

The Accounting Standards Board (ASB) opens this issue of Spectrum. The ASB is working on financial reporting principles for public benefit entities, including public service organisations. The article highlights key issues currently being considered for an Exposure Draft later in 2005.

The second article challenges local authorities to prepare 30 year general fund business plans to exploit the new capital freedoms available under the prudential framework.

The remaining three articles coalesce around the general theme of efficiency. The first of these looks at progress with the Gershon agenda in England, one year on from its launch in June 2004.

The following two contributions focus on a key efficiency theme - public sector procurement - in the higher education sector and from a sustainability perspective.

Feedback on these contributions is welcome to vernon.soare@cipfa.org.

Vernon Soare, Policy and Technical Director

Public benefit entities – further development of the interpretation of the principles for financial reporting

Jenny Carter

The Accounting Standards Board (ASB) has been working on an Interpretation of the Statement of Principles (the Statement) to provide a coherent frame of reference to be used in the development of Statements of Recommended Practice (SORPs) or other sector specific guidance for public benefit entities and to assist preparers and auditors faced with new or emerging issues. This led to the issue of a Discussion Paper in 2003.

The Discussion Paper was generally well received. In particular, it is gratifying to note that the term 'public benefit entity' that it introduced has taken on some currency in financial reporting circles. However, unsurprisingly, a variety of views were received on some difficult issues, and we have been working hard to improve the proposals. The ASB hopes to publish a revised version as an Exposure Draft later this year. This article can only share some of the thinking that we are doing – more definitive proposals must await the Exposure Draft.

Issues that have been debated include:

- The defining class of user for the financial statements of public benefit entities;
- The interpretation of the definition of a liability;
- The nature of business combinations;

- Contributions that should be treated as additions to residual interest;
- When capital grants should be recognised as gains;
- Whether notional transactions should be recognised;
- Whether voluntary gifts of assets or services should be recognised as a gain;
- How restrictions and intentions to limit the future application of assets should be reflected in disclosure about the assets and residual interest.

Defining class of user

The Discussion Paper suggested that the defining class of user for the financial statements of a public benefit entity should be based on funders and financial supporters. ►

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► This is likely to be retained in the Exposure Draft, but with some additional explanation.

If an entity prepares financial statements that satisfy the information needs of the defining class of user, then they should satisfy the needs of any non-specialist user. Funders and financial supporters are interested in information that helps them assess how effectively management has fulfilled their stewardship role for the resources they have provided. Funders and financial supporters is a general term and in practice will incorporate different groups of individuals or entities for different types of public benefit entities. For those public benefit entities within the public sector, funders and financial supporters are expected to essentially be the taxpayer. For a charity it will include donors and perhaps also the taxpayer, if the charity is in receipt of government grants.

The beneficiaries of a public benefit entity are likely to have a narrower perspective on the information to be gained from financial statements; they want to know whether benefits will be available in the future, but have a more limited focus on the stewardship of resources already dispersed.

Liabilities

The interpretation of the definition of a liability for public benefit entities is widely acknowledged as a challenging area insofar as determining the point at which a commitment to provide public benefits gives rise to a liability.

Further explanation is not needed for potential liabilities arising other than from commitments to provide public benefits because they should be no different, in principle, from those that might be entered into by a profit-oriented entity.

In relation to commitments to provide public benefits the Exposure Draft, consistently with the Discussion Paper, is expected to identify different characteristics of commitments and what these mean for when a liability arises. However, the Exposure Draft is likely to more clearly distinguish those types of commitments that have the substance of a contract for the performance of services and consider executory contracts further.

At the time of writing, current thinking suggests the following principles:

- General, or policy, statements of intention do not create a liability for the reporting entity because they do not create an expectation such that the entity cannot withdraw;
- For commitments that in substance represent a payment in exchange for the delivery of specific goods or services, a liability (and/or a loss) is recognised as the performance occurs (this includes performance-

related grants as well as contracts);

- For other commitments (which will generally include payments made to individuals) the reporting entity will expect to receive a benefit from any payments made (or goods or services provided) in furtherance of its objectives, which in accounting terms means that the commitment does not have the substance of a promise to transfer resources, but to benefit from pursuing its objectives when payments are made. Therefore no liability (and/or loss) arises until the stipulated delivery date for the payment, goods or services because the achievement of the reporting entity’s objectives and the provision of the payment, goods or services are simultaneous.

