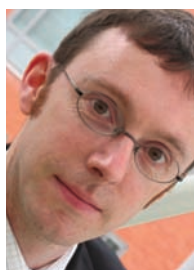


FANzine

NEWS FROM THE FINANCE ADVISORY NETWORK



Comment by Rupert Dewhirst

Rising to the challenge of the perfect storm

PERIODICALLY IN PUBLIC services we see a paradigm shift in the political and practical environment within which we in the finance profession – and all our colleagues across local government – ply our trade.

During the 1980s the debate about ‘purchaser’ or ‘provider’ really got going. Compulsory competition took its grip and central government introduced swingeing budget cuts. Local government felt it was drowning in a sea of strife.

During the 1990s we moved on to an agenda of ‘partnerships’, a focus on citizens, communities and service users and the government invested in permanent revolution across public services. But then local government felt it was drowning in a sea of initiative.

As we approach another new decade, the era of investment is fading into our collective memory while efficiency has become a bigger and bigger focal point across public services.

And now we have the economic recession – and maybe potential depression. Few could have predicted the scale and depth of this economic crisis. And all sections of the economy will be hit, including the public services.

In particular, it looks certain to have a dramatic impact on the resources available across local government – perhaps in particular outside the high-profile services such as education.. This is sure to open a brand new (or is it an old?) box of

challenges for public servants.

How we respond in the finance profession will determine our future. How we choose to assist our various stakeholders will determine whether we will continue to play a role that is central to the organisation or simply become a technical side show – a mere support function.

As local authorities are squeezed harder than ever before, our mantra has to be: how does what we do improve the meaningful management of our organisations’ resources?

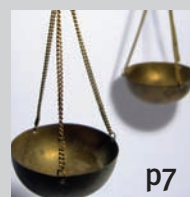
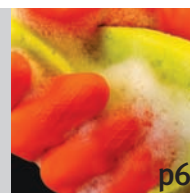
We need to support better value for money through transformational change, rather than the more traditional approach of simply trying to do the same for less.

Now more than ever, we must help local government steer a safe course through a sea made swollen and choppy by the perfect storm.

• *Rupert Dewhirst is head of networks, seminars and conferences for CIPFA Collaboration Services*

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Grant stability confirmed

The recent local government finance settlement confirmed that there will be no changes to the formula grant for 2009/10. The headlines were:

- The formula grant for 2009/10 will be as announced in January 2008.
- The proposed increase in total aggregate external finance is 4.2%.
- Councils will be called on to find more than £1.5bn new savings every year.
- The government will regulate to allow local authorities with funds invested in Icelandic banks to postpone the impact of impairments required by accounting practice, from 2008/09 to 2010/11.
- Councils will have to put statements on efficiency savings on the face of the council tax bill from April 2009.

PBR looks to boost economy

The Pre-Budget Report of 24 November included a £20bn fiscal stimulus in a bid to boost the economy. The headline component of this package was a temporary reduction in the standard rate of VAT to 15% from 1 December 2008 until 31 December 2009. However, there were other elements that will also have an impact on local authorities. There will be a payment of £60 for each pensioner – equivalent to bringing forward the uprating of the basic state pension from April to January. A £60 payment will also be made to 2.5 million

individuals who are in receipt of certain other benefits.

The commitment to increase the child element of the child tax credit by £25 above indexation in April 2010 has been brought forward to 2009, meaning this element will increase by £75 above indexation to £2,235 in April 2009.

Child benefit was also increased from £18.80 to £20/week for the first child, and from £12.55 to £13.20/week for subsequent children in January 2009.

The chancellor also announced bringing forward £3bn of capital spending from 2010/11 to 2008/09 and 2009/10 including:

- £800m capital for schools and children's services
- £700m to increase capacity on motorways and critical highways, plus up to 200 new carriages on the rail network
- £150m of new and accelerated spend to provide free/subsidised heating for low-income households
- Accelerated investment in social housing stock.

Icelandic bank crisis update

UK financial authorities have appointed Ernst & Young as administrator for the UK-based subsidiaries of Icelandic banks. Meanwhile, the Icelandic authorities have appointed Deloitte & Touche as advisers for the three banks incorporated in that country. It has also been announced that the Local Government Association and the Audit Commission are to undertake a joint review of lessons learned.

