

Spectrum

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Policy & technical perspectives for CIPFA members and students

CIPFA

The first edition of CIPFA Spectrum for 2004 opens with two articles that challenge traditional approaches to recognition and measurement (in the context of financial reporting) and budgeting. The first looks at the arguments for valuing the volunteer effort that underpins the work of charities, while the second explores the potential role of budgets in narrowing gender inequalities.

The next piece reviews the changing nature of the finance director role in the NHS and is followed by two articles exploring the auditor and practitioner perspectives on a particular challenge facing all public sector finance professionals – the practical implications of the Whole of Government Accounts project.

The final contribution examines some of the key financial challenges facing the UK's passenger transport executives, focusing on differences between Scotland and the rest of the UK.

CIPFA Spectrum is also available to all interested readers on the CIPFA website at www.cipfa.org.uk/pt/spectrum.cfm. If you have any comments or feedback on Spectrum, please email me at vernon.soare@cipfa.org.

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Valuing volunteers – the hidden asset *Nigel Scott*

The Charity Commission's Statement of Recommended Practice (SORP) Review Committee has started work on a new Charities SORP. For its submission to the Committee, the Charity Finance Directors' Group (CFDG) produced "Inputs Matter", a report looking at the possible harmonisation of input measurement to enhance the quality of accounting information available to the public. The most contentious issue to arise from this work was the recommendation that statutory accounts should recognise the input value of volunteers.

The Background

The introduction of GuideStar UK, a database giving details of the activities and finances of charities, and the publication of the Government's Strategy Unit report "Private Action, Public Benefit" supported the recommendation that any new SORP should enable more meaningful financial comparisons to be made between charities. The report also recommended that improvements should continue to be made to the

SORP to strengthen its focus on achievements against objectives, organisational impact and future strategy.

It is on the report and accounts that the burden of measurement falls, prepared under the SORP but also under a broad range of other accounting standards. Charitable companies also have to meet the requirements of the Companies Act. ▶

AT THE HEART OF
PUBLIC SERVICES



► The Companies Act and accounting standards are designed for profit-making entities, whose performance is measured by Earnings per Share and Return on Investment, not by their impact on lives and the difference they make in a social context. Yet the public document from which most people will take the information they use to measure the performance of charities is the statutory accounts.

Efficiency or Effectiveness? Inputs, Outputs or Outcomes?

When we look at the measurement of charities, there is often confusion between terms. Efficient and effective are often confused while the difficulty of defining and measuring outcomes often leads us to focus on outputs. Charities are more likely to wish to achieve effective performance, effectiveness defined as how outputs contribute to the aims of the charity, in other words what outcomes they achieve.

Charities, by their very nature are also not intended as profit-making entities and this blurs the distinction between inputs and outputs. We cannot define inputs simply as incoming resources and outputs as resources expended because what we are actually doing is taking a series of incoming resources, such as cash and volunteer time, and converting them to inputs into our service delivery. Our outputs are the services delivered and as such are not recorded on the Statement of Financial Activities (SoFA). That document is actually recording the inputs of the charity in financial terms.

Therefore, a charity's measure of success is its measure of effectiveness – the ratio of its inputs to its outcomes.

Valuing Volunteers

CFDG recognised that there are many areas where SORP 2000 has been successful in encouraging more charities to adopt standard practices. Yet there are a number of areas where inconsistencies within the SORP allow charities to report in widely differing ways.

This is particularly true with the involvement of volunteers. SORP 2000 allows the inclusion of volunteer costs only if there is a financial cost to a third party. Thus a volunteer who has been given time off work by his employer should be valued at the cost to the employer, while an unemployed person using volunteering as a route back to full employment should not be valued as there is no third-party cost. CFDG questioned this "no cost" volunteering concept.

There is potential for real understatement of a charity's resources by the exclusion of volunteers from accounting information. CFDG considered the accounts of one leading charity which has total incoming resources under SORP 2000 of £65 million and which makes a note at the foot of its SoFA that voluntary support, calculated at the rate of £6 per hour, was estimated to be £71 million. The size and scale of volunteering is quoted frequently as one of the differentiations between charities and private service deliverers yet the accounting standard for the sector prevents charities from including a considerable resource and an essential part of service delivery.

