Training and staff development requirements
  - Staff appraisal processes
  - Marketing
  - Approach to budget profiling
  - New business areas?
- Do business plans address the approach to new business areas, or business areas where a new framework gives customers more discretion over the choice of service provider?
3. In-year accounting and performance information

Introduction

50. This section considers why financial problems affecting trading units have sometimes taken an unacceptably long time to come to light. It suggests an approach to minimise the likelihood that financial difficulties will be obscured or that performance failures will be ignored.

51. The term ‘in-year accounting arrangements’ used throughout this paper covers all the processes for collecting, analysing and formatting the accounting and performance data that authorities develop and report to all levels of management – both operational and corporate – and members. While the topic may not be a glamorous one, its importance can scarcely be exaggerated.

52. In-year accounting is pivotal to the whole planning and reporting framework. Information in reports can be distorted by problems such as uncleared holding and suspense accounts, unprocessed invoices, and the other accounting risk factors that are highlighted in this section. If this happens, even the most logical reporting structure and well-defined allocation of responsibilities will not provide the robust and action-oriented information that is needed to meet the challenges of best value.

53. Worse, the reporting framework may promise a level of assurance that is unwarranted by the reliability of the data that underpin it. Producing a suite of reports, which are tailored to the needs of different levels of management and members, according to an agreed timetable, but are based on largely unreliable data, can almost be more dangerous than producing nothing at all. At least a failure to produce reports should act as a early warning signal that something is wrong.

54. The lessons of recent experiences in England, Wales and Scotland do not affect only the minority of services that have been subject to CCT. Under best value, they are relevant to all service managers.

55. Operational difficulties can affect even the best-run organisations, regardless of the sector in which they are located. Assumptions that appeared prudent when tenders were compiled can be undermined by unforeseen events when contracts are up and running: subcontractors can find themselves in stronger or weaker market conditions than those that prevailed when they compiled their bids; overheads can rise in price more quickly than anticipated, possibly due to global rather than local factors.

56. Added to this, local authority trading units operate in complex environments. A manager of a building maintenance or new construction trading unit will have to direct a number of trades and make decisions about subcontracting for particular specialisms. The local market for some trades may be particularly tight, making staff recruitment and retention difficult. These are all issues that will need to be considered in BVRs.
A range of operational problems have affected trading units in recent years. They have included over-generous or obsolete bonus or productivity schemes, higher than predicted sickness levels, failure to rationalise outdated depot arrangements and sudden reductions in workload due to funding gaps in client departments. However, regardless of the specific reason, a common theme has been that the financial implications of operational problems have not surfaced until late in the financial year and, in some instances, not until well after year-end. Reports by auditors appointed by the Audit Commission in England and Wales and by the Accounts Commission in Scotland have highlighted similar problems in the reporting of financial performance at a small number of authorities [BOX D].

... the financial implications of operational problems have not surfaced until late in the financial year.

BOX D

Late and inconsistent reporting of financial performance

In a number of well-publicised cases, the financial position of particular trading units was uncertain until after the year-end. Sometimes reports to members provided estimates of outturn that veered markedly on a month-by-month basis. At one authority, the deficit projected for the building maintenance DLO increased by over £400,000 between the production of the final management accounts and reporting of the year-end position. At another authority, members were informed of a projected surplus for the department that was running statutory trading operations a little more than a month before the end of the financial year. Shortly afterwards, a revised report projected a deficit of over £1 million.

Some difficulties were undoubtedly exacerbated by reorganisation; in particular, the complexities of harmonising systems and procedures that had been inherited from predecessor authorities. However, auditors also highlighted more basic issues, such as failure to compile management accounts on an accruals basis. Other issues identified have included uncertainty over the value of work completed but not invoiced, inadequate controls on interfaces between the main financial ledger and subsidiary systems, and delays over the processing of invoices due to disputes over what work had been performed. All these issues are explored in detail in paragraphs 58-83.

Source: Auditors’ reports
The accounting risk areas: the usual suspects

58. A number of accounting risk areas have a potential impact on overall financial performance. Because trading and service units rarely produce balance sheets, the implications of these risk areas may not be apparent even to informed users of financial information. It is essential that in-year accounting arrangements deal adequately with these items. They include:

- creditors, debtors and work completed but not invoiced (accruals);
- volatility of income stream;
- suspense and holding accounts;
- apportionments;
- work in progress; and
- claims.

59. Different services will be affected differently by these factors. For instance, work in progress is unlikely to be relevant for a revenues or benefits section in a finance department, but will be crucial for a unit that is engaged in capital construction or long-run project work. For building maintenance divisions, processes for ascertaining the value of work that has been completed but not invoiced will be critical to the accurate reporting of performance.

60. Financial management absorbs resources, so it is important that attention is directed at those areas where problems are more likely to arise. A weighted matrix approach can be valuable in assessing the level of risk attached to each of these factors for particular service and trading areas [BOX E]. A service that is labour-intensive, operates on a cash-limited vote and does not recharge external or internal clients will obviously not incur problems with invoicing or job costing systems. However, the proper administration of salaries and wages-holding accounts may be crucial to the reliability of information on its performance.

### BOX E

**A weighted matrix approach**

<table>
<thead>
<tr>
<th>Service/Factor</th>
<th>Accruals</th>
<th>Income</th>
<th>Suspense</th>
<th>Holding</th>
<th>Apportionment</th>
<th>Work in progress</th>
<th>Claims</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building maintenance</td>
<td>4</td>
<td>5</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>4</td>
<td>28</td>
</tr>
<tr>
<td>Revenues administration</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>14</td>
</tr>
</tbody>
</table>

*Source: Audit Commission*
In the approach outlined in Box E, risk factors are scored on a 1–5 basis for two services. Five indicates the highest level of risk that the information in reports may be distorted materially, while 1 suggests that the risk is negligible. In this simple example, building maintenance is overall a higher risk activity than revenues administration. Such an approach might be used to govern the regularity with which key factors are reviewed and the timing and detail of reporting. Of course, risks can change over time so any evaluation needs to be re-examined periodically. One corporate service director interviewed for this study referred to his regular examination of the robustness of the processes for producing the information in reports as ‘depth charging’. He wanted to ensure that the streamlined reporting framework that he and his staff had spent a great deal of time and effort designing in collaboration with members and officers was underpinned by information of a commensurate quality.