Business combinations

The Discussion Paper said that a business combination involving public benefit entities (other than those involving entities under common control) was more likely to have the substance of an acquisition than a merger. The Exposure Draft is expected to confirm this view because it is usually possible to identify an acquirer, where the entity existing after the combination is an enlarged version of one of the combining entities rather than a new entity.

Contributions that are additions to residual interest

It is expected that the Exposure Draft will simplify this area and note that contributions can only be treated as an addition to residual interest (rather than a gain) when they establish a financial interest in that residual interest (i.e. a right to participate in the residual interest). Many public benefit entities will not have such contributions.

Recognising capital grants as gains

A capital grant is one that is received to assist in financing the purchase (or construction) of a tangible fixed asset. It is expected that the Exposure Draft, consistently with the Discussion Paper, will suggest that such grants should be recognised as a gain when all conditions attaching to their receipt are met. This would be a change from existing accounting practice (and would not be reflected in practice until the relevant accounting standard changes), where such grants are usually accounted for as deferred income and amortised over the life of the relevant asset. However, the proposals would suggest that grants would usually be recognised in full once an asset is ready for use and that should trigger an impairment review to ensure that the cost of the asset is recoverable through its use.

An added area of complexity is that very many capital grants include a clause requiring them to be repaid in the event that the associated asset is disposed of. The Exposure Draft is expected to accept the views of a number of respondents that such a condition should not

prevent the recognition of the grant as a gain: a loss would be recognised if/when the entity became committed to repaying the grant.

Notional transactions

If neither a transaction nor an event has occurred there will be no changes in the reporting entity’s net assets and liabilities and hence no gain or loss to recognise.

Voluntary gifts of assets and services

This was an area that respondents to the Discussion Paper requested that the Interpretation should address. It is expected that the Exposure Draft will propose that gifts should be recognised on the basis of their value to the recipient entity. In some cases it may be difficult to measure that value with reasonably certainty and therefore the measure of the services that should be recognised will be derived by reference to those that would otherwise have been purchased. This would imply that, in general, volunteer time should not be recognised.

Restrictions over assets and intentions for the future application of assets

It is expected that the Exposure Draft will propose that the existence of restrictions over the application of assets should be disclosed, in relation to the assets, not simply by identifying a proportion of the residual interest as restricted.

Another idea that is being discussed relates to the most appropriate place to report management intentions for the future application of assets which are not subject to restrictions. It may be that this would be more appropriately part of accompanying information, such as an Operating and Financial Review, rather than as part of the financial statements themselves. ●

Comments on the issues raised in this article may be addressed to Jenny Carter at the ASB, j.carter@frc-asb.org.uk

*Jenny Carter
Project Director,
Accounting Standards
Board*

Local authorities now have the freedom to borrow without externally set limits to finance capital expenditure, provided of course that they can afford to repay the debt. This opens up huge opportunities to fund major projects and deal with asset management backlogs that previously were impossible because of the strict rationing that was in place. But large scale capital spending creates long term revenue commitments, and we haven’t yet developed the tools to manage the possibilities. This may be the reason that many authorities have taken a cautious approach to the new freedoms.

I want to suggest that what finance directors need to do is develop long term business plans – 25 or 30 years – for the General Fund as a way of managing the inherent risks in expanding the capital programme through additional unsupported borrowing. It will allow high level policy choices to be identified which can be used to advise elected members. It will allow authorities to exploit the full potential of the new freedoms.

The logic for this starts with the realisation that the new system lets authorities consider bids for additional capital and revenue spending in the same way. Any capital project can be turned into a revenue bid, simply by considering the financing costs rather than the capital spend. In any one year therefore one can budget by looking at what can be afforded in total, and trading off more capital with additional savings or less revenue growth.

However, capital spend commits authorities to many years of repayment of interest and principal. So to decide the rate at which the capital programme can be expanded, you have to look at long term revenue effects.

If, however, you just look at the impact of capital alone over 25 or 30 years you have no idea if the consequences are affordable. All you will have is a level of council tax increase, which in isolation from the total level of council tax means nothing. ►

► So, one has to model all revenue costs and all income over the same period in order to work out what can be afforded.

It is usually at this point that colleagues throw up their hands in horror and complain that this is impossible. It is hard enough to work out next year's budget given the uncertainties of grant, pay rates and service pressures, and we all struggle with three year medium financial plans. So it can't be done.