CFDG also identified a number of external funders who expect a valuation to be placed on volunteer time. European Social Fund applications and regeneration funding are two key areas where this is called for.

The Department of Trade and Industry sponsored Accounting for People Task Force report on human capital published in November 2003 (<http://www.accountingforpeople.gov.uk/task.htm>) adds further strength to the argument. If a charity delivers its services through volunteers, not staff, should it exclude volunteers from its human capital statements?

Opposition?

Following publication, presentations of CFDG's "Inputs Matter" report have been given and opinions invited. The main concerns expressed are

that valuation is too difficult to implement and that the additional sum in the statement of financial activities will push some charities into a higher bracket for compliance. This in turn could increase audit costs. It is also possible that potential donors and funders would think the charity much richer than it is. CFDG accepts that there can be problems, but if the volunteers make the difference between effective outcomes and poor performance then that input should be shown.

Some people suggested that as the value of volunteers is really a non-financial measure it had no place in the statutory accounts. However, the current SORP states that the SoFA is a statement of incoming and outgoing resources, not income and expenditure. Charities are already expected to include non-financial gifts of time, equipment and other assets.

Others say the value would be better presented in the annual report than in the statutory accounts, but reports are not audited so there would be no verification of a true and fair view.

The suggestion of using the National Minimum Wage to assess the value of volunteers caused a few objections too. People felt that many volunteers would feel demeaned by their contribution being rated only at this level and CFDG, recognising this, looked hard for another publicly-stated measure that could be used. The primary purpose of the inclusion of the value of volunteers is to enable comparison between, not within, charities so it is important that a standardised measure is used.

What is likely to happen

In general the inclusion of the value of volunteers in statutory accounts has been welcomed by those charities for whom volunteers are a key part of either their income generation or service delivery activities. Those for whom volunteers are a less crucial part of their structure have in general opposed the inclusion.

Gender budgeting

Helen Leadbetter

The Charity Commission and the SORP Committee recognise the strength of the arguments but are likely to call for further research work to ensure that the valuation of volunteers is included in a future SORP in a way that is meaningful, enables comparison and does not increase compliance costs for charities.

Meanwhile as the SORP sets only a minimum accounting standard, charities can go further provided they still comply with accounting standards. Valuation methods need to be explored in more depth and charities with significant volunteers will work together to find answers. We should expect to see the value of volunteer contributions included by charities in their public reporting in the coming years.

Inputs Matter is available for download from <http://www.cfdg.org.uk> ●

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Co-author of Inputs Matter
and charity finance
specialist*

What is it?

Gender Budget Initiatives or Gender Responsive Budgets are tools and processes designed to facilitate a gender analysis in the formulation of government budgets and the allocation of resources. Gender budgets are not separate budgets for women, or for men. They are attempts to break down or disaggregate the government's mainstream budget according to its impacts on women and men.

The way in which national budgets are usually formulated ignores the different, socially determined roles, responsibilities and capabilities of men and women. Budgets formed from a gender-neutral perspective ignore the different impacts on men and women because their roles, responsibilities and capacities in any society are never the same. These differences are generally structured in a way that leaves women at a disadvantage in society by creating inequality gaps. Therefore they are an important tool for analysing the gap between expressed commitments by governments and the decision-making processes involved in how governments raise and spend money. Gender responsive budgets can contribute to narrowing such gaps.

Progress towards gender equality is slow, and this is in part due to the failure to attach money to policy commitments. Overall research shows that not enough attention is given to the impact of allocated resources and this serves to perpetuate gender biases, although budgets offer the potential to transform gender inequalities.

Good policy requires understanding both the impact of policy and how it might be better designed to achieve outcomes which meet the needs of women, men, and girls and boys as well as different groups of women, men and children. There is no single approach or model of a gender sensitive budget exercise.

Why is it important?