Because many authorities still operate the main accounting system on a part-cash basis, the **accruals** process can be a particular problem. The integrity of accounting information will be compromised if expenditure is not recognised as it is incurred, or if invoices are delayed and income not included in reports. Information produced by corporate systems – in particular, the main accounting system – should be reviewed to determine whether it is sufficiently robust and the data produced sufficiently timely for the purposes of particular trading and service units.
63. The optimal solution is, of course, to implement a main accounting system that satisfies the requirements of all trading units. However, this may take a considerable time and be highly resource-intensive. In the medium to short term, if the information produced by the main accounting system is insufficiently robust, managers should consider how data can be complemented. This may involve the use of PC-based solutions. In such cases, it is important that there is full consultation with the finance director.

64. Similar, if not more significant, risks may arise where the trading unit transfers or ‘uploads’ data to the corporate ledger from subsidiary systems, or where parallel systems are maintained. The design and operation of any such system and the way in which data that it produces interfaces with corporate systems needs to be fully understood and documented. Otherwise the information produced will be inconsistent and two different financial positions may be reported. Again, it is essential that the finance director be fully consulted.

65. Recognition of income for some services may involve the invoicing of internal and external clients. Where invoicing depends upon transfers from subsidiary systems (such as job costing ledgers), the timescales within which such transfers should take place and the responsibility for doing so must be clear.

66. It is an accepted principle of debt management that prompt invoicing minimises the likelihood of subsequent disputes. Problems over invoicing are more likely to surface where the contract involves a large number of small jobs of variable nature, mostly on a schedule-of-rates or bills-of-quantities basis, than where the basis of charge is a lump sum that is chargeable on a straight-line basis.

67. Such problems can be reduced if charging methods are made clear to clients. Timescales should be agreed within which invoices or charges can be queried. Some authorities have established negative action protocols, whereby invoices are automatically processed unless challenged within a predetermined period, say 14 days. The process for invoices should also be as smooth as possible. One auditor highlighted a situation where, following system difficulties, a client was deluged with thousands of invoices for work, some of which had been completed months earlier. The client’s understandable reluctance to process these invoices quickly meant that the trading unit’s financial position was subsequently uncertain for an unacceptably long period.

68. Commitment accounting recognises charges when goods and services are ordered and can be a valuable tool for purchasing officers. While an operational manager should focus first and foremost on accruals accounting, a commitment accounting facility can augment basic accruals information by confirming or modifying expenditure trends. Commitment accounting needs to be operated carefully, however. One authority found that, early in the financial year, the projected expenditure position for a highways maintenance trading unit appeared to be alarming. It transpired that a commitment had been entered for the full potential annual value of a call-off contract for asphalt, and that the modified expenditure figure was therefore misleading.
Although suspense and holding accounts differ, the principles in dealing with them are very similar. Holding accounts are used as a staging post for expenditure, particularly where standard charges are a feature of management accounting arrangements. Used properly, they can enhance the speed of reporting. In essence, the holding account is charged with actual expenditure and credited with predetermined charges. Holding accounts are commonly used for administering salaries and wages expenditure where employees are charged out at standard hourly or daily rates.

Suspense accounts are generally used to deal with unidentified expenditure and/or income items or miscodings. Both of these types of account need to be monitored carefully. This means establishing clear responsibilities and timetables for clearing them. Suspense and holding accounts with significant unexplained debit balances, or sharply increasing debit balances, may be particularly damaging to the integrity of financial information. They need to be treated as very serious warning signs of potential financial problems, as they can disguise expenditure that should be charged to a revenue account in the accounting period.

Apportionments have been a particularly problematic and contentious aspect of accounting arrangements for many trading unit managers. Currently, local authorities are required to apportion all central costs, except a range associated with the corporate and democratic core – and a more recent additional category known as ‘unallocable central costs’. The corporate and democratic core broadly comprises those costs which are incurred because of an authority’s multifunctional, democratic character. ‘Unallocable central costs’ include certain backdated pension costs and the cost of obsolete computer equipment. With the introduction of best value, CIPFA is proposing that these categories be modified, primarily to reflect the Government’s intention that authorities introduce new governance arrangements. In order to enhance consistency and comparability between authorities, it is important that overheads are accounted for in accordance with the approach in the forthcoming Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Best Value Accounting.

Until quite recently, central overheads – including the cost of support services such as legal and financial services – were charged on the basis of factors such as staff numbers, floor area or expenditure. This was generally on a straight-line basis throughout the financial year, with an end-of-year adjustment to reflect the difference between the outturn and budgeted position.

There were two major objections to this approach. One was that trading units were quite simply over-charged. The second was that the year-end adjustment, which cannot be controlled or predicted, tended to turn apparent year-end surpluses into deficits. This was particularly dangerous because it encouraged an attitude that, as the outturn position was likely to be turned on its head at the end of the financial year, there was little point in spending time on monitoring financial performance during the year. Once such a view becomes embedded as part of the culture of an authority, it is not easily dislodged.
74. For support services, the recent trend has been for authorities to introduce a system of service level agreements (SLAs), whereby actual charges are related far more clearly to services that are provided on a specified basis, with additional services being subject to negotiation as the need arises. This means that trading units can be far clearer about both the level of recharges that they incur on support services (such as payroll and creditor payments) that are provided from the centre, and the standards of service. The risk with such agreements, of course, is that they can become unjustifiably voluminous for relatively small amounts of work. One of the authorities visited was dismantling its SLA system because its administration costs were perceived to outweigh its advantages. Activity-based costing (ABC), a technique that can be used to highlight cost-drivers for particular areas, may provide assistance here. It can allow a focus on significant costs that is valuable when determining the approach to SLAs.