This seems too defeatist to me. We work out 30 year business plans for the housing revenue account (HRA) and 30 year affordability calculations for PFI projects. So if there is a stack of grant at stake we do it. We may not get extra grant from 30 year General Fund business plans – but we can exploit our new capital freedoms.

The approach I have taken is to identify key drivers to revenue spend and make some assumptions about future trends. For example, continued real growth in expenditure on social care, benefit payments, regulatory services and waste management. Economic growth at long term trend rates, long term inflation at the Bank of England target, interest rates at current long gilt rates, and pay increases in line with growth in nominal GDP. You will want to include some significant local factors. For example, the exact profile of your debt to calculate the impact of re-financing loans, likely pension contributions based on actuarial assessments, and any local financial arrangements (e.g. PFI deals or any legacy 'creative' accounting). I assume government grant will pay for schools, and underlying grant in line with growth in the economy. I also include something every year for additional (unknown) government and local initiatives. And don't forget that you will have an annual savings exercise. You could start at 2% per annum, or whatever has normally been achieved.

You also have to build in the capital programme. Start with the asset management plan and any other key commitments that the council has. Add depreciation – the backlog will get bigger if its not tackled! Put in place a profile of capital spend that deals with the resultant demand over the 30 years. There are lots of ways of doing this – for example start with a small increase in spend and then grow it rapidly, or start with a large increase and a smaller rate of growth.

When you put it all together you will get a net revenue expenditure that can be converted into an indicative council tax figure. You will want to test the sensitivity of your model to the external assumptions that you have made (e.g. inflation rates), and come out with a range of indicative council taxes.

This brings one to the most critical assumption of all. What is the long term affordable level of council tax? Ultimately this is a political decision. What level will members vote for, and will they get re-elected? Every authority is different. Some may not go for any increase, some in line with inflation, and some in line with earnings, or even more. This is a matter of internal debate, judgement and assessment.

Assuming you have an affordable level of council tax, subtract it from the indicative level coming from the model and convert the difference into £ million. That will give you a profile over the 30 years of whether the capital and revenue plan you have is workable. What additional savings do you have to make to fund the overall programme, or do you have any leeway to expand faster?

If you don't have a viable solution, you then have to go back to the locally determined assumptions (e.g. the size of the capital programme) and change them until you do have one. There may be several ways of doing this. It may be that the asset base is simply unsustainable. In which case you will be telling members that they need to dispose of some assets, make additional savings or abandon some iconic revenue streams.

No one is pretending that the 30 year plan accurately predicts what is going to happen over that period. It is simply a tool that allows you to address some immediate decisions that need to be made. What can the size of the capital programme be next year, can the council afford to maintain all its assets, can it sustain its revenue expenditure plans, can members' aspirations for council tax be reconciled with their plans for service improvements?

The model has three distinct uses. Firstly, it helps the finance professional to understand what is and is not sustainable in the longer term. Section 151 officers have an obligation under CIPFA's Prudential Code to advise members on what level of borrowing is affordable. The code itself hints that longer term assessments are desirable. My view is that they are essential to do the job properly.

Secondly, it is a tool that members can use to help form their own policy preferences and priorities. If the model is embedded into the decision making process in budget setting, then they will be encouraged to engage in dialogue with officers to arrive at a set of consistent policy assumptions that support their short term decisions.

Thirdly, the use of the model adds a degree of robustness to the decisions that councils make and will give assurance to external bodies that they are affordable and

sustainable. This benefit should not be underestimated. If external audit has doubts about the soundness of the decisions that authorities are making then that could trigger intervention by central Government who have reserve powers to set borrowing limits for individual authorities where the Code is not being followed.

Asset Management Plans have tended to hang like albatrosses round the necks of local authorities. Beasts of beautiful construction that simply overwhelmed the authority. Long term businesses planning gives the opportunity to link these plans with workable capital strategies capable of delivering sustainable outcomes. It's a response that we should be making to the opportunities that the new capital freedoms have given local authorities. ●

*Stephen Hughes,
Strategic Director
of Resources,
Birmingham City
Council*

In June 2004, the jargon of the public sector acquired a new term – Gershon. A year down the road, the Government's efficiency agenda still

(unofficially) carries Sir Peter Gershon's name, although the role of carrying the torch has passed to others, notably to officials in the Treasury and the Office of Government Commerce. It is a good time to take an initial look at Gershon's impact, and the likelihood of a long lasting legacy.

