

## SECTION 4

# Recommended Standard Subjective Analysis

### INTRODUCTION

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- 4.1 This section provides CIPFA's recommendations for a standard subjective analysis. The subjective analysis has been drawn from CIPFA's earlier guidance in this area. It aims to meet the minimum reporting requirements for Government statistical returns and build on current practice adopted by authorities to provide financial information in multi-dimensional formats.
- 4.2 In 2001, CIPFA consulted with chief finance officers in England, Scotland and Wales. This consultation process concluded that it would be advantageous to introduce a recommended subjective analysis to the *Best Value Accounting Code of Practice* (BVACOP). It also concluded that a common subjective analysis would improve consistency and therefore help authorities to make effective comparisons for financial reporting requirements. In addition, a subjective analysis would provide further information that would be useful for benchmarking analyses and for analysing costs in reviews.

### STRUCTURE OF THE SUBJECTIVE ANALYSIS

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- 4.3 There are 10 standard subjective groupings:
- employees
  - premises-related expenditure
  - transport-related expenditure
  - supplies and services
  - third party payments
  - transfer payments
  - support services

depreciation and impairment losses  
income  
capital financing costs (not included in the 'net cost of services').

- 4.4 Each category is defined in the following pages. The sub-group recommendations are also listed, although not all groups will be relevant for each local authority or service.

## STATUS AND IMPLEMENTATION

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- 4.5 This subjective analysis is applicable to all formal reporting requirements for accounting periods from 1 April 2010.
- 4.6 This guidance is recommended to all authorities. It is non-mandatory guidance.

## UPDATING THE GUIDANCE

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- 4.7 CIPFA is dedicated to keeping this guidance up to date. This guidance will be reviewed on an annual basis as a minimum.

## GROUP 1 – EMPLOYEES

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- 4.8 This group includes the cost of employee expenses, both direct and indirect, to the authority.

Sub-group	What it includes
Direct employee expenses	Salaries Employer's National Insurance contribution Employer's retirement benefit cost Agency staff Employee allowances (not including travel and subsistence)
Indirect employee expenses	Relocation Interview Training Advertising Severance payments Employee-related schemes (eg welfare schemes, discount schemes)

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Contributions to employee-related provisions

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Debits resulting from soft loans

Debits resulting from issuing soft loans to employees. Note that where soft loans are issued to, eg voluntary groups or clients, the debits will appear in the relevant subjective group. Similar lines are shown in third party payments and transfer payments groups, but the debit should be included in the subjective group that is most appropriate given the specific circumstances of the soft loan.

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## GROUP 2 – PREMISES-RELATED EXPENDITURE

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4.9 This group includes expenses directly related to the running of premises and land.

Sub-group	What it includes
Repairs, alterations and maintenance of buildings	Includes relevant materials and consumables, payments to contractors and internal trading operations.
Energy costs	
Rents	
Rates	
Water services	All payments to water undertakings/authorities.
Fixtures and fittings	Only those physically attached to buildings. Equipment, loose furniture and materials used in the operation of a service should be included under the Supplies and Services standard grouping. This could include the write-off in the year of any assets not deemed material by the authority's capital accounting policies (ie below de minimis thresholds set).
Apportionment of expenses of operational buildings	A distinction should be drawn between shared operational buildings and administrative buildings. This should be charged to the Support Services standard grouping. This sub-group will receive any charge for the use of shared operational buildings.
Cleaning and domestic supplies	Includes expenditure on contract cleaning. Cleaning equipment is to be charged to 'equipment, furniture and materials' as part of

Sub-group	What it includes
	the Supplies and Services standard grouping. The management of the cleaning contract is normally defined as a support service cost (see Group 7).
Grounds maintenance costs	Includes expenditure on external contracts for grounds maintenance.
Premises insurance	Includes premium payments or contributions for insurance provisions.
Contributions to premises-related provisions	

## GROUP 3 – TRANSPORT-RELATED EXPENDITURE

**4.10** This group includes all costs associated with the provision, hire or use of transport, including travelling allowances and home to school transport.