Evidence suggests that the economic gains of gender equality lead to increased output and better development of people's capacities. Women's economic empowerment could provide the possibility for all countries to have some combination of increased productivity, less stress and better overall health.

Looking at the direct and indirect impacts of government budgets forces re-evaluation of the long held assumption that government budgets and economic policies are generally "gender neutral". The ultimate aim is to mainstream gender budget initiatives into public policy.

One important Millennium Development Goal that the Department of International Development (DFID) along with the rest of the international community is trying to achieve is eliminating gender disparity in primary and secondary schools by 2005. Equal access for girls and boys to education is identified as a key measure of progress towards gender parity. Research has demonstrated that education for girls is one of the most effective ways of reducing poverty and that failure to invest in female education lowers the gross national product.

Where has it been done?

Australia was the first country to develop a gender sensitive budget with the Federal Government publishing in 1984. In South Africa, parliamentarians together with non-governmental organisations, started working on gender sensitive analysis of budgets in 1995. The South African Government later followed in 1997 by doing a gender-sensitive budget analysis.

Many other countries both in the Commonwealth and in developing countries throughout the world have joined these two in undertaking these budget exercises. ►

► Commonwealth Finance Ministers have included gender budgeting as a specific agenda item and are looking at how it relates to macro economic development.

DFID has been supporting the Government of Rwanda on a gender budget initiative where an annex has been produced with the last budget papers setting out some gender sensitive indicators that could be used to monitor the budget.

Policy-makers and civil society groups in the UK are becoming increasingly aware of the benefits of using gender budget analysis to help achieve gender equality and to improve the policy making process.

Progress made so far?

It is too early to evaluate the impacts that this analysis is having on redressing the gender imbalance. Much of the work is still at the early stages of developing tools, which help to analyse national budgets. Countries involved in gender budget initiatives are focusing on creating awareness and building understanding. There are many studies underway in this area worldwide where these tools are being used more frequently and generating a much wider interest. One example is found in India.

Gender Budgeting in India

- The United Nations Development Fund for Women (UNIFEM) office in Delhi has raised the profile of gender budgeting by running workshops throughout India. Female parliamentarians are taking a leading role to raise these initiatives at the parliamentary level
- A number of studies have been completed. The first of which fed into the National Economic Survey 2000-01 where a chapter was devoted to Gender inequalities and also the National Economic Survey 2001-02 where a further chapter was included on gender inequality

- At present the budgets of 22 states of India are implementing Gender Budget Initiatives. The emphasis in India will be on using the evidence collected to build the capacity of stakeholders and to disseminate relevant information

The result of facilitating policy dialogue to include gender and macro economic issues will lead to an improvement of economic growth and human development performance in ways that also empower women. ●

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Once upon a time, NHS Finance Directors were given a bad press. But the modern Finance Director (FD) is anything but a grey bureaucrat and the "bean counter" is long dead. In its recent publication "Shaping the Future...from numbers to knowledge" the NHS Finance Staff Development Board describes the profile of a modern FD. The role of an FD in the modern NHS is already tough and challenging, and very rewarding as a career. The role of the FD will be no easier in the future, but it will certainly be different, just as it will across the whole accountancy profession, both here and abroad, and across the private and public sectors.

Sound financial management is a key requirement that underpins the successful delivery of modern healthcare.

However, patients, users, carers and the public will judge the NHS by very different yardsticks, focusing on access, outcomes and personal experiences. Medical staff, GPs, nurses, allied health professionals and other clinicians will be judged by how well they have been the patient's advocate.

So what are the drivers for change?

• Managing Investment and Capacity

One of the key drivers for change is the major programme of investment and expansion set out in the ten year NHS Plan and 'Delivering the NHS Plan'. Financial plans will need to reflect the patient pathways of the future, including the care of the chronically ill and the profound impact of new technology in medicine. FDs will need to advocate financial planning that focuses on the best use of the total resources available to an organisation and not simply the marginal change 'year on year'. They will need to support the organisation in changing healthcare services to give patients a more personalised and responsive service.