The Gershon report set out some key statements, and the four points below could be said to summarise the philosophy behind the detailed findings:

- Resources are to be redirected to front line delivery;
- Specific recruitment and retention needs are to be targeted;
- Savings must not be achieved at the expense of service delivery;
- There is capacity to deliver the proposed savings, even recognising reforms and efficiencies already achieved.

The efficiency target was set at £21.5 billion by 2007/08, of which local authorities are expected to find £6.5 billion. But while the local authority target is in fact a considerably greater reduction in terms of a proportion of annual expenditure, it would be redundant to argue the validity of making the local government goal so much harder. There are factors militating both for and against local government. The 'for' factors include the many years of experience that local government members and officers have in dealing with centrally imposed cost saving and efficiency programmes – a much rarer phenomenon in central government, with the last similar pan-departmental exercise being the Rayner studies of the 1980's, the effects of which are now largely forgotten. On the other hand, setting a single target for a sector comprising several hundred entities appears to be a recipe for disaster. Local government has an honourable record of sharing good practice and learning from one another. But with some exceptions, it has not been noted in the past for its ability to create joint working across sectoral and geographical boundaries. ►

► The Chancellor's recent Budget speech spoke in glowing terms of successes already achieved:

"I can report – ahead of target – the first £2 billion of value for money Gershon savings, on top of £2 billion savings in procurement announced in December. And I can also report – on target – the reduction of the first 12,500 civil service posts.

And having examined, in detail, representations put to me, I hold to Sir Peter Gershon's recommendation that to go beyond his proposal for £21 billion savings would, in Sir Peter's words, put the delivery of front line services at risk."

The figures for the efficiencies achieved seem small at first sight, from a total spending budget of around £500 billion. However, the public sector has until 2007/08 to reach the target, and has to get up to speed in efficiency rather than simplistic cost-cutting mode – i.e. either getting the same level of services for less money (cash-saving), or getting better services for the same money (non cash-saving). Gershon expects 60% of efficiencies to be cash saving. It would be very interesting to know where these efficiencies have been identified, and in particular to what extent they are to be delivered directly by central government departments. Press reports over the year have alluded to small job reduction figures from several departments. The Department for Work and Pensions is a notable exception to this rule, as the Spending Review 2004 specified that 30,000 jobs would go, over the coming four years.

The detail of the achievements is proving difficult to pick out. Even the original target was perhaps less clear than it might have been, specifying that £6 billion was expected to be found from procurement savings, and a further £5 billion from staff reductions, but leaving the remaining £10 billion unexplained. The background to the Chancellor's words remains obscure, and there must be an opportunity here for making a more effective message through greater clarity. We do not know whether the efficiencies are cash-releasing or not, and whether the remaining and greater part of the target is still expected to be achieved during the timescale.

At the time of writing, we were also awaiting the results of the departmental efficiency reviews taking place in respect of the largest spending departments. Again, it is not known whether the results for individual departments will be made available, and we understand that the Efficiency Technical Notes (ETNs) are not going to be audited. It is to be expected, however, that the review process will have uncovered a wide range of reactions amongst departments to the efficiency agenda, if the ETNs that they were required to produce and publish following the Spending Review are anything to go by. These range from short two or three page statements of principles, with little detail of specific actions, to some very detailed numerical schedules, with little explanation of the structured thinking behind the numbers. To be fair, most of those early efforts have been revised, and

considerably fleshed out.

What is not in doubt is the enthusiasm and energy with which local government has embraced the challenge. The Office of the Deputy Prime Minister (ODPM) has produced an ETN for local government; wisely, and recognising the problems in monitoring approaches to the challenge across all local authorities, it has avoided too prescriptive an approach. It will be for each authority to issue an Annual Efficiency Statement (AES), based on self-assessment.

The AES is to be signed by the Leader of the Council, Chief Executive and Chief Financial Officer. A caveat will be included in returns for 2005, to note that the Statement is a new development with limited good practice available and consequently that results are subject to change. The AES contains a 'forward look' and a 'backward look'. The forward look is intended to be a very brief (one or two pages) outline of the strategy for securing efficiency gains, the key actions that will be taken during the next year, and the efficiency gains that are expected to result from them. The backward-look should set out the efficiency gains achieved in the past financial year by service sector and cross-cutting area.