Council focus in Queen's speech

December's Queen's Speech underlined the government's priority to ensure the stability of the British economy during the global downturn. It included a number of bills and draft bills with implications for councils.



A Local Democracy, Economic Development and Construction Bill will aim to strengthen local democracy, promote regional and local economic development and ensure fairness in

construction contracts.

A Policing and Crime Bill will introduce directly elected crime and policing representatives.

In education, a Children, Skills and Learning Bill will transfer funding and responsibilities for 16- to 18-year-olds back to local authorities, strengthen children's trusts, and improve standards across the service.

And a Business Rates Supplements Bill will introduce flexibilities for authorities to set a supplement on the current national business rate of up to 2p per pound of rateable value to be used to promote economic development in their local area.

Comment on code of practice

The CIPFA/LASAAC Local Authority SORP Board released the *2009 SORP exposure draft and invitation to comment* for public consultation in November 2008. The 2009 SORP would apply to accounting periods starting on or after 1 April 2009. The proposed developments are:

- Adopting requirements for accounting

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FAN SURVEY 2008

A member survey in November has given the FAN a greater understanding of views of the services provided. There were nearly 60 responses to the survey, which provided several key messages:

- 98% of respondents agreed that the FAN helps organisations improve their financial management.
- 100% agreed it aids understanding of technical/regularity issues.
- 94% agreed it offers value for money.
- 90% rated regional events as a very important element of their membership with 99% stating that the subject matter of events is relevant.

To assist in preparing for 2009/10 subscription year, the survey also asked subscribers which topics they wanted the FAN to focus on over the coming year. The most popular subjects were: international financial reporting standards in local government; preparing for accounts closure 2009/10; best practice in use of resources 2009 under the comprehensive area assessment; and the efficiency agenda.

The survey also highlighted the importance of the FAN rough guides, all respondents agreeing the guides meet their needs and that the subject matter is relevant.

All the survey findings will be used to ensure the FAN continues to develop and deliver services to meet the requirements of members throughout 2009 and beyond.

CSFAN Survey 2008

In tandem with the overall FAN members' survey, a survey was run on services provided for children's services practitioners through the CSFAN. Nearly 30 responses were received showing high overall levels of satisfaction. The key findings were:

- 96% agreed that the service helps their authority improve

financial management.

- 94% agreed it offers value for money.
- 94% stated it promotes financial management best practice.
- 92% rated regional events as a very important part of their membership.
- 100% agreed the subject matter of events was relevant.

Subscribers were asked what subjects they would like to see covered in 2009/10. The most popular topic was early years funding reform, which was included as part of November's events looking at developments in children's services. Other areas of interest included: the financial management of children's centres and extended schools; dealing with schools in financial difficulty; the dedicated schools grant (DSG) review; the financial implications of the children and young person's bill; the local authority school funding formula.

All respondents agreed or strongly agreed that the briefing notes met their needs, and 94% of all visits to the website were to look for these notes. The survey also highlighted that 100% of respondents agreed or strongly agreed that the subject matter of briefing notes, *FANzine* and feedback reports was pitched at the right level and that the material was useful.



for private finance initiative schemes and similar arrangements consistent with the adaptation of IFRIC 12 service concession arrangements contained in the 2009/10 *Financial reporting manual* (FReM) and Whole of Government Accounts' requirements.

- More detailed and in some respects different requirements for accounting for council tax and national non-domestic rates in England, Scotland and Wales and rates in Northern Ireland.
- Removal of larger parishes and community councils from the list of bodies to which the SORP applies.
- Accounting for reorganised local authorities.

The deadline for comments is 8 February.