• Sustainable Financial Viability

Health organisations need to maintain sustainable and recurring financial viability, and at the same time deliver an increasing number of national (eg 'star ratings') and locally determined targets for better patient care. Maintaining viability can be a catalyst for clinical redesign, and has to be viewed in the long term. The NHS now has the ten year NHS Plan, three year resource assumptions, and Local Delivery Plan targets.

• Information Technology

The increased use of information technology will have a major impact on changing the role of the FD, as everyone in the health community has access to information in a new way. For example, web-enabled systems now mean that financial data can be captured accurately at source, changing the role of the FDs and their teams. The explosion in information technology will result in fast delivery of complex information.

• Transparency and Governance

There is increasing emphasis around transparency, with more regulation and scrutiny of the organisation, and more emphasis on the quality of services. Allied to this are more open performance management and accountability frameworks, and the wider involvement of the public, patients, users and carers in healthcare decisions.

So what is the future role of the FD?



► • **Core Activities**

The future core activities of the FD are illustrated in the diagram. The FD becomes a strategic partner to the Chief Executive (CE) and Board, and the facilitator of change with clinical and non-clinical managers. The role will also include risk assurance and taking the lead for compliance, as well as driving through 'best value' and analysing and delivering improvements in performance. The FD will be the guardian of the 'corporate conscience' and, increasingly, a public face of the organisation.

• **The Basics**

Spending time on the 'basics' will remain a given. This covers risk assurance, audit, corporate governance, standing financial instructions (SFIs) and other internal controls and checks, probity, robust reporting, cash management and balance sheet management. The FD must continue to challenge assertions and assumptions.

• **Strategic Partner**

The role of the FD as strategic partner is an area where most change is anticipated. The consensus is that FDs will spend much of their time in supporting the Chair, CE and Board members to develop a vision of services, identify and create ways of developing services in line with the vision, translate this into a financially viable action plan and translate complex information to assess the impact on the organisation.

• **Relationship with Chief Executive (CE)**

The relationship with the CE will become closer. FDs have an overview of the whole organisation and are increasingly likely to be a public face of the organisation through partnership working with other agencies.

• **Analytical Support**

FDs will rely on analytical thinking, objectivity and technical competence to challenge and validate assumptions and to fully inform the decisions being made by Boards. FDs provide the objective analysis to create a proper platform for decisions.

• **Empowering Clinicians and Non-Clinical Managers**

FDs are also expected to spend more time understanding the drivers for developing their organisations, including the demography of the community, which directly impacts on the demand and supply of healthcare services.

• **Leadership and Development of the Finance Team**

A key role is the leadership and development of finance staff within the organisation. Where various finance functions are outsourced or provided by joint venture, the FD will be leading a relatively small core of highly specialised finance staff directly employed by the organisation, and these teams must be flexible, non-hierarchical, creative and innovative.

Conclusion

In summary, FDs in the NHS need exceptional leadership and communication skills to be able to motivate, influence and inspire others to deliver results, both within the core finance team and throughout the organisation. Interpersonal skills are key, whether working collaboratively in a multi-disciplinary team or 'one to one' with a senior clinician. The FD needs to communicate across agencies and professions and increasingly be the public face of the organisation.

The FD also needs to be constantly learning and updating knowledge, and providing the opportunities and inspiration for the core finance team to do the same through Continuing Professional Development. By 'keeping one step ahead', FDs and their teams should be able to anticipate changing needs in healthcare services and be better placed to respond to, and support, strategic direction setting and decision-making. FDs need to be forward and outward looking, and passionate about 'adding real value' to the organisation in the delivery of healthcare services. ●

WGA – a whole new challenge

Martin Evans and Paul King

The December 2003 Pre-Budget Report included confirmation that the Whole of Government Accounts (WGA) programme will be extended beyond the central government sector to include local authorities, NHS trusts and foundation trusts, and public corporations. The announcement means that for the first time there will be a single set of audited accounts covering the whole of the UK public sector

The projected benefits of WGA include improved policy-making and a better picture of the public sector's overall financial position. The Audit Commission fully supports the concept of WGA, not only because it will promote better accountability for public money across the public services, but because it will reinforce the drive to improve the quality of financial reporting across the public services. WGA will bring accounting and reporting deadlines in line with those already achieved by the best in the public services (including the NHS) and will encourage convergence of accounting policies, on the basis of UK Generally Accepted Accounting Practice (UK GAAP), across the public services. Proper accounting – on the basis of accepted best professional practice – is a necessary pre-condition of proper accountability for public money.