ODPM also issued self-help guidance on 29 January, which covered matters including a measurement tool, some short case studies, and a wide range of sources of help. CIPFA continues to support progress in this area, and is taking an active role in ODPM's continuing work programme on finding ways to measure efficiency gains appropriately. CIPFA's Local Government Policy Panel (LGPP) has also issued a discussion paper on the policy debate. This looks at a number of issues that we believe currently to represent obstacles to progress with the efficiency agenda, and proposes a number of ways forward. These issues include:

- The subsidiarity debate (i.e. central target setting versus local control), and associated matters including the current balance of funding for local government. CIPFA believes that this should change radically so that councils raise over 50% of their own income.
- The regulatory and policy framework; in 2003 CIPFA commented to the Cabinet Office Efficiency Review consultation that 'If significant efficiency gains are to be achieved in the UK's public services, they will probably not be found by continually targeting the local service delivery organisations. ... the overall regulatory and policy framework within which such organisations operate is often the determining factor as to the relative priorities between 'service delivery' and service policy, planning and monitoring activities. This points to the need for a radical shift in the regulation and policy framework, underpinned by rigorous regulatory impact assessments, to ensure that the concept of control proportionate to risk becomes the governing principle across public services.' Arguably, the need for this shift has been recognised in the 'slimming down' of the

number of inspection and regulation agencies announced in the 2005 budget speech and the adoption of, for example, 'Strategic Regulation' by the Audit Commission.

- Systemic inefficiencies, such as over-prescriptive and inflexible funding streams. Better use of public assets will be enabled with the introduction of the new prudential code.
- Governance, accountability and stewardship arrangements will also need to change to meet the needs of the new order.

In the 1960's, Chou En-lai allegedly said, when asked his views on the impact of the French Revolution, that 'It's too early to say'. The same is true of the efficiency agenda, but perhaps the Government will opt for greater openness as the achievements roll in. ●

*Tom Lewis,
Assistant Director –
Central Government
and Health, CIPFA*

I just don't buy it – procurement and efficiency in higher education *Steve Butcher*

Procurement is often the responsibility of finance directors but frequently gets less attention than it merits. The procurement department is seen as the department which keeps organisations legally compliant and out of the courts and is also wheeled out to come up with some instant answers when auditors ask awkward questions about value for money, but not much else. But the climate is changing and not before time.

The Efficiency Review has established an agenda for change within procurement. In education the Department for Education and Skills (DfES) has been set a target of £4.3bn of efficiencies for the year 2007/08 and procurement is expected to deliver 35% of these savings. This is challenging, but there are opportunities which have not, as yet, been widely taken up which could make delivery of Efficiency Review targets far easier than you may think.

Procurement is fast becoming the new risk management in that it is the hot topic of the day. And like risk management change will only come about if the entire organisation is committed to it. You cannot expect the poor old procurement staff to deliver all of this on their own. It has to be systemic. So, to embed systemic procurement there has to be commitment from the very top. Crucial to achieving this embedding is recognition that effective procurement is one way – along with others – to secure increased value to an organisation; and value that can be reinvested. It is part of the solution.

When you look at how much time is spent in an organisation in processing a purchase the result is staggering. Not only do we have the standard procurement areas of specification, advertising, tendering, contracting and post tender review, but there are also the procedural activities of requisitioning, ordering, clearance and payment of invoices and budgetary control. You can add to this list the time spent by staff looking through catalogues and talking to suppliers, getting demonstrations and going to trade shows. The list seems almost endless. A recent study by IBM suggests that the process costs for every invoice amount to £35 to £80. A wide range, but even if you take the lower figure and multiply it by the number of invoices your organisation processes the figure is very high. ►

► In the past these sorts of costs were unavoidable, but now we have a choice. There are different ways of achieving the same result, many of which produce a reduction in process costs. And none of this has to be end-to-end. You can pick any point in the purchasing and procurement system and very similar levels of efficiency are achieved. Most studies suggest that 50-60% efficiencies are achievable. A very good study was one completed by Woking Borough Council (www.woking.gov.uk/wbc/ieg/procurement2.pdf) where a comparative study of a traditional tender was made with an e-tender for the same commodity. The e-tender route won on all counts. And none of this takes into account the better value for money achieved through the contract in addition to the process costs savings.