TOP DOWNLOADS: www.cipfanetworks.net/fan

The top 10 downloads between 1 September and 31 December 2008

		Number of downloads
1.	The Definitive Introduction to IFRS in Local Government	733
2.	A Strategic Update: Helping Finance Managers Prepare for the Future	185
3.	Getting the Most from Balance Sheet Management	167
4.	FANzine Issue 18 – Summer 08	108
5.	Session 3 – Part 1 IFRS Timetable	108
6.	Session 4 : The Efficiency Agenda	107
7.	Session 6 – Update on CAA and Use of Resources	105
8.	IFRS in Local Government Introductory Questions	104
9.	Briefing UoR 2008/9 Auditor Guidance	104
10.	CIPFA FAN–RoughGuidetoSummaryFinancialReporting	94

By Pam Duke



The case for separation north of the border

THE COMING YEAR could see the first steps towards separate reports for local government pension scheme funds in Scotland. This is just one of several issues and developments on the horizon for the country that practitioners need to be aware of and contribute to the discussion.

LASAAC recently issued a consultation on the potential requirement for separate local government pension schemes (LGPS) pension fund reports. This follows a requirement in England and Wales for local authorities administering an LGPS to produce a pension fund annual report.

It is a move that appears to enjoy wide support. In the back to basics' consultation exercise CIPFA recently undertook on financial reporting, 93% of Scottish respondents supported the concept of publishing separate LGPS accounts. This would remove LGPS accounts from local authorities' accounts.

LASAAC is consulting on whether:

- There should be a requirement in Scotland to produce separate LGPS pension fund reports

- There are other measures that could enhance pension fund accountability
 - The status quo should remain.
- The closing date for comments is 6 March, so we should have a clear view of the future of LGPS accounts by the summer.

LOCAL INCOME TAX

Also in Scotland there is an ongoing healthy debate about the option of a local income tax replacing the council tax. CIPFA Scotland, along with the CIPFA Directors of Finance Group and the Society of Local Authority Chief Executives Scotland, made a joint submission to the debate. This raised key concerns about a possible funding gap if the 3p local income tax was introduced. Specifically they argued the move would remove the partial fiscal autonomy of local government and mark a fundamental shift in accountability.

The Scottish Government released its analysis of the consultation responses in November and it was evident that others also queried the practical implementation of the proposals. Given the funding gap

issue, it is hoped a revised council tax is still on the table. Time will tell.

The Directors of Finance Group in Scotland has also issued guidance on asset management and capital planning. The key messages are about having a comprehensive asset management plan that is fully integrated with service planning, capital planning and financial planning.

This should address any governance issues and help authorities realise the potential for better use of assets. It should link into the efficiency agenda by determining condition, capacity, investment needs and surplus assets, providing improved value for money and better services. The guidance can be downloaded from the CIPFA Scotland website.

In Scotland, managers are also awaiting proposals on the new era of best value audits. All 32 councils will have been best value audited by March 2009 and Audit Scotland is developing an approach for 'best value two'. The principles surrounding the new approach will include:

- More focus on outcomes
- Emphasis on community leadership and partnership working
- Proportionate, risk based audit, based on self-assessment
- Improved support for improving and sharing good practice.

The detailed consultation will be out this spring and will give authorities an idea of what to expect in future best value audits.

Finally, on a technical footing LASAAC has issued guidance on the accounts' authorised-for-issue date. It has been agreed that the date of authorised for issue should be consistent with the date the audit certificate is signed. A brief statement should be inserted on the balance sheet as part of the final published financial statements stating when the unaudited accounts were issued (June) and when the audited accounts were authorised for issue (September).

As ever, FAN will be covering many of these topics throughout the year at its events and will be keeping practitioners up to speed on international financial reporting standards' developments.

- Pam Duke is IPF associate for Scotland

By Rheon Tomos

Exceptional times push finance to the fore

BY NOW MANY of you will be at the tail end of the budget setting process and you have told us it has not been easy. Given the tight financial settlement, setting budgets was always going to be challenging. But the additional pressures caused by the economic climate, and in particular investment income reductions, has led to painful decisions in balancing budgets.

What is clear is that this year and beyond, the pressure to deliver more for less will be acute. Finance professionals can expect to be in demand.

Politicians and commentators have been queuing up to tell us we are living in exceptional times – a theme developed at a CIPFA Treasury Management Forum event in Cardiff, organised in response to a request by FAN members.

RISK MANAGEMENT SCENARIOS

Delegates were taken through a range of risk management scenarios associated with external lending and investment options, issues covered in the CIPFA discussion paper *The risk management agenda* (October 2008), available on the website.