Sub-group	What it includes
Direct transport costs	Repairs and maintenance, running costs and contributions to provisions in respect of vehicles, for example. Repairs and maintenance of (eg) roads is not included in this heading, but should be included in the relevant subjective headings (such as staff costs, supplies and services, etc).  This could include the write-off in the year of any assets not deemed material by the authority's capital accounting policies (ie below de minimis thresholds set).
Recharges	For vehicles hired from a central pool.
Contract hire and operating leases	Payments to outside firms.
Public transport	Staff travelling expenses.
Transport insurance	Includes premium payments or contributions to insurance provisions.
Car allowances	Payments made in relation to travel expenses (not payments made for staff retention unrelated to travel on the authority's business).

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Contributions to transport-related provisions

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## GROUP 4 – SUPPLIES AND SERVICES

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**4.11** This group includes all direct supplies and service expenses to the authority.

Sub-group	What it includes
Equipment, furniture and materials	All items used in the operation or administration of the service, unless specifically contained in another sub-group (eg communications and computing).  This could include the write-off in the year of any assets not deemed material by the authority's capital accounting policies (ie below de minimis thresholds set).
Catering	Includes food and expenditure on contract catering.
Clothes, uniform and laundry	
Printing, stationery and general office expenses	
Services	Expenditure on services not otherwise distinguished in the standard classification. Includes services on behalf of pupils and professional fees where there is no similar contract of employment.
Communications and computing	Includes postage, telephones, radio and computer costs. Operational leases and charges for central computing facilities.  This could include the write-off in the year of any assets not deemed material by the authority's capital accounting policies (ie below de minimis thresholds set).
Members' allowances	All members' allowances (and salaries where paid), including attendance allowances and special responsibility allowances. These are likely to be charged to Corporate and Democratic Core.
Expenses	Includes subsistence and conference expenses (NB cost not already included as employee costs). Members' expenses are likely to be charged to Corporate and Democratic Core.
Grants and subscriptions	Includes payments to individuals where goods are received in

Sub-group	What it includes
	return.
Private Finance Initiative and Public Private Partnership schemes	<p>Include payments for supplies and services under these schemes.</p> <p>Where a PFI/PPP scheme is on Balance Sheet, this line will include the service element of payments under these schemes only. The service element should not be broken into further elements (eg grounds maintenance, janitorial services) but accounted for in full here.</p> <p>Authorities may however need to take account of an apportionment of the payments where these will form the basis of charges (eg services charges in relation to leased accommodation for a HRA PFI arrangement).</p> <p>The interest and liability repayment elements (along with entries for depreciation, etc) will be accounted for in the same way as for finance leases.</p> <p>Where a PFI scheme is off Balance Sheet, the unitary payments should be recognised in full in this group.</p>
Contributions to provisions	Includes contributions to provisions that are of a revenue nature provided they are not related to employees, premises or transport.
Miscellaneous expenses	

## GROUP 5 – THIRD PARTY PAYMENTS

- 4.12** A third party payment is a payment to an external provider or an internal service delivery unit defined as a trading operation – categories (a) to (d) in paragraph 2.33 of BVACOP – which is operating independently, in return for the provision of a service or a subdivision of service as defined by Section 3 of BVACOP.
- 4.13** Where a service being paid relates to the type of expenditure, for example building repairs, cleaning or catering for clients, then the payment should be recorded under the appropriate standard grouping for that type of expenditure. For example, Premises-related Expenditure (repairs or cleaning) or Supplies and Services (catering).

Sub-group	What it includes
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Sub-group	What it includes
Independent units within the council; include services defined as category (a) to (d) in paragraph 2.33 of BVACOP	
Joint authorities	
Other local authorities	
Health authorities	
Government departments	
Voluntary associations	
Other establishments	
Private contractors	
Other agencies	
Transport operators (in respect of concessionary fares)	
Debits resulting from soft loans	Debits resulting from issuing soft loans to third parties, eg voluntary associations. Note that where soft loans are issued to (eg) employees or clients, the debits will appear in the relevant subjective group. Similar lines are shown in employees and transfer payments groups, but the debit should be included in the subjective group that is most appropriate given the specific circumstances of the soft loan.

