

ODPM CONSULTATION PAPER ON BEST VALUE PERFORMANCE PLANS

The response of the CIPFA Commissioning Joint Committee
www.ipf.co.uk/bestvalue/bvq/CJC

- 1 We hope that ministers will restrict cost PIs as far as possible to whole **local authority services**, or to recognised **divisions** of services.
- 2 Total costing is now 'proper practice' in local government for all such heads, but is not required for **subdivisions** of services, or for ad hoc headings selected for cross-cutting reviews. If PIs nevertheless call for the costing of service subdivisions, or for any other non-standard heading, the ensuing cost figures for different authorities will not necessarily be comparable. This can only be ensured if the sponsors of such PIs specify that they expect these costs to be on a total cost basis; or, if not, which costs are to be excluded.
- 3 We appreciate that it may be thought instructive to compare local authorities costs for non-standard headings with those of bodies outside local government, but these comparisons carry little weight among serious practitioners and commentators. This is because, although virtually all bodies now complete their main accounts on a total cost basis, few bodies in any sector, other than local authorities, do the same for individual services or activities.
- 4 Other bodies do not (and do need to) apportion their overheads as extensively as local authorities, so that recorded costs for any portion of their own activities are almost certain to reflect something **less** than total costing.
- 5 The following paragraphs from the CJC's recent Standing Guide to Commissioning Work and Services cover these points more fully.
- 6 We have no objection to the publication of our response.



Will Werry, Chair, CJC
1 February 2004

EXTRACTS FROM SUB-GUIDE E - COST

- E.01** Cost is a major factor in most stages of commissioning, and is the cause of innumerable misunderstandings. Most of these are not about the exact meaning of cost, but about exactly what practitioners want to know the cost of.
- E.02** Sub-guide E therefore addresses
- ◆ the cost of local government services
 - ◆ comparing the costs of different bodies
 - ◆ ascertaining the costs of ad hoc subdivisions of services
 - ◆ comparing PI costs
 - ◆ comparing elements of cost
 - ◆ comparing the annual costs of contracts
 - ◆ comparing the whole life cost of contracts and assets
 - ◆ the treatment of assets offered to tenderers
 - ◆ the cost of trading
 - ◆ converting costs and estimates to a common price basis
- E.03** The many cost figures and estimates handled by practitioners are expressed to be on all sorts of different price bases. These include current price levels, annual cost levels with and without inflation, and present values. If practitioners need to convert them to a common price basis, it is

usually easiest to convert them to their current annual cost. The need for conversion has to be kept in mind throughout paragraphs E.04 to 57, but how to do so is for simplicity left until paragraphs E.58 to 61.

THE COST OF LOCAL GOVERNMENT SERVICES

- E.04** The **total cost** of every local government service, and every main **division** of service, has to be reported in published accounts, following the accounting principles laid down in BeVACOP (the Best Value Accounting Code of Practice) (**1015**). This aligns it with the principles of Whole of Government Accounting (**1122**).
- E.05** The cost of **sub-divisions** of services may not be reported as fully as for services and main divisions of services, because some costs (such as capital charges) are not required to be apportioned below divisions.

COMPARING THE COSTS OF DIFFERENT BODIES

- E.06** The costs of different bodies are not remotely comparable unless they all reflect total costs, or unless practitioners arrange to restrict comparison to some limited range of costs. Most comparisons are however unilateral, when one body chooses to compare its own costs with cost information, obtained cold, from data published by other bodies.
- E.07** For **private sector comparators** this calls for careful enquiries because few private sector bodies apportion all their overheads and head office costs. They don't need to, because they can control their overhead costs satisfactorily without doing so. Instead, they rely on contribution accounting, whereby each part of the organisation is expected to make a surplus, which is its contribution to unapportioned overheads.
- E.08** For **central government**, the introduction of resource accounting, and Whole of Government Accounting, will put government cost data on a basis broadly comparable with total cost. Until then, practitioners in local government can ascertain the total costs of government departments and non-departmental government bodies only from members of their staff who know which of their costs are not apportioned to the heads being compared, and how much difference this makes.
- E.09** Even for **inter-authority comparisons** below divisional level it is not enough to know merely that the data is in accordance with BeVACOP, because of the different treatments possible (as referred to in paragraph E.05) for different levels of subdivision.
- E.10** For any comparisons made cold, it is often hard to be sure that **like is being compared with like**. For example, are clients' agents' costs in or out? This cannot be taken for granted, especially in comparisons with private sector bodies, to whom the client-contractor split is unfamiliar.

ASCERTAINING THE COSTS OF AD HOC SUBDIVISIONS OF SERVICES

- E.11** Costs needed for any special purpose normally need to be ascertained using the same principles (described in paragraphs E.04) as for services, but further analysed between the activity which is being costed and all the other the activities covered by the same service head.
- E.12** This usually calls for apportionments of apportionments. The smaller the area of activity to be costed, the greater (proportionately) the difference then made by the choice of method of apportionment.
- E.13** Even greater than usual care therefore has to be taken in selecting the most realistic bases for apportionment. There is however no requirement for further apportionments to use the same method as was used to ascertain the sum now being apportioned. CIPFA has issued guidance to the different methods available, and the principles which should apply (**1152**).
- E.14** Activity based costing is a technique specifically designed for providing more realistic and meaningful bases of apportionment. When ABC is used, front line staff do not have to apportion their own time and other prime costs straight to individual services to the public. These are often

remote prospects at the point where prime costs are incurred, and staff have no way of knowing the extent to which different services benefit from their own time; the accuracy provided by time recording systems can then be spurious.

E.15 ABC requires instead that costs are allocated in stages; firstly to selected 'cost objects', to which staff can relate; the total costs thus attributed to cost objects can then be apportioned to services on the basis of whichever 'cost drivers' which most influence their cost most directly.

COMPARING PI COSTS

E.16 The sponsors of PIs need to make it clear if they want something different from total costing, as provided for by BeVACOP. They may for example want to compare only revenue costs, or only running costs. Most such terms are of course often used very casually, so that sponsors need to identify carefully which elements of total cost they want to exclude.

E.17 They also need to spell out what work they want costed. If they do not specify otherwise, it is reasonable to assume that it will include specifying, ordering, supervising and monitoring the work under consideration; regardless of **who** decides the quantity and quality of the work.

E.18 If it is known that some unusual factor has a major influence on the costs of any of the comparators, it may be possible to make PI and other ad hoc costs more comparable, as between authorities, than costs shown at any level in an objective classification. This may for example be done by

- ◆ including work done by voluntary and not-for-profit bodies as being funded by grants from the authority
- ◆ including emoluments and benefits in kind, if they are major factors. Their cost can normally be taken to be the value on which income tax is assessed
- ◆ excluding revenue contributions made below the line for assets, if capital charges have also been made for them
- ◆ including charges and credits for notional bank interest where their amounts would be significant
- ◆ including prior-year adjustments wherever possible in cost figures for the (earlier) periods to which the transactions relate, rather than for the years in which adjustments appear in the published accounts
- ◆ including, wherever possible, extraordinary and exceptional items of expenditure.

SOURCES

1015 Code of Practice on Local Authority Accounting (BeVACOP)

1082 The Local Government SORP

1122 Whole of Government Accounts Programme (contained in detailed guidance for government departments and non-departmental government bodies)

1152 CIPFA Guide Fair Shares 2003