As expected there was much talk about the collapse of Icelandic investments and the next steps for authorities affected. On a positive note the ability to waive any impairment in the short term, which could have significantly hit 2009/10 budgets, was seen as very important. Members in Wales can expect a consultation paper from the Assembly on new capital finance and accounting regulations to cover this by the time this issue of FANzine is published.

The significance of medium-term pressures on reserves and balances, together with potentially lengthy periods of low interest rates coupled with economic uncertainty, will require detailed risk assessments to support financial advice to members. LAAP Bulletin 77 – *Local*

authority reserves and balances (November 2008) – refers to the need to address these and several other issues. These include detailed attention to revenue and capital forecasting, with their associated reserves and balances implications, as well as other contingency or disaster risk predictions.

In addition to stressing the need for financial prudence in managing public

What is clear is that this year and beyond, the pressure to deliver more for less will be acute

finances during this and subsequent spending review periods, the chancellor has also raised the expectation for delivering financial efficiencies across government departments. This means the delivery on the public services reform policy, *Making the connections*, will be closely monitored.

Early indicators suggest there will be a requirement to achieve even higher targets

than originally expected. This will no doubt be subject to discussion at local service boards and the Partnership Council.

Those active in this area should monitor additions to the Wales Audit Office's good practice exchange. Case studies are already posted on vehicle management and others will follow on buildings management after the start of reviews this year.

AGS DEVELOPMENTS

FAN members have been asking about developments on replacing the statement on internal control (SIC) with an annual governance statement (AGS), although some councils have already implemented the CIPFA/SOLACE guidelines.

It is likely the Assembly will consult on the way forward on this early this year, widening the debate as to whether the AGS should be in the financial statements or in another document. You will probably have the option to apply a SIC or AGS for 2008/09 but it would be prudent to discuss this with your external auditor.

SORP developments and IFRS preparation sessions were well attended last year and in 2009 we aim to organise events or workshops on these key developments. We will also continue to offer other efficiency and technical update events. Our draft plans will be circulated for comment and we welcome your observations on additions to the FAN programme in Wales.

• *Rheon Tomos is the FAN's associate adviser (Wales)*





By Mark Kenyon

Facing up to the big squeeze

COUNCILS HAVE BEEN told their financial settlements for 2009/10 through the formula grant will be unchanged from those announced in January 2008. But everybody knows that over the coming years the financial position is going to get much tougher.

Councils already have to achieve £4.9bn savings in the three years to March 2011. Chancellor Alistair Darling set out in the Pre-Budget Report (PBR) that a further £5bn of efficiencies across the public sector will now be required during the remaining period of the current spending review.

Local government's share of this amount is to be announced in April and we are told that '2010/11 financial settlements will be adjusted accordingly'. The position is going to be even harder for the next spending review period, with the chancellor indicating further savings will be required.

With council settlements allocated net of efficiency savings and the poor state of public finances, council finances are going to be tight for the foreseeable future. The falling value of capital receipts and reducing income levels are adding to the burden on councils during the recession. And this is added to by the need for increased services – for example, to tackle homelessness as residents struggle to pay housing costs. All these factors mean councils will need to achieve more and more efficiencies.

LARGE-SCALE FOCUS

Given the size of the efficiency challenge, experts suggest small-scale activities such as shared services or information technology are unlikely to be enough to deliver balanced budgets. Instead, large-scale transformational changes will be needed to the way services are provided. Implementing these types of changes will

take a considerable amount of time – and planning needs to start now.

Of course all councils are different with approaches and plans unique to their own circumstances. This is demonstrated by the forecast 2009 efficiency savings published by the Department for Communities and Local Government, ranging from 1% to 16% of 2007/08 baseline expenditure.

CHANGE OF REQUIREMENTS

It is difficult to ascertain where these efficiencies will be made as there is now no requirement to publish annual efficiency statements. Authorities are only required to submit a forecast of their total value-for-money gains demonstrated by national indicator (NI) 179 in October and an outturn position in July of the following year. In addition councils will be required to include efficiency information based on NI 179 for 2009/10 onwards on the face of their council tax bills and leaflets that accompany demand notices.