Part of the Efficiency Review agenda is to ensure that as much as possible that is purchased has passed through the hands of someone with procurement training and expertise. For most regularly purchased goods and services this will mean that an appropriate contract has been tendered and that it is being used. The area of spend over which procurement has had an involvement is called 'influenceable spend' and the element of the influenceable spend which is used outside of agreed purchasing routes is called 'maverick spend'. An estimate by an e-marketplace provider in higher education is that influenceable spend runs at 50% and that within that, maverick spend is 10%.

Bringing purchasing within the ambit of the procurement function delivers its own efficiencies and I will go on to suggest some ways this can happen, but in higher education and I suspect in other sectors there is a big target to aim at which currently sits outside. In higher education a large proportion of the non-influenceable spend passes through institutional buildings and estates departments. The argument that heads of estates use is that much of this spend should be considered to be influenced by procurement because estates offices have staff with appropriate procurement skills and experience. From my position I suspect that this argument would not be acceptable to the Office of Government Commerce (OGC), which is responsible for the Efficiency Review, if it were presented in this fashion. We need to engage with buildings professionals better to understand how they perceive what their function is and to suggest that there are ways that others with a professional remit in procurement can provide benefits. These benefits are potentially very large.

One of the areas in which higher education has been in advance of many sectors is that of collaboration. There are six regional purchasing consortia across the UK and the Southern Universities Purchasing Consortium, for example, has been in existence since 1974. These bodies act on behalf of their members to establish contracts for

common items in use in the sector. Within the framework of the regional consortia there are also other consortia which deal with specific commodity areas such as energy and catering supplies. For other sectors there is an opportunity to emulate what has happened in higher education. In higher education itself there is a challenge to make these arrangements even better, consolidating similar regional contracts into a single national contract, for example. We also need to identify new areas where a collaborative approach would be beneficial resulting in the dual benefit of driving towards the best deal because of the volumes available but also releasing the time of procurement officers in higher education institutions to deal with areas which require concentrated attention. There is also an initiative within the Efficiency Review to broaden the scope of any public sector contracts to enable organisations to choose a better deal than it may be able to negotiate itself. The DFES has opened up its printing contracts in this way.

In a similar fashion to collaborative procurement, co-ordinated procurement can also reap rewards. Co-ordinated procurement ensures that similar items which are purchased irregularly but are also being purchased by other organisations at the same time are procured most effectively. Sometimes these timings occur because of initiatives which are happening. For example, compliance with the Disabilities Discrimination Act has meant that there has been a surge of procurement of hearing loops and audio visual equipment throughout higher education and beyond. These items are not individually expensive, but brought together economies could be achieved. In higher education, starting with research equipment, we are working towards collecting records of equipment due to be purchased in a database, to allow the co-ordination of these requirements which will produce subsequent efficiencies.

Lastly, e-procurement has the potential to deliver huge efficiencies and in many ways is linked to process costs efficiencies covered earlier. E-procurement has many definitions but for this purpose I have given it as broad a definition as possible, covering e-tendering, e-auctions, e-marketplaces, procurement cards and procurement management systems. Just picking on one of these, e-marketplaces, these systems have the potential to manage the purchasing behaviour of staff but allowing them to make considered choices. E-marketplaces work well with framework agreements which have contracts with a number of suppliers for the same type of goods. It allows competition to take place in a controlled environment which reduces maverick spend, drives down costs and keeps process costs to a minimum.

In higher education the availability of choice of systems has led to apparent inertia from institutions in making a decision in case it turns out to be the wrong one. But the

truth is that one of these solutions may on balance meet more of your requirements; but it may also be that you need two because of your particular circumstances and what the two systems offer in combination.

I have already discussed the level of process cost savings that these systems will deliver but they will also deliver savings within contract because they concentrate spend in the desired areas and eliminate maverick buying. If these factors were built into a business case for you to consider, the purchasing decision of an e-marketplace system would be a 'no brainer'. So ask your head of procurement to prepare one and start getting the benefits of e-procurement.

Procurement is going to rise up the agenda of finance directors in all sectors driven by the Efficiency Review but it is still under your control how your own organisation reacts to this initiative. The right decisions could put you in a firm position for many years to come. ●

This article has been edited from the CIPFA Further & Higher Education Panel newsletter, Spring 2005. The full article can be accessed at <http://www.cipfa.org.uk/panels/fehe/newsletter.cfm>

*Steve Butcher FCCA,
Head of Procurement
at the Higher
Education Funding
Council for England
(HEFCE)*

Accountants can change the world David Aeron-Thomas

Government initiatives to increase the efficiency of the public sector can go hand in hand with those to enhance

sustainability. Public sector business managers and advocates of sustainable development therefore have common ground. Accountants have an important role to play in helping to demonstrate this link.

