Report Back to: Finance and Performance Management Scrutiny Panel
Date of Meeting: 12th November 2013

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1. BACKGROUND

At the meeting of Finance and Performance Management Cabinet Committee 21st January 2013 a question was raised about the recharge of member's allowances to the housing revenue account. This resulted in a discussion about how the levels of recharges made it difficult to determine if the service was providing Value for Money (VFM). The Finance and Performance Management Scrutiny Panel were asked by the Finance and Performance Management Cabinet Committee to investigate recharges as members found them confusing. Additionally when questioned Directors or Officers have been unable to effectively explain cross charged costs appearing in departmental budgets.

2. METHODOLOGY

A small sub group was set up under the Chairman of Finance and Performance Management Scrutiny Panel to investigate the issues with the view to defining the problem and to understand the methodology for cross charging.

This report is presented back to the Finance and Performance Management Scrutiny Panel for consideration and comment.

3. FINDINGS SO FAR

Working with Peter Maddock Deputy Director (Accountancy) it has been possible to investigate and look below the surface of the high level budget and accounts presented to members. The council use an accounting system which enables budget holders (Budget Spending Control Officers) to assign, approve and manage costs directly attributable to their departments. This information is recorded in the Budget Spending Control and Code Book and is measured against this during the year. However common services i.e. Service Support costs, although controlled through a single budget holder control point e.g. Accommodation, IT, the Telephone system are apportioned by Finance and allocated at year end across all departmental budgets. An example section from the Budget Spending Control book is attached.

Similar calculations are made as part of the budget preparation, allowing the annual financial accounts to be compared with the budget. It is not clear as to the value gained from this for day to day management by the after the event comparison, especially given the significant amount of work involved.

This preliminary investigation has inevitably resulted in more questions.

Q – Is it a Financial Control requirement to prepare budgets that includes allocations (recharges) of costs?

Certainly the allocation of costs on a particular department from other areas have limited if any relevance to spending control officers as they are not in control of those cost items.

The allocations of costs not directly attributable to specific activities are calculated according to CIPFA rules. This is required for the annual accounts and is not necessary for management accounting.

4. THE BUDGET

The budget is a tool used in planning future activities for a particular time period and against what actually happens; this can be compared revealing variances.

Variances must be identified in good time to be able to affect remedial action to remain financially neutral. The reasons why variances have occurred must be determined to ensure that the appropriate action is taken, i.e. additional savings found or underspends justified. Revision of the budget should only happen if the original budget was not valid.

The budget should be part of the management controls to ensure that the strategic objectives of the council are met. As such it should be pro-active planning rather than "cut and see".

5. SPENDING CONTROL

Spending control officers do not actually spend all the money attributable to them and appear to take responsibility for costs directly signed off by them but not all controllable costs. In the spending control book salaries are for example described as for Accountancy Use Only but arguably these are controllable costs. If the spending control officer is unable to directly influence the magnitude of such a cost or decide whether it should be incurred at all it begs the question "who does?" Every cost must be controllable by someone.

Because of way costs are allocated the spending control officers have items in their budgets over which they have no direct control. However this does make them aware of all their costs and the effect on council's position.

The term "spending control" reveals an approach that is not designed to control effectiveness and efficiency where a measure of outputs would also have to be applied. Whenever a service could be obtained by outside contracting e.g. maintenance or running canteen an outside alternative should at least be investigated to provide a benchmark for comparison.

6. CONTEXT FOR NEXT STEPS

The Chief Executive's plans to restructure the council have been presented. Should this provide an opportunity to review the management of costs in the overall context of the setting of objectives through to measuring and controlling outputs and costs?

The council's activities do not yield a readily identifiable monetary value and how much should be spent on these activities becomes a matter of judgment. The most important stage occurs when decisions are made on where to allocate resources and on which projects to undertake. Judgments about efficiency can only be made in the light of both costs and outcome and value of outcome. This is normally a matter of qualitative opinion rather than quantitative measurement. Therefore cost allocations and budgets must be looked at together with KPIs in the context of the strategic plans. Information systems that relentlessly churn out unused information could amount to nothing more than misdirected work.

This raises additional wider issues -

a) Who is responsible for setting the budget and controlling effectiveness and efficiency;
b) Local Government does not have a profit or competitive driver, how can the council achieve best in class. VFM, best process and clear responsibility;
c) Benchmarking against other authorities may not be an effective measure;
d) How to drive forward through continuous improvement and change management; and
e) Should business plans have a role in establishing the way forward?

7. NEXT STEPS

The areas identified for further immediate information fall into two broad categories:

- Hierarchy of delegation
- Cost allocation for management purposes

As regards the hierarchy of delegation we need to establish the responsibility and scope of control of:

a) Portfolio holders
b) Directors
c) Other officers

In respect of cost allocation for management purposes we need to establish:

i) Which costs are controllable within each responsibility centre (controllable costs may include direct fixed costs e.g. depreciation if a directorate controls the fixed asset decisions and imputed interest charge based on opportunity cost of funds.);

ii) Which fixed costs are committed costs that cannot be eliminated without a change in objectives;

iii) Which common fixed costs are medium term costs that can be reduced without immediate major disruptions to the objectives;

iv) Whether there is cross charging should be market based or negotiated rather than cost-based;

v) Which costs are step costs in nature?

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