75. Difficulties can arise where support services, even those operating on an SLA basis, do not fully recover costs. CIPFA is currently revising its accounting guidance so that under-recoveries should be reapportioned to service-users – including trading units – if they are material to published cost based indicators. This measure seems sensible as it will avoid a wholesale reversal of charges at year-end. While a failure to allocate or apportion significant under-recoveries can lead to the understatement of expenditure figures – and therefore to a distortion of cost comparators and unit cost-based performance indicators – this should not be a frequent occurrence.

76. Work in progress (WIP) can be a particularly significant factor for some trading units, particularly those that are involved in long-run projects and consultancy and advisory work. It is likely to be particularly important for buildings and highway construction and maintenance operations. Any trading unit with a capital construction capability will need to assess arrangements for, and consider the timing of, interim valuations. Regular interim valuations also facilitate the monitoring of trends in WIP. Rising trends in WIP should be investigated, as they can distort the bottom-line position. It is crucial to establish whether such work is going to be invoiced or whether the figures purporting to be represented by WIP really disguise inconvenient costs that will have to be written off.
A very close attention to the level and trends of WIP was a feature of both the private sector companies that the Commission visited. A key feature of the job-costing framework operated by one was a client-billing monitoring facility. This highlighted jobs to which time had been charged, but for which invoices had not been raised within a three-month period. Such jobs were then subject to detailed scrutiny. Another private sector company that has recently won a number of property consultancy and advisory contracts with local authorities sees the monitoring of WIP as an absolutely key control and has an ‘aged’ WIP report as a standard feature of its monthly management accounts. This enables jobs where costs have been accumulated but no recharges have yet been made to be highlighted for further analysis.

Claims occur when the contractor – whether internal or external – carries out work that goes beyond what is specified in contract documentation. High levels of claims may, of themselves, be a cause for concern and therefore trends should be monitored closely. They can be symptomatic of a variety of problems. These include imprecise contract documentation, a poor relationship between those ordering work and those carrying it out – many practitioners feel that hard/client contractor splits have contributed to such problems – or inadequate or vaguely worded specifications.

The drive towards longer term contracts that are outcome- and output-based, and the possibility that service objectives and delivery methods may be modified as a result of BVRs, mean that claims are not likely to disappear. Under best value, it is important to focus discussion on providing approaches for minimising or eliminating such disputes in future rather than on retrospective accounting adjustments. There is also an important cultural dimension to claims. One contract services director made the obvious, but sensible, point that trading units should remember that they contribute to the corporate objective/drive to provide services to the community and should seek to avoid making claims.

From a financial reporting perspective, the main risk of claims is that their financial implications can distort the financial picture. The culture of year-end reporting sometimes means that the settling of claims is deferred until after the end of the financial year, and is treated as an accounting closedown procedure. This practice is dangerous, particularly if, during the year, income is accrued in respect of claims that have not been settled.

There should be an agreed arbitration process to deal with claims that cannot be settled amicably. Some professionals advocate a fast escalation process in which senior officers become involved at a fairly early stage. They believe that this enhances the likelihood that resolution will be achieved quickly at junior levels. In accordance with the prudence concept that underpins external reporting, supplementary income should be accrued only if this has been agreed by the client or by those accepting charges for work, or has been determined at arbitration.
82. The converse of claims is where clients dispute the value of work that has been carried out, either because there are concerns over quality or because they do not accept that it was ordered in the first place. The latter can quite commonly arise in day-to-day maintenance operations, where operatives either ascertain on arrival at the site that the job required is not that on the job sheet or that further work needs to be done. From both customer and financial perspectives, this operational issue is one of the most difficult to handle. It does not present a good image if key customers such as housing tenants have to wait for further repairs beyond those initially identified while authorisation is obtained but, without some controls, unnecessary work might be carried out. Some authorities have agreed that operatives can carry out work up to a specified financial level prior to obtaining authorisation. This practice can reduce subsequent disputes and enhance the efficiency and speed of service delivery.

83. The volatility of the income stream needs to be taken into account when assessing the appropriate level of monitoring. Risk is higher for activities with variable demand than for services where activity levels are fixed at the start of the financial year and fluctuate only marginally. The nature of charging will also be a key factor. Income streams based on monthly straight-line recharges for services with agreed service levels and steady/stable demand are easier to predict than those for a large number of small-value jobs on a schedule-of-rates basis. The risk attached to the volatility of the income stream is closely linked to budget-profiling, which is considered in the next section.
Profiling budgets

84. We have already suggested that members should be presented with budget projections, which have been prepared on a profiled basis, at the business planning stage. Profiling recognises that, for many activities, income and expenditure are not incurred evenly throughout the financial year and provides projections that reflect this. There can be little doubt that the value of budgetary information can be enhanced significantly if both income and expenditure are profiled. Presenting financial reports on an unprofiled basis can present a distorted picture.

85. The extent of such distortion will depend on the key characteristics of the activity. There are some very obvious illustrations. A number of local authority services are seasonal in nature – for leisure management and grounds maintenance, peak activity levels will occur in the summer months. Conversely, the demand for day-to-day building maintenance work is likely to be heavier in the winter. While the dash to ensure that budgets are fully spent in the final months of the financial year is a well-known and unwelcome aspect of the annual basis of local authority budgeting, budget reports that fail to recognise such trends are likely to be misleading.

86. For many services, profiling will be an imprecise science that relies on building up cost and income information over a period. As more historical information becomes available, the reliability of profiled budgets increases. Profiling is likely to be most worthwhile where costs and income are least predictable. Where the income stream is volatile and costs are incurred unevenly, profiles will not be straightforward to compile, but their impact will be most significant. Sunderland City Council’s City Contracting has recently devoted a great deal of energy to profiling and it is a key discipline in the budgeting and monitoring process [CASE STUDY 3].

CASE STUDY 3

Profiling budgets: Sunderland City Council

Following substantial losses in 1996/97, the authority created a unified umbrella DSO. The new management team decided to introduce budget profiling for all activities. Previously this process had been undertaken only for some activities, such as leisure management. The monitoring of performance against profiled budgets is now a key aspect of reporting and monitoring arrangements.