The Commission's appointed auditors will have a key role to play in the preparation of WGA, by providing assurance on the information that local authorities and NHS trusts will be required to provide for the purposes of preparing WGA. This assurance is likely to take the form of reporting that WGA information is consistent with the financial position and results of the relevant body, and prepared in accordance with the requirements of the Treasury. In the same way that it is intended that WGA will be largely based on accounting information that will anyway need to be produced for the body's own annual accounts, auditors will seek to carry out their work on WGA alongside the audit of the annual accounts. This will help to reduce any additional audit burden on audited bodies.

In accordance with the Commission's commitment to Strategic Regulation, the Commission will ensure that the audit work on WGA will be proportionate and risk-based, whilst meeting the needs of audited bodies and the National Audit Office as the WGA auditor.

If WGA is itself to be prepared on a timely basis – and its usefulness as an aid to effective decision-making by government will depend on this – then the accounting information on which WGA will be based must be produced promptly. As WGA information will flow from the annual accounts, it follows that WGA will demand faster closedown and preparation of annual accounts, particularly by local government bodies.

Of course, WGA is not the only driver for more timely annual accounts. The Commission believes that more timely preparation and publication of annual accounts enhances accountability and improves their usefulness to users and for decision-making, as well as being an indicator of sound financial management arrangements.

For local authorities in England, the Accounts and Audit Regulations 2003 include a requirement to advance the dates for approval of accounts, and their subsequent publication, by one month each year starting in 2003/04, so that by 2005/06 the accounts must be approved by 30 June and published by 30 September. Even in the NHS, where accounts are prepared and published on a much timelier basis than in local government, the deadlines are being brought forward even further.

The need to bring forward the dates for preparation of the accounts will clearly mean challenges for local authorities and NHS bodies. But there will also be challenges for auditors, as audited bodies across the public services prepare their annual accounts within an increasingly narrow window after the end of the financial year. This will produce a real 'concertina' effect around the summer months. The key to achieving these challenging deadlines is effective planning of all the aspects of accounts preparation and associated processes, and co-operation between all those involved.

In 1993 the Accounts Commission, the Audit Commission and CIPFA jointly produced a management handbook *Regular as Clockwork* to highlight the benefits of prompt, accurate and high quality reporting by local authorities, and the need to give priority to the preparation of financial statements. In the ten years since then many authorities have improved the timeliness of the preparation of their annual accounts. But the track record of local authorities generally in this area is poor.

Regular as Clockwork has formed the basis of a new CIPFA publication on faster closing (see following article). This is intended to update and expand the guidance in *Regular as Clockwork* with particular emphasis on helping authorities to prepare their annual accounts by the eventual statutory deadline of 30 June. The Commission strongly supports this new guidance, and the main messages it contains, in particular the need to: ►

- ▶ • support of both members and senior management for prompt preparation of the accounts;
- plan for in-year processing, accounts closedown and preparation of the financial statements, and effective monitoring of progress;
- manage people and resources to achieve the targets set; and
- identify and manage risks to the timely preparation of the accounts.

Auditors will play a key part in encouraging more timely preparation of the accounts, and it is vital that they are brought fully in to the planning process and that there is ongoing dialogue between the audited body and the auditor. This must be a two way process, and a key lesson from experience is that close communication between audited bodies and auditors and clear definition of responsibilities, requirements and timescales can lead to substantial improvements in the preparation of accounts.