## GROUP 6 – TRANSFER PAYMENTS

**4.14** This includes the cost of payments to individuals for which no goods or services are received in return by the local authority.

**4.15** Four sub-groups are suggested; however, this list is not exhaustive.

Sub-group	What it includes
Schoolchildren and students	Mandatory awards

Sub-group	What it includes
	Discretionary awards Other
Adult Social Services clients (Social Work clients in Scotland)	Direct payments – note there is already a subdivision of service within each division of service in the Adult Social Services SEA (Social Work SEA in Scotland) Other
Housing benefits	Rent allowances Rent rebates Rate rebates Other
Debits resulting from soft loans	Debits resulting from issuing soft loans to individuals, eg clients. Note that where soft loans are issued to (eg) employees or voluntary associations, the debits will appear in the relevant subjective group. Similar lines are shown in employees and third party payments groups, but the debit should be included in the subjective group that is most appropriate given the specific circumstances of the soft loan.

## GROUP 7 – SUPPORT SERVICES

- 4.16** Charges for services that support the provision of services to the public. The charges should be apportioned or allocated to the service divisions which they support on the basis of the seven principles of apportionment specified in Section 2 of BVACOP.
- 4.17** Such charges are traditionally defined on the basis of service. The following table provides a list of functions to demonstrate what could be defined as support services. This list is not meant to be prescriptive or exhaustive.
- 4.18** Support services should be distinguished from those independent trading operations (ITOs) defined as third party payments and categorised as trading operations (a) to (d) in paragraph 2.33 of BVACOP. (It should be noted that the ITOs providing services via third part payments may be providing some of the services outlined in the table below.) The support services in this group are likely to be defined as category (e) trading operations in paragraph 2.33 of BVACOP.

Function	Including
Finance	The costs of accountancy, payroll, pensions, insurance and risk management, internal audit, financial management systems (provision and development), financial consultancy and advice, financial contractor appraisal and the management of financial services provided by external contractors.
IT	ICT strategy, policy and service development, hardware support, network management, systems procurement, development and operations, the management of IT services provided by external contractors.
Human Resources	Employee relations, equal opportunities, health and safety, industrial relations, occupational health, recruitment, redundancy and retirements, staff resource planning, terms and conditions and welfare, the management of these services provided by external contractors.
Property Management/Office Accommodation	Acquisitions and disposals, property asset management policies and plans, energy management, property register maintenance, surveying, ensuring property cleaning, valuation and review, the management of these services provided by external contractors.
Legal Services (not included in the definition of Corporate and Democratic Core)	Advocacy and litigation, commercial work, contract negotiation, conveyancing and management of any legal services provided by external contractors.
Procurement Services	Preparation of procurement strategy, operation of central stores, negotiation and arrangement for contracts. Purchasing, EU procurement procedures.
Corporate Services (not included in the definition of Corporate and Democratic Core)	Review teams, press, publicity and public relations, internal mail, internal print facilities and post rooms, the management of any of these services provided by external contractors and any general administrative services.
Transport Functions	Fleet management, ensuring adequate fleet maintenance and the cost and management of any of these services provided by external contractors.

4.19 Alternatively, authorities may wish to group similar activities together under general headings, eg professional services, office services.

## Sub-groups

- 4.20 There is no sub-group recommendation as such since the important principle is that users are charged for the support services provided and that these charges are separately identified under the subjective heading of Support Services. The support service used will vary between local authority service departments and a rigid sub-group categorisation, which applies across the board, is not appropriate.

## GROUP 8 – DEPRECIATION AND IMPAIRMENT LOSSES

- 4.21 This provides the subjective analysis that will record the revenue impact of capital items in the service revenue accounts of the authority.