The Director of City Contracting accepts that it is much more difficult to produce a profile for some services than for others. Income and expenditure for refuse collection is relatively predictable, whereas the position for new construction – to which profiling has recently been extended – can fluctuate very rapidly. Nevertheless, the discipline of profiling leads to a better understanding of the way in which costs behave and a deeper knowledge of risk factors.
The culture of year-end reporting

The need for more timely annual external reporting in local government as a key component of local accountability has been widely acknowledged. In successive annual reports on issues highlighted by its auditors, the Commission has called for accelerated accounts closure, approval and publication, and has acknowledged continuous improvements in these areas.\(^1\)

There is, however, a perception among trading unit managers that accountants are disproportionately concerned with year-end reporting rather than with the provision of robust in-year accounting information.

This has been due partly to the statutory accounting and reporting provisions of the CCT regime. By providing clear reporting requirements and deadlines, the regime focused attention on bottom-line financial performance and increased the likelihood that inefficient in-house operations would be highlighted. The benefits of such a development are now taken for granted, but should not be forgotten.

However, the statutory reporting framework also required a large number of complex accounting adjustments. Many of these could be made only at year-end. In some cases, this led to two unfortunate consequences:

- operational managers, realising that the statutory outturn position was likely to be dependent upon a series of arcane accounting adjustments, which were comprehensible only to the DLO accountant, felt that there was little point in monitoring the position actively during the year; and, as a consequence,
- operational managers concluded that all financial matters were better left to accountants.

The removal of the statutory accounting regime gives authorities an incentive to re-focus attention on in-year accounting and performance information. It is essential that, with the onset of best value, there is a renewed evaluation of authorities’ ability to provide robust information during, as well as at the end of, the financial year. Freed from the legal constraints of the CCT regime, operational managers and accountants can consider the nature of costs and gain a thorough appreciation of those cost-drivers that are key to financial performance. A good manager will use both accounting and operational information to provide a quantitative confirmation of what is already largely known. The adage at one private sector site was ‘managers know, accountants confirm’.

The timetable for producing BVPPs provides another incentive for authorities to evaluate their approach to the production of in-year accounting and performance information. Most of the quantitative information provided in BVPPs will be on an estimated outturn rather than actual basis. Estimates that are significantly different from audited outturn figures will necessitate revisions and explanations in subsequent BVPPs, confusing readers and doing nothing for authorities’ reputations.

\(^1\) For example, Stewardship and Governance in Local Government in England 1998 and Stewardship and Governance in Local Government in Wales, both published in July 1999.
... performance information is an essential complement to financial data.

Performance information

93. At the business planning stage authorities should have identified and agreed the non-financial performance information that will be reported on a regular basis. The indicators specified will depend on the nature of the activity. Because most local authority trading units are likely to be labour-intensive, indicators of employee performance will feature heavily. The monitoring of performance against whatever bonus or productivity scheme is in operation will be crucial (paras. 96–100). Likewise, data on sickness absence will be needed to compare actual levels with assumptions that were made when bids were submitted and to trigger action in accordance with corporate policies.

94. However, indicators should be balanced and encompass quality and process factors, so as to give a rounded picture of performance. This allows managers to assess the extent to which agreed performance targets are being met. For instance, at one authority the section dealing with land charges was operating well within budget and with a much lower unit cost than any of its comparators. However, a seemingly sound financial position was balanced by a failure to meet the corporately agreed target for the processing of cases.

95. Such performance information is an essential complement to financial data. The manager of a vehicle maintenance depot, whose staff have achieved 95 per cent chargeable time, would also need to know if a high proportion of vehicles were returning for further maintenance within a short period of routine servicing. Quite apart from the fact that this might indicate the need for a review of internal quality assurance procedures, what appears at first sight to be a positive financial performance might be viewed in a somewhat less glowing light if there is a likelihood that work will have to be done again on a no-charge basis.
Monitoring performance against bonus/productivity schemes

96. Bonus schemes have long been a controversial and complex feature of local authority operations. They can vary in nature and complexity. Some of the most complex rely on a series of ‘target’ times to complete particular work components or phases, with performance at target leading to a ‘standard’ rate of bonus. Others are simpler and rely on the completion of discrete activities – for example, refuse collection rounds.

97. Many bonus schemes were introduced in the 1970s, ostensibly in order to enhance productivity, but in some instances to maintain remuneration rates at times of high inflation. Some of their potential defects are well known. They can be expensive to administer and, unless regularly reviewed and modified, can easily become obsolete – the concept of ‘bonus drift’ is one with which every manager in trading units that operate bonus schemes will be familiar. In some instances, bonus schemes can provide perverse incentives, particularly where ‘unproductive’ time or sickness attracts bonus earnings that are based on performance in respect of small amounts of ‘productive’ work. Bonus schemes can also encourage ‘cherry-picking’; operatives work out those items on schedules of rates with relatively generous targets and focus on these items at the expense of other jobs.

98. From a management perspective, there are broadly two schools of thought about bonus schemes in local government. One view is that such schemes are an anachronism, which have no place under best value and that productivity can be achieved through normal management processes. An alternative view is that, even acknowledging the pitfalls, bonus schemes are an incentive to productivity and can provide valuable information about performance at a number of levels.

99. In the medium to long term, the future of bonus schemes must be open to doubt in the light of developments such as the single status agreement, job evaluation and the view that traditional bonus schemes may be discriminatory. However, where authorities operate bonus schemes, it is essential that they use the data generated to review performance and, in particular, to monitor actively assumptions in tenders. Such scrutiny applies particularly to tender-led bonus schemes, where adverse variations will imperil a trading unit’s ability to hit financial targets.

100. Derwentside District Council is an authority that has a very positive approach to developing and monitoring key performance information that is produced by subsidiary systems, including operative performance against the bonus scheme. The approach was introduced by Derwentside to support major changes to working practices following a very difficult period [CASE STUDY 4, overleaf].
CASE STUDY 4

Using financial and operational performance information: Derwentside District Council

Derwentside District Council direct service organisation experienced a very difficult financial year in 1996/97. Against a background of a severely reduced capital programme and formal statutory action by the Department of the Environment, significant deficits were sustained. The authority acknowledged that some working practices were outdated and that management information had been poor.