The Accounting for Sustainability Group¹ has just launched a report² highlighting the link between value for money and sustainability. The report sets out some of the obstacles to achieving wider value, recognises the importance of the role of accountants and challenges the accounting profession to do something about it.

Forum for the Future were privileged to be part of the group that wrote the report. This article sets out some of the findings from the report.

The Government has clearly signalled the extent of its commitment to sustainability in its recent Sustainable Development Strategy³. In his foreword, the Prime Minister writes that the 'Government will lead by example... We want to ensure that we spend your money sustainably'. At the same time, the efficiency targets announced by the Government in the wake of Sir Peter Gershon's Efficiency Review in 2004 might seem to risk increasing the potential divergence of priorities between full-time sustainability specialists and those who see sustainability as more tangential to their everyday jobs.

Following the Gershon Review, public bodies have to deliver efficiency savings of over £20 billion by 2008. Can they really achieve this and increase their sustainable purchasing? The answer is yes, because efficiency and sustainability can go hand in hand. In fact, the Gershon Review offers increased opportunities to mainstream sustainable procurement, given its potential to achieve greater efficiency. Hard-pressed business managers can welcome advocates of sustainability as their natural allies, while sustainability specialists can progress their objectives by using the language of value for money. ►

¹The Accounting for Sustainability Group was convened by HRH The Prince of Wales in 2004 as a result of concern that procurement (and disposal) decisions taken in the public and private sectors might be unavoidably short-term or narrow in perspective.

²Realising Aspirations: Or, Using Value for Money to Make the Public Sector More Sustainable. Available from www.princeofwales.gov.uk/speeches/asm.html

³Securing the Future – The UK Government Sustainable Development Strategy, March 2005, CM6467

► Accountants also have a central role to play not only in understanding, demonstrating and achieving the efficiencies that can be gained from sustainable practices, but also in the wider field of sustainability in general.

One particular area, however, where there is already clear and practical scope for progress is procurement. When it comes to purchasing goods and services, organisations have clear calculations to make, based on a set of factors that should and can take into account aspects that go beyond fitness for purpose and capital and running costs. For example, in weighing-up which vehicles to purchase, an organisation should not only examine factors such as initial cost, maintenance costs, fuel costs and fitness for purpose, but also the impact of both carbon emissions and travel patterns on the local economy. In this way, procurement activities should naturally be focusing organisations on the wider and longer-term costs and benefits of their decisions.

What is sustainability?

Sustainability means thinking about the impact of economic activities – things bought, investments made, waste thrown away, pollution generated – on the natural and human resources on which they ultimately depend.

History has provided many examples where an activity thought to be sustainable was, in fact, unsustainable. A good example is that of over-fishing. The Canadian cod fisheries in the North Atlantic used to be among the richest in the world, but as a result of a short-term approach stocks collapsed in the 1990s, and the industries and communities that once profited by them have suffered accordingly.

The case of over-fishing clearly demonstrates how economic activities have an impact on the environment, which can have a corresponding impact back on the economy, and which in turn can have an impact on local communities.

That is to say, an economic decision – for example, to buy the cheapest goods rather than those from local suppliers – will often have major knock-on effects on the local economy and community. What may seem to make economic sense in the short term to those making the decision may in the long run end up costing much more to society as a whole. Sustainability is all about taking these knock-on effects into account at the time the initial decision is made.

This is not to accuse decision makers of recklessness. Knowledge is hard to acquire and decisions always have to be made on the basis of incomplete information.

Why is this of particular relevance to the public sector?

Governments have a duty to act in the general public interest and governments themselves have special reasons to act in a sustainable way. One example is where an individual public body bears the costs, but saves money across the public sector. This includes subsidising public transport, thus enabling key workers to get to their workplaces, reducing congestion, and improving air quality.

Another is where the Government buys renewable energy, thereby mitigating global warming and, as a result, preserving the environmental basis of economic and social life.

Of course, within the public sector there is always only a limited amount of money available to spend at any one time, just as is there is within the wider economy. This means that, other than when buying in a sustainable way yields an instant saving or is no more expensive in the short term, it is obviously impossible for public bodies to pursue all the potential opportunities for sustainable purchasing available to them.