Sub-group	What it includes
Depreciation	Includes depreciation on assets held under on Balance Sheet PFI/PPP Schemes.
Revaluation losses	Revaluation losses charged to the service revenue account (ie the excess of the revaluation loss over the accumulated gains for the asset).
Loss on impairment of assets	Impairment losses charged to the service revenue account (ie the excess of the impairment loss over the accumulated gains for the asset. The Code treats impairment losses in a similar way to revaluation losses, and any impairment or revaluation loss is taken to the Revaluation Reserve until the balance for the asset is exhausted.
Amortisation of intangible fixed assets	
Movement in fair value of investment property	Investment properties are held at fair value, with any changes recognised in the Surplus or Deficit on the Provision of Services. Included here for completeness; movements should be recorded in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement rather than in service revenue accounts.

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- 4.22 Revenue expenditure funded from capital under statute should be accounted for in the relevant subjective group. For example, enhancement of property owned by a

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third party that is used by the authority to deliver services (eg a voluntary controlled school) would be included in Group 2 – Premises-related Expenditure. Enhancement of property owned by a third party that is not used by the authority to deliver services (eg enhancing property owned and operated by a charity) would be included in Group 4 – Supplies and Services as grant expenditure.

## GROUP 9 – INCOME

**4.23** This group includes all income received by the service from external users or by way of charges or recharges to internal users.

Sub-group	What it includes
Government grants	Specific and special government grants.
Other grants reimbursements and contributions	Revenue income received to finance a function/project jointly or severally undertaken with other bodies. Contributions from other local authorities. Value of costs recharged to outside bodies including other committees.
Customer and client receipts	Sales of products or materials, data technology or surplus products. Fees and charges for services, use of facilities, admissions and lettings. Rents, tithes, acknowledgements, way leaves and other land and property-based charges of a non-casual user.
Interest	
Recharges	Value of costs recharged to internal users.
Credits resulting from soft loans	All credits resulting from soft loans should be included in this subjective group (as a corporate entry).

**4.24** Specific government grants **received in a year** in relation to on Balance Sheet PFI/PPP schemes should ~~should be apportioned in line with the elements charged in~~ the year (repayment of the liability and interest; where exceptionally the grant also provides funding for service charges, this should be taken into account in the apportionment). That proportion of the grant that relates to the interest element

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should be credited corporately outside the net cost of services (to match the related charge). The remainder of the grant should be credited to the service revenue account(s), as the service revenue account(s) will be charged with depreciation, which is related to the repayment of the liability element (and with the service charges element, which may exceptionally be partially funded from the grant). Specific government grants in relation to off Balance Sheet PFI/PPP schemes should be allocated in full to the service revenue account(s). This treatment is consistent with the specific grant principles in paragraph 2.22 of BVACOP. Where the grant is not ring-fenced but is paid as part of Revenue Support Grant/General Revenue Grant (as is the case with Level Playing Field Support in Scotland), the accounting treatment in this paragraph will not apply, as the grant will be included in general grants, not netted off the net cost of services.

**4.25** Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement are included with non-specific grants, and should not be included in the net cost of services.

**4.26** Business Rates Supplements (England and Wales) is a specific levy to be applied to specific projects expected to promote economic development and should be recognised as income in the appropriate service revenue account and included in the net cost of services.

**4.27** Community Infrastructure Levy (England and Wales) is a general levy to be spent on infrastructure to support development in the area. It is not project specific and should be recognised as general income and not included in the net cost of services. However, authorities will need to be aware that the Coalition Government has indicated that it will review this area, and the levy (and therefore the accounting treatment) is therefore subject to amendment or cancellation.

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## GROUP 10 – CAPITAL FINANCING COSTS (NOT INCLUDED IN THE NET COST OF SERVICES)

**4.28** This group includes the corporate capital financing costs of the authority.

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Sub-group

Interest payments

Debt management expenses

4.29 Interest payments will include the interest element of payments made under on  
Balance Sheet PFI/PPP schemes.

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