A new director of operations was appointed late in 1997, and a new DSO management team introduced structured meetings, team briefings, newsletters and regular appraisals. A number of changes were made to operations and administration. Underpinning these initiatives was the introduction of an integrated approach to financial management, which focused on performance information that had a direct impact on financial performance. This computerised and linked what were previously discrete items of information, such as:

- bonus administration and payments;
- overtime claims;
- stores issues;
- vehicle and plant charges;
- sickness and absence records;
- abortive calls;
- interim valuations of work in progress; and
- client invoices.

This information is analysed in a number of different ways. The general principle is that information is provided at a high level, but it can then be used to ‘drill-down’ deeper if needed. For example:

- operational managers are provided with information on the productivity of their employees. This is shown as a total for all staff, by trade, by contract or by individual. They also receive information on the profitability of their service overall, and can analyse this by trade or contract; and
- the DSO management team is provided with information on the performance of the DSO overall, and this is then broken down into different activities, trades and contracts. It also gets information on staff productivity, on an exception report basis, which shows only these employees who are not achieving target productivity.

Particular attention is directed at performance against bonus and productivity schemes. An example of this approach is the building maintenance section. As with most trading units, labour constitutes the main cost for the section. The bonus scheme has recently been rationalised and all allowances in the scheme have been consolidated or deleted. Tenders are compiled on the basis that the labour element will break even at an average bonus scheme performance of 86 per cent. The management team undertakes rigorous monitoring on a weekly basis using a hierarchical analysis, which allows performance to be at the unit, depot, trade, gang or individual level.
Is key non-financial performance information specified and monitored on a regular basis?

**KEY QUESTIONS**

- Have the risks attached to the following complex accounting areas been evaluated for each trading area:
  - creditors
  - debtors
  - work completed but not invoiced
  - suspense and holding accounts
  - work in progress
  - apportionments
  - claims
  - disputed work
  - income stream volatility?
- Has the approach to the monitoring and reporting of particular trading areas been modified to reflect this evaluation?
- Where trading units rely on the downloading of data from corporate systems, or where there is uploading of data to the main ledger, has the approach been discussed with and approved by the director of finance?
- Have the budgets for trading units been profiled?
- With the repeal of CCT, has the authority taken the opportunity to review the current approach to in-year accounting?
- Is key non-financial performance information specified and monitored on a regular basis?
- Where applicable, is performance against bonus or other productivity schemes regularly monitored?
4. Role of the finance director, monitoring officer and internal audit

101. The finance director has a particularly important role in the financial management of trading and service units. It is important that this role is exercised sensitively but firmly and is recognised in an authority’s governance arrangements.

102. This responsibility is underpinned by key sections in the Local Government Act 1972 and the Local Government Finance Act 1988. Section 151 of the 1972 Act requires councils to ensure that arrangements are made for proper financial administration, and to appoint an officer with responsibility for this. Secondary legislation places a specific duty on that nominated officer in relation to accounting records and systems. The 1988 Act bolstered this provision by inserting a positive duty on the responsible financial officer to report on issues of illegality or the inadequacy of resources.

103. These provisions are important in securing the proper stewardship of public money. They should not, however, be used to justify a highly centralised approach in which the finance director imposes requirements on trading units with little or no consultation. They do mean that the finance director should be satisfied as to the robustness of any subsidiary systems that are run by trading units, and the authority’s overall financial reporting framework, including the framework for reporting the results of trading units. Finance directors need to be satisfied that the information in reports is reliable and that the reporting hierarchy is appropriate.

104. There are a number of traditional, but nonetheless critical, controls for ensuring appropriate financial stewardship. Financial regulations and contract standing orders are key components of governance arrangements. Finance directors need to ensure that any variation in corporate requirements to reflect the special circumstances of trading units have been thoroughly considered and approved.

105. It is also important to keep a watching brief on significant tenders. The finance director should be aware of the main factors that are being taken into account in evaluating tenders, the process for determining these factors and the transparency of the tender evaluation approach. All of these features should flow from a corporate procurement strategy. Tenders submitted by trading units can have an impact on corporate financial health. One authority’s overall financial strategy included assumptions on the surpluses that would be generated by trading divisions. Failure to achieve those surpluses would lead to financing gaps. The overall position was therefore regularly monitored and reported.

106. The monitoring officer, appointed under the Local Government and Housing Act 1989, also has a key role in relation to tendering. Opaque or incoherent tendering procedures can enhance the risk of an authority becoming involved in litigation, and generate bad publicity as a result. Most importantly, inadequate tendering procedures may not lead to the delivery of services in a demonstrably competitive manner under best value.
107. Again, risk assessment processes can highlight tenders that require the most detailed attention. Those where the bid is to carry out work for a third party, or where the clients are internal but significant components are to be subcontracted, need particular evaluation. They involve cash-flows in and out of an authority, which can have a more immediate and real impact upon corporate financial health than internal arrangements, which basically involve circular flows between departments. In these instances, bids need to be underpinned by cash-flow forecasting, so that the full financial implications can be determined from a corporate perspective. Because of the internal nature of trading, cash-flow forecasting is a discipline that both operational managers and finance officers have tended to regard as irrelevant to internal arrangements.
In a small number of recent cases, it has become clear that the finance director has been peripheral to the financial management of trading units and has had little input into key decisions. In a few highly publicised cases the finance director, together with other key statutory officers – such as the monitoring officer and the head of paid service – was either unaware of the scale of deficits or the reasons for those deficits until late in the financial year. This indicates that the finance director has become – and allowed himself/herself to become – marginalised in an inappropriate and unacceptable way. Authorities should follow the guidance in CIPFA’s *Statement on the Role of the Finance Director in Local Government*¹ to reassess the arrangements that govern relationships between the finance director and trading units.