As well as supporting CIPFA's work on faster closing, the Commission is also working with a number of individual local authorities to see how the preparation of accounts can be speeded up. This aim of this pilot exercise is to see what practical steps can be taken and to establish good practice that can be disseminated more widely, so that other authorities can be helped to improve. ●

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Recent developments in the governance of public sector organisations have seen a greater prominence being given to the annual accounts. Historically, in many parts of the public sector the annual budget process has been a much higher priority with accounts finalisation and closure dragging on over many months.

Over the last decade there has been an increasing recognition of the importance of the financial statements in sound financial governance and a consequent improvement in the timeliness of accounts finalisation, approval and publication. The imminent arrival of Whole of Government Accounts (WGA) has given new prominence to the importance of making the annual accounts available as soon as possible after the year-end. As the Comptroller and Auditor General has stated 'Accounts that are not rendered until some months after the year end date are of reduced usefulness and will, in the longer term, impact on the timeliness of whole of government accounts'(1). An organisation publishing its accounts early also demonstrates that it takes seriously its responsibility to account properly for the use of public funds and provides solid evidence of its operation of sound financial systems and procedures.

Over recent financial years, central government departments have faced a particular challenge with respect to improving timeliness in preparing accounts, while at the same time moving from a cash to an accruals basis for preparation. Now local authorities in England and Wales will soon be subject to the more challenging deadlines that many public sector organisations such as NHS Trusts, and local authorities in Scotland and Northern Ireland, are already familiar with. In England, the statutory deadline for the approval of the statement of accounts is being brought forward incrementally from 30 September to 30 June, the target financial year for the latter date being 2005/06. For the increasing number of local authorities that have

registered impressive improvements in accounts closure, approval and publication by these new deadlines should not be too worrying. Indeed, having experienced the benefits of early closing, many are now thinking of even more ambitious targets. However, for many the challenge will be daunting.

To help authorities on their journey, CIPFA has issued good practice guidance in the form of Early Closing Time. The volume provides advice in four main areas:

- achieving strategic ownership of the statement of accounts
- managing the accounts production process
- practical improvements
- the role of the external auditor

The guidance is relevant not only to local authorities. It will also be of benefit to any organisation that wishes to improve its performance in timely financial reporting, from whatever starting point.

Learning from the organisations that have made clear improvements, those that wish to follow their example can make substantial progress by:

- **building a readership** – if the importance of the statement of accounts in providing assurance about the adequacy of accounting system and the organisation's financial performance and position can be made clear to potential users (particularly board members and elected councillors), the profile of the accounts production process is raised and the work provides greater fulfilment.
- **securing the support of board or elected members and senior staff** – prompt publication is unachievable without recognition at the highest levels that the statement of accounts should be a priority for the whole organisation (not just the finance department) and that early closure would be a strategic achievement.
- **preparing people for change,**

changing mindsets and getting everyone on board – many staff are likely to be resistant to change approaches that have been adequate in the past, unwilling to alter habits and procedures that have been in place for many years and sceptical that new targets can be met. These key people need to share the aspiration to achieve more ambitious deadlines, and it is essential that their efforts are encouraged, supported and appreciated.

- **making plans for in-year processing, closedown, compilation, audit and publication** – it is crucial to be able realistically to set out achievable critical paths, key tasks, and target completion dates. This is best done by bringing key people into the planning process, so that staff (and auditors) can give their views on what can be achieved and agree what is to be expected of them. Having established a plan, the organisation needs to monitor progress with sufficient rigour to be able to identify problems in time to resolve them effectively.
- **managing resources** – the task requires proper resource planning, ensuring that staff have been empowered to do the job and have the necessary technical skills, resources and time, appropriately assisted by IT systems and administrative support. The responsible manager needs to monitor the use of resources once they have been made available, particularly to identify any shortfalls or instances where resources are being misdirected.
- **influencing staff outside the section directly responsible for preparation of the statement of accounts** – many of the most important deadlines depend upon input from officers who have no direct interest in prompt financial reporting. The co-operation of such staff needs to be guaranteed and efforts to secure the support of their senior managers will usually be repaid handsomely. People outside the organisation who will

contribute (eg, valuers, actuaries, group companies) need to make firm commitments to deliver satisfactory information by specific dates.