Each organisation must necessarily prioritise among a number of choices, giving proper weight to the potential for long-term savings and wider benefits for each option. But this also means that public bodies should consider in some cases whether they need to make a certain purchase at all.

Sustainable thinking ought to come naturally to the public sector, since it is Government that has the overall job of representing the interests of communities. It is also the taxpayer that tends to pick up the bill when local environments are spoilt, local economies decline, and local communities are beset with social problems.

When it comes to acting in a sustainable way, the role of Government is not confined to regulating the economic activities of private companies and individuals, or responding to their social and environmental impacts. Government itself is a major economic player. Public sector procurement – the purchasing of goods and services by all types of Government body – has a significant role to play in increasing the sustainability of the entire economy.

The public sector combined has an enormous purchasing power. Altogether the UK Government buys £13 billion worth of goods and services each year, this figure rises to £125 billion when the wider public sector is taken into account. Government influence through its spending is arguably on a par with its influence through policies, taxation, and legislation.

Public sector procurement is, then, a very special case.

- The public expects Government to take a lead, and, leading by example, it can be extremely effective.
- Public sector procurement makes up a significant part of the UK economy.
- Procurement is the area where sustainability is currently most practically integrated into public policy.

Public sector procurement has the potential to influence the whole economy in a more sustainable direction. It can do this in three ways.

- By sending a clear message by buying sustainably – in other words, practising what it preaches.
- By the direct effects of its purchasing decisions in themselves – on the environment, regional development, and social conditions.
- By stimulating the market for sustainable products and services, making these more economic to produce, and hence increasing the general demand for them.

In the UK Sustainable Development Strategy, the Government announces its new goal of being recognised as amongst the leaders in sustainable procurement across EU member states by 2009. The Strategy further announces a new, business-led Sustainable Procurement Task Force, to develop a national action plan for sustainable procurement across the public sector by April 2006.

Barriers to sustainable procurement

So if this all makes sense, why isn't sustainable procurement taking place more widely? We identified nine barriers to sustainable procurement:

Cultural and Attitudinal Barriers

- 1 Ignorance
- 2 Suspicion
- 3 Confusion
- 4 Lack of information and accountability

Organisational Barriers

- 5 Lack of leadership
- 6 Supply chain size

Economic Barriers

- 7 Long-term versus short-term
- 8 External benefits versus internal costs
- 9 Intangible benefits versus monetary costs

And we offered six suggestions for overcoming these barriers.

- 1 On-the-ground experimentation – join up costs and benefits which fall within different budgets
- 2 Better data – identify the sustainable crunch points
- 3 Improved skills – help people tackle these issues
- 4 New accounting systems – bring externalities into account in decision making
- 5 Closer oversight – make it worthwhile
- 6 Clear strategic vision – provide focus in this expanding area

All are relevant to CIPFA members but I would particularly recommend suggestion 4 [new accounting systems] to you. The accountancy profession can work with economists, academics and the Treasury, to build on work such as the Treasury's Green Book, and identify how the public sector can bring externalities into account in decision-making.

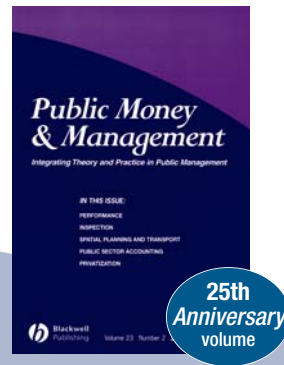
Accountants can change the world. I am proud to be part of that change. ●

David Aeron-Thomas leads Forum for the Future's Sustainable Economy Programme, is a Fellow of the Institute of Chartered Accountants in England and Wales, is one of the judges for the Association of Chartered Certified Accountants annual Sustainability Reporting Award and is on the Environmental Steering Committee for Climate Care

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25th Anniversary Volume

2005 will be the 25th anniversary of the journal. It is also likely to be an election year. The editors have decided to mark these events with a series of special editions that take stock of our public policy and management.

January 2005: **The State of Public Management**. Editor: Andrew Gray

April 2005: **Transport**. Guest Editor: Francis Terry

June 2005: **Health Policy and Management**. Guest Editor: David Hunter

August 2005: **Criminal Justice**. Guest Editor: Sandra Nutley

October 2005: **Public Service Ethics**. Guest Editor: Alan Lawton

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