Marginalisation of the finance director is more likely to be an issue at larger authorities. It is a particular risk where trading units operate a variety of stand-alone systems or where the up-to-date corporate financial position is dependent upon interfaces with systems such as job-coding ledgers. In such cases, it is important that ground rules for interfacing with the main ledger are agreed.

One factor that may contribute to the marginalisation of the finance director is the general move to a more devolved approach to trading units and their increasing discretion to choose the nature and level of support services. More negatively, it may also be a result of dissatisfaction with the perceived unresponsiveness of the finance directorate to the business needs of a trading unit, or with the quality and timeliness of financial information. It has already been noted that the accounting and reporting focus for trading units has tended to be on year-end reporting.

Another cause of tension between the finance director acting as an ‘umpire’ – maintaining an advisory and precautionary role – and as a ‘player’ – proactively developing innovative solutions – was identified in the Commission’s recent management paper, *Worth More than Money*.² Sometimes the dedicated accountant, located in the trading unit but reporting to the finance director, has seemed to be the ‘treasurer’s fifth column’. This has fuelled a sometimes understandable demand for the unit to have its ‘own person’, whose loyalties are undivided.

This largely cultural issue has sometimes been compounded by personality clashes. There are no easy solutions and those that spring to mind can sound like platitudes. However, an understanding and appreciation of the different roles of the director of finance and operational management can reduce such tensions. While trading unit managers must accept that the finance director has to discharge key corporate and statutory duties, the finance director and his/her staff need to be aware of the commercial realities facing the trading unit.

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An example of the kind of creative tension that can develop is the partnership at Plymouth City Council, where the contract services director welcomed the input of the finance department to the bid compilation process. The director felt that the finance department’s representative played a valuable part in scrutinising and challenging the assumptions of operational managers. In their enthusiasm to submit highly competitive bids, operational managers might make unrealistic or over-optimistic assumptions. It is better to challenge such assumptions in a constructive manner at the bid compilation stage than to have to deal with difficulties in meeting financial targets during the term of contractual arrangements once they have been entered into.

A further illustration of a positive relationship is the practice at Sunderland City Council, where committee reports are submitted jointly by the director of contracting services and the city treasurer. This involves initial preparation within contracting services prior to discussion and finalisation with the treasurer’s department. Reports then go to committee jointly from both directors, thereby enhancing the assurance provided to members.

**BOX F**

*Reporting to committee on a joint basis*

The assurance provided by reports on financial performance can be enhanced if reports are submitted jointly by finance director (treasurer) and the director of trading services.
There has recently been a very lively debate on whether the finance director should always be represented on an authority’s management board, or its equivalent. Worth More than Money considered this issue in some detail. It concluded that, although there may be instances in which the finance director will not be a member of the management board, there should always be someone at board level who is responsible for finance and that this responsible officer should have guaranteed access to the chief executive and members. It needs to be emphasised that the operation of trading units is one of the risk areas to which this principle applies most strongly.

On occasions, operational managers of trading units have understandably sought to reduce costs by limiting the level of internal audit coverage. Certainly it is essential for internal audit to be clear about the nature and scope of its work and investigations, and to communicate these to management, and that reporting protocols and timetables are in place. However, aspects of trading operations should not be off-limits to internal audit. Trading units maintain valuable stores, vehicles, plant and equipment, all of which can be susceptible to theft or fraud, and it is essential that there is adequate internal audit coverage to provide management with the assurance that corporate assets are being safeguarded.

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**KEY QUESTIONS**

- Has the role of the finance director in relation to trading units been considered formally and properly addressed in governance arrangements?
- Is the finance director aware of the key controls in the tendering process and the main factors to be taken into account in tender evaluation?
- Is the monitoring officer proactive in monitoring the approach to tendering and procurement?
- Has consideration been given to joint reporting by the director of trading services (or equivalent) and the director of finance (or equivalent) on the financial performance of trading units?
- Are trading units given appropriate coverage in internal audit plans?
5. Reporting

Introduction

The previous sections have stressed the importance of ensuring the reliability of in-year accounting and performance data and the key role of the finance director in providing assurance to the rest of the organisation on the adequacy of both the systems used by trading units and reporting frameworks. The need to ensure that internal audit is able properly to address risks that may arise in relation to probity and propriety has also been stressed.

The key issues on reporting the performance of trading or service units can be encapsulated in the question, ‘who gets what, when and in what format?’

The key principles

Most of the key principles in reporting are well-known and straightforward. However, it can often be useful to evaluate current reporting structures against these principles, even if there are no signs of obvious problems.

First, reports should include a level of detail that is appropriate to the recipients’ responsibility. In particular, reports should not include a great deal of detail on costs or aspects of performance that are outside individuals’ ability to control. Telling a line manager that the main adverse variances for the unit are due to increases in rental payments for the main depot following a rent review in accordance with a break-clause in a lease is not helpful unless he/she can actually influence decisions on accommodation. If events outside a manager’s area of control require a revision of targets or actions, this should be made clear.

Secondly, and related to this, reports should be concise. Unnecessary detail obscures key messages. As with any form of reporting, there is a tendency to provide compendia of largely irrelevant data. Detail on the productivity performance of the joinery shop will not be of interest to the chief executive or to key members but will be essential for the shop manager. Similarly, the manager of the building maintenance unit is more likely to focus on overall productivity performance than on the performance of specific individuals.

Different layers of management therefore require more or less detailed information. South Tyneside Metropolitan Borough Council and Derwentside District Council have both developed reporting structures that incorporate the ‘drill-down’ principle (see section on ‘In-year accounting’, above). This involves providing greater level of detail the closer an individual is to day-to-day operations. It has the advantage of providing data from a common database, but with different levels of aggregation. Everyone knows that they are viewing the same picture, but from different angles. The ‘drill-down’ approach is not prescriptive about organisational structure and can easily be adapted to local circumstance. The main benefit is that information is aligned to responsibility. It can also improve working relationships by ensuring that different individuals are not trying to solve exactly the same problem simultaneously [CASE STUDY 5, overleaf].
The drill-down approach to reporting: South Tyneside Metropolitan Borough Council

For a number of years, South Tyneside Metropolitan Borough Council has recognised the importance of good management accounting information for trading units. The Public Works Department, which is responsible for most of the trading units in the authority, has also established that trading units require different financial information from other users and that traditional tabulations of costs are inadequate for their purposes. The approach has also involved analysing the reliability of the corporate financial ledger for management accounting purposes and determining adjustments that are needed in order to provide up-to-date and robust information.