- **designing, implementing and operating effective accounting systems** – the design of financial systems often fails to give sufficient priority to the fact that one of the key outputs from capturing, processing, recording and compiling financial information should be the base data for production of the statement of accounts. Early closure is greatly facilitated by arranging the ledger according to a single chart of accounts that follows the statement of accounts structure.
- **harmonising financial and management accounting policies** – prompt production of accounts is greatly assisted if the accounting policies used for producing management information during the year are closely aligned with those required for the statement of accounts, particularly in terms of closing down periodically (perhaps quarterly or eventually monthly) and keeping account of accruals.
- **identifying and managing risk** – the best organisations invest time in identifying everything that might go wrong with the accounts production process (and removing or minimising the chances that they will) or designing strategies to cope with unfortunate outcomes. Equally, these organisations spend time ensuring that they learn fully from what went well.

The evidence from those organisations that make the effort to improve is that the benefits of increasing the relevance of their financial statements, receiving earlier assurance about the quality of governance arrangements, and the wider advantages for administration that improvements to financial procedures bring become unmistakable once the process is started. The common reaction to meeting a challenging timetable has been to aspire to even better performance. ►

Early closing – the pina colada

effect *Stephen Sheen*

► The CIPFA guidance will give organisations the confidence to take the first steps along the early closing trail and discover just what they have been missing – starting with a relaxing, worry-free summer holiday, sipping pina coladas by the pool.

(1) Financial Auditing and Reporting: General Report of the Comptroller and Auditor General 2001-02 ●

Early Closing Time: A Good Practice Guide to the Prompt Closure of Local Authority Accounts in England and Wales

CIPFA has prepared guidance to assist local authorities in England and Wales with the challenge of securing the earlier preparation and publication of their statement of accounts (as will be required by changes to the Accounts and Audit Regulations).

The advice in the guidance focuses on four main areas:

- achieving strategic ownership of the statement of accounts;
- managing the accounts production process;
- practical improvements; and
- the role of the external auditor.

The publication is priced at £79.50 per copy.

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CIPFA has just introduced a free quarterly e-newsletter giving details of forthcoming publications, courses and conferences. To subscribe simply go to http://www.cipfa.org.uk/shop_subscribe.cfm and complete and submit the form.

Trains, boats & plane

Improvement in public transport is a key policy and manifesto pledge of both Westminster and Holyrood, but like most things of this nature, life is never easy or straightforward! Barbara Castle introduced a major significant initiative in the form of the Transport Act 1968, which established Transport Executives to deliver integrated transport, focused on the major conurbations outside the London area. This resulted in the development of seven passenger transport executives (PTEs), six in England and Strathclyde Passenger Transport (SPT) Executive, covering West Central Scotland.

Since then local government has been re-organised (more than once) but the ethos and principal functions of PTEs still stand strong – i.e. the strategic planning and promotion, and in many cases delivery of public transport, particularly in areas where the commercial market providers have withdrawn. Currently the merit of a Scottish transport agency is being consulted on but its proposed introduction stills recognises the role of PTEs.

Although the roles and responsibilities remain, it is time to re-consider the funding structure of these organisations. Yes, they are complex delivery vehicles but the funding arrangements are overly complex, inconsistent and actually could and do hinder more successful delivery. In many ways the cost of transport is also falling disproportionately on council taxpayers, depending on where they live.

A review of transport funding, including its adequacy to deliver policy pledges and ensure public transport works, is like opening up a can of worms, with implications for all levels of government from the Treasury down to local authorities. Of the seven PTEs, funding arrangements for each is in some way different, and these are different again to the arrangements in London, the largest conurbation. SPT is different again – a large element of

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as (almost) but certainly no automobiles!

Valerie Davidson

its funding comes via the Scottish Executive or local authorities from the local government settlement. However, the largest slice relates to the responsibility for the management of the second largest rail network outside of London.