Five levels of management have been identified to whom management accounting information is essential for each of the department’s 18 trading divisions. A suite of reports has been designed that is appropriate to each level. Reports identify the manager at the level below that to which the report is directed, from whom further explanations can be sought.

Each of the 18 trading divisions includes the following hierarchy of reports:

- Summary trading account
- Analysis showing trading profit before and after overhead allocation
- Overhead monitor statement showing month and cumulative actual expenditure compared with tender price and detail of variance analysis, further analysed into expenditure and activity variances
- Analysis report showing profit/loss analysis between current projects and completed work
- Individual job cost profit and loss report
- Analysis of individual job cost into expenditure elements
- Further analysis available down to timesheet details, stores issue notes, invoices charges, etc.
123. Thirdly, reports should be timely, so that any remedial action required can be highlighted, discussed and initiated as soon as possible. Turnaround times of reporting in local government have recently improved. However, local government needs to strive to achieve the best standards of the private sector. At one of the private sector companies visited, interim accounts for individual business units are produced within four to five working days of the month end.

124. Fourthly, reports need to be action-oriented. It should be clear what action recipients are expected to take when they receive reports. Both private sector sites visited had very clear timetables for evaluating, amending and responding to reports and providing necessary explanations.
... the timing and basis on which information is to be provided should be clear at the start of the financial year.

125. Changes in governance arrangements mean that new approaches for reporting to members need to be developed. For that reason, the focus should be on high-level trends. Members also need to know when they are going to receive reports. At Sunderland City Council the annual service plan for the contract services directorate details the timing of reports to key officers and relevant committees before the start of the financial year, creating a clear framework from the outset [BOX G].

**BOX G**

**Reporting timetables to key officers and members**

Key officers and relevant committees should be aware of the timing of reports before the start of the financial year.

*Source: Sunderland City Council*
126. Reporting to key statutory officers and members on trading units has often been on a quarterly basis. The uniform basis of CCT statutory reporting, coupled with common financial objectives, resulted in common reporting standards and timetables. This practice sometimes obscured the fact that different activities have different risks attached to them. There is no reason why all reports should be on a quarterly or monthly basis. Provided that the triggers are clear, a considerable amount of the information reported to the head of paid service and to key members can be on an exception basis only.

The key point is that the timing and basis on which information is to be provided should be clear at the start of the financial year.

127. It needs to be borne in mind that many members do not have sophisticated financial knowledge. Private sector entities can select non-executive board members for specified competencies. Overseas, some local authorities have been able to respond to their own legal requirements more flexibly. Melbourne City Council in Victoria, Australia created Citywide Services Solutions, a wholly owned subsidiary company, which took over delivery of most of its manual services. Its board includes specialists in corporate finance, personnel and marketing. Local authority trading units are not likely to be able to pick specialists selectively in such a way. Reporting formats and training arrangements for members need to reflect this point.
There can be other ways of engaging members apart from presenting them with written reports. Barnet London Borough Council has established a Trading Operations and Income group, which has received monthly position statements on DLO/DSO activity, together with oral reports from DLO managers on a cycle and exception basis. In addition, this member-officer group has a small research programme that addresses issues with a significant impact on corporate financial health, such as cash-flow management and credit control.

Many authorities are putting in place new political structures in accordance with those envisaged by central government. Where this is the case, a number of obvious questions about executive and non-executive member responsibility arise. Should the importance of significant trading operations to corporate financial health be recognised by assigning responsibilities to one cabinet member, or does this ignore the blurring of distinctions between services provided on a trading basis and those on a non-trading basis? This paper does not consider the new arrangements in detail, nor does it presume to propose a blueprint for member scrutiny and review of trading services. However, it is an issue that authorities should be considering now.

The information requirements of non-executive members who exercise the scrutiny role require special attention. Stevenage Borough Council is one authority that is refining and developing its existing approaches. The approach covers a span of services [CASE STUDY 7].

**CASE STUDY 7**

**Reporting approaches for a new era of governance: Stevenage Borough Council**

As part of its response to the challenges of creating new political structures and reporting processes to support them, Stevenage Borough Council has developed a performance monitoring and reporting system for members of its scrutiny committees. This incorporates sections on:

- resourcing
- service specification
- targets (local and national); and
- performance.

An extract for the Creditor Payments Section is shown opposite.

The reports highlight trends in performance and, in particular, whether agreed targets are being achieved. It also converts basic resource information into a more accessible, illustrative form. It does not try to overload members with information. In-year financial data are now augmenting this picture and departmental work plans are being refined to enhance the process.

cont./
CASE STUDY 7 cont.

Reporting approaches for a new era of governance: Stevenage Borough Council
Do reporting approaches incorporate the ‘drill-down’ principle...?

### KEY QUESTIONS

- Has the reporting framework for officers and members recently been evaluated from the perspectives of:
  - alignment of responsibility;
  - conciseness
  - promptness; and
  - action-orientation?

- Do reporting approaches incorporate the ‘drill-down’ principle – that is, are different levels of management provided with the appropriate level of detail from common databases?

- Is the reporting cycle determined and made transparent before the start of the financial year?

- Have methods other than the traditional committee report been considered to engage the attention of members?

- Has the approach to reporting to members under the Government’s proposed governance arrangements been considered?
Appendix 1: Glossary of terms

Accruals
An accounting term denoting that income and expenditure are recognised in financial statements and internal and external financial reports when reliable expectations to make or receive payments exist, rather than when cash is received or spent. For many years local authorities’ financial administration reflected a hybrid approach in which some systems operated on an accruals basis, while others were on a cash basis. Sometimes this was due to statutory requirements. In recent years all local authorities have moved to a full accruals basis for external reporting purposes. However, for management accounting purposes outputs from systems operated on a cash basis often have to be converted to an ‘accruals’ basis.

Allocation
Allocations are used when the amount to be charged is known, perhaps because of the sophistication of, or detail contained in an invoicing system. An example is where water charges are made on the basis of meter readings for buildings used by particular service users.

Apportionments
Apportionments are charges when the total expenditure is known, but the amount borne by particular services and trading units is not known. Typically apportionments have had to be applied to charges for utilities such as electricity, gas and water. Historically, they have also been used to charges for support services such as legal or finance, although more recently there has been an adoption of service level agreements (see below). The charge has to be calculated by use of a factor related to usage. Such factors are known as bases of apportionment. Factors such as staff numbers or floor area are often used for this purpose and accountants have to use their professional judgement to determine the basis that will give the most accurate charge.

Commitment accounting
A management accounting technique that recognises charges when orders are made rather than when services are performed or goods delivered. Used adeptly it can provide useful supplementary information for budget monitoring purposes. For example it might tell a manager that although his/her budget appears underspent, in fact a significant order has been made but the goods have not yet been supplied or services rendered. For this reason it is a valuable technique in procurement.

Compulsory competitive tendering (CCT)
The generic term for legal provisions in the Local Government Planning and Land Act 1980 and the Local Government Act 1988 that required authorities to subject certain defined services to market testing if they wished to carry them out in-house. The regime involved detailed requirements relating to the tendering process, tender evaluation and accounting and reporting. It also included requirements for in-house units to meet specified financial objectives. The legislation gave the Secretary of State extensive powers to take action if authorities did not adhere to the framework or failed to meet the financial objective. The Local Government Act 1999 repealed
CCT in England and Wales. Other countries have introduced compulsory tendering regimes for local government using different models. Notably these include New Zealand and the Australian state of Victoria.

**Holding accounts**
These are accounts that are used in association with a management accounting technique known as standard costing. A good illustration is a holding account for staff-related costs. This account will incur all the costs of employing relevant staff and will be credited with charges at predetermined rates. The big advantage of such an approach is that it allows up-to-date information to be produced speedily. The downside is that distortions of the real financial position can occur if actual unit costs are significantly greater or lesser than standard charges or if costs are not matched to the charges to which they relate.

**Service level agreements (SLAs)**
These are agreements between internal providers and internal clients specifying the nature, quality and charging mechanisms for services. One of the reasons for their introduction was to provide internal users with greater certainty over the nature, timing and quality of service they could expect to receive and the cost. SLAs can be highly detailed or very short.

**Suspense accounts**
Suspense accounts are typically used to house items that have not yet been identified, such as a cash receipt that cannot be attributed to a particular source. They are required because many accounting systems, effecting the centuries’-old double entry approach, will not accept single-sided entries. The main risk is that items in suspense accounts will not be cleared on a regular basis and will therefore distort the real financial position. Large debit balances in suspense accounts are particularly perilous, because they may conceal large amounts of expenditure that can turn what appear to be surpluses into significant deficits.
Appendix 2: Members of the advisory group

Max Caller
Society of Local Authority
Chief Executives (SOLACE)
(Chief Executive: Barnet
London Borough Council)

Ossie Dodds
Association of Contract
Services Chief Officers

Peter Giddings
Local Authorities’ Treasurers
Associations (Director of
Resources: Test Valley
Borough Council)

Mike Grealy
Local Government Association

Ian Howse
District Audit: Wales
(audit suppliers)

Melvin Hughes
Department of the Environment,
Transport and the Regions

Brian Muskett
Association of Council Secretaries
and Solicitors (ACSS) (Head of
Legal Services: Tamworth
Borough Council)

David Robinson
Confederation of British Industry
(Atmos Limited)

Martyn Scholes
Welsh Local Government
Association (Wrexham County
Borough Council)

Roger Scott
Local Authorities’ Treasurers’
Associations
(Mole Valley District Council)

Richard Shearer
National Assembly for Wales

Gordon Smail
Accounts Commission for Scotland

Will Watson
Association of Direct Labour
Organisations (Wales) (Neath Port
Talbot County Borough Council)

Will Werry
Competitiveness Joint Committee
The Audit Commission has produced a number of reports covering related issues. The following may be of interest to readers of this report:

**Planning to Succeed**
Service and Financial Planning in Local Government
Management Paper, 1999, 91 pages, 1862401683, £15

**A Measure of Success**
Setting and Monitoring Local Performance Targets
Management Paper, 1999, 60 pages, 1862401462, £15

**Worth More than Money**
The Role of the Local Government Finance Director

**Listen Up!**
Effective Community Consultation
Management Paper, 1999, 51 pages, 1862401969, £15

**Better by Far**
Preparing for Best Value
Management Paper, 1998, 104 pages, 1862401292, £15

**A Fruitful Partnership**
Effective Partnership Working

**The Price is Right?**
Charges for Council Services

**Best Assured**
The Role of the Audit Commission in Best Value
December 1999, 25 pages, Free

**Stewardship and Governance in Local Government in England 1998**
1999, 29 pages, Free

**Stewardship and Governance in Local Government in Wales 1998**
1999, 31 pages, Free

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The new statutory duty of best value gives local authorities the opportunity to develop distinctive local approaches to the way that they plan and deliver services, without the prescription that characterised the compulsory competitive tendering (CCT) regime. As a result of this greater flexibility, services are likely to be organised in new and different ways from those with which we have become familiar over the past two decades. Under CCT, many services were provided by trading units, which were obliged by law to produce and maintain their own separate trading accounts. All the available evidence suggests that, under best value, even more services may be run as trading units.

In future, it will no longer be a statutory requirement to keep trading accounts. The Audit Commission is concerned that removing the requirement to meet a statutory financial objective and statutory accounting and reporting provisions may lead to a relaxation of financial discipline in some services. To counter this risk, the Commission has written this management paper to help local authority members and officers to identify the key aspects of financial and performance management structures, and financial reporting systems, which should continue to be subject to stringent control.