Rail powers remain a matter for Westminster, and this causes huge problems. In recent years there has been some change in the funding arrangements - the Treasury now passes rail funding to the Scottish Executive as part of its block grant – however this is not ring fenced and SPT enters an annual negotiation exercise with the Scottish Executive to secure sufficient funding to deliver a franchised rail network. Other PTEs with rail responsibilities must negotiate directly with the Strategic Rail Authority (SRA) and unsurprisingly inconsistencies arise.

Other problems include:

- SPT is the transport authority in West Central Scotland, with powers and the duty to provide transport. However, the funding to deliver this comes from the local government settlement and is not ring fenced. Hence, requests by SPT for funds to deliver that duty compete with the other priorities of 12 unitary authorities, including education, social work and policing. SPT can only requisition as opposed to the six other PTEs which have the power of levy.
- Not all PTEs have the same duties with regard to school transport, bus travel infrastructure and concessionary travel
- The policy of a national minimum standard for concessionary travel is different between SPT and the six other PTEs. In Scotland, a policy of free bus travel exists within the scheme which is creating massive financial problems for SPT and the unitary authorities that fund the policy. In other areas half fare is applied, or in some cases a flat fare decided by each PTE.

- The lack of transparency which would allow funding flows passed via the local government settlements for transport to be clearly identified, and
- Operation of socially required services (such as buses) in a de-regulated market, and being expected to invest in the infrastructure which encourages increased public transport usage on all parts of the network – whether commercially operated or publicly subsidised

SPT has a net revenue budget of approximately £240m with a capital budget in the region of £20m. Of this £240m, nearly £130m comes in the form of a rail grant. The remaining £110m is used to deliver school transport, maintain 10,000 bus stops/shelters, deliver a concessionary travel scheme for all aged 60+, operate and maintain a subway which transports 55,000 passengers daily, provide bus services where the market cannot make a market return, deliver transport planning services, and of course service debt.

Yes, debt – one of the biggest issues SPT has to deal with. SPT currently manages £130m of debt, resulting in anything up to £20m in annual charges. Some of this is supported via the local government settlement, while the rest falls to the council taxpayer in the 12 unitary authorities. A large element of this debt relates to the subway infrastructure and rolling stock, which was last modernised in 1980 at a cost of £65m – current day equivalent £200m. Compared with the vast expenditure required by the London underground, it's a drop in the ocean but London has one advantage – there is no outstanding debt from previous investment as this has been funded centrally.

If SPT was operating from a level playing field, it would be able to take advantage of the prudential framework for capital finance in local authorities- as it is the options are

limited! SPT has been allocated £20m in 2004/2005 for capital purposes – and unlike other PTEs this is coming in the form of a capital grant. Looking to the longer term, SPT will require approximately £350m over the next 10 years to deliver 3 strategic projects alone. If the cost of financing this is to fall on the council tax payer in West Central Scotland, many questions will be asked as to equity of this approach compared with other parts of the UK where this would not apply.

I am not suggesting that one size fits all – far from it. However, I am arguing that the time is right to:

- Look for transparency in the funding arrangements of transport bodies
- Apply consistency to the allocation of funding, particularly capital funding and
- Recognise the strategic role that PTEs play in ensuring other public services operate effectively

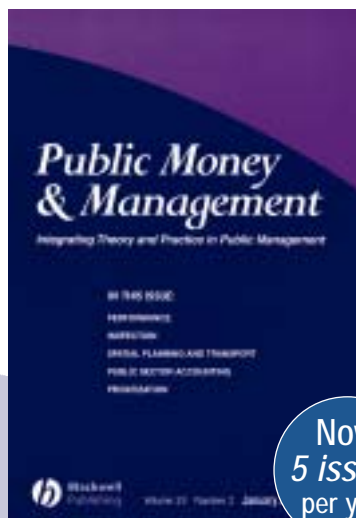
In the meantime however, all PTEs will seek for innovative solutions, including looking at Europe for best practice and ideas. PTEs will continue to work with partners at all levels of government to ensure as much funding as possible is channeled towards transport solutions. ●

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