To gain an insight into the type of efficiencies that have been achieved over the past three years within local government, the FAN and Performance Improvement Network undertook a survey in 2008. It highlighted a number of areas where efficiencies had been achieved (see box right).

Although these helped local authorities achieve the efficiency targets up to the period ending 31 March 2008, a more fundamental and innovative approach will be needed within the tight financial settlements of the future.

One approach some councils are adopting is to become a commissioning hub. This will result in most services being contracted out to the private sector, other public organisations or the voluntary sector.

EFFICIENCY ZONES

- Organisational change – including reviews of service provision that result in changes in service delivery, such as adult social care. Also joined up working, improving systems and streamlining resources.
- Improved procurement – including contract changes that have led to cheaper prices, reductions in contract overheads, longer term relationships with suppliers, use of framework contracts and joint procurement with other councils.
- Absorbing costs – freezing budgets in certain areas, not undertaking essential maintenance work, extending office hours of services without a commensurate increase in costs and containing inflation increases within budgets.



Councils will only retain services where it can be proved that retaining them provides value for money.

The FAN plans to support councils during 2009 and beyond in achieving efficiency savings. This will be through a series of events in May and other activities such as sharing best practice and efficiency approaches. If you would like to share your approaches with other practitioners please contact Mark Kenyon at mark.kenyon@ipf.co.uk.

• *Mark Kenyon is a finance adviser with the FAN*



By Emma Stabler

A NECESSARY BALANCE

Investment problems are not the only reason councils should be improving balance sheet management

THE COLLAPSE OF the Icelandic banks was a rare event. However, it provided a timely reminder of the importance of managing balance sheet assets and liabilities. While many authorities have been left counting the cost of the banks' collapse, the suspicion is that many more owe their escape to luck rather than their treasury management.

But it is not only treasury management risks that should drive a greater interest in the balance sheet. The current economic climate has highlighted other reasons, including falling asset values, increases in bad debts and the vulnerability of financial instruments such as third-party guarantees.

Balance sheet management is more than just managing risk. The balance sheet is now a fundamental part of the prudential code and the capital financing regime. Improving balance sheet management

In reality tasks often get pushed to the year-end and the work that is undertaken in-year tends to have a narrow focus on stewardship

can highlight potential efficiencies, for example from asset and debtor management. It strengthens financial control and ensures there are no nasty surprises waiting to be discovered at year-end.

Better balance sheet management can also improve the accuracy and aid the timely production of the annual statement of accounts. And undertaking accruals accounting improves the accuracy of in-year budget monitoring, vital at a time of dwindling resources. If all that is not enough, the newly revised Use of Resources assessment



specifically refers to the importance of the strategic planning and monitoring of key parts of the balance sheet, including debtor management, assets, treasury management and reserves.

Despite these benefits, balance sheet management remains a relatively under-developed area of local authority financial management. In reality tasks often get pushed to the year-end, despite the best of intentions, and the work that is undertaken in-year tends to have a narrow focus on stewardship, such as bank reconciliations.

The 2006 CIPFA publication *Balance sheet management in the public services: a framework for good practice* raised its profile, but progress has been slow and only a few local authorities would claim that they have a strategic and holistic approach to managing their balance sheet.

To assist authorities, the FAN ran a series of workshops during October 2008*, providing an opportunity for delegates to consider their balance sheet management arrangements. The events provided a useful insight into the progress authorities were making on implementing balance sheet improvements and problems faced.

While it is the norm for private sector companies to produce a quarterly balance sheet, local authorities tend to produce theirs annually, as part of preparing the annual statement of accounts. ►

We found evidence that this was starting to change, with some authorities now preparing a full balance sheet during the year. Only a few, however, are contemplating a quarterly balance sheet.

A more popular option is to produce a full balance sheet once in-year, with the 30 September and 31 December being the most popular dates. This provides authorities with up-to-date information on which to base budget setting and also ensures that not all closing tasks are left to the year-end.

Producing a balance sheet in-year may seem like a simple objective but in practice most authorities are finding it more difficult than they anticipated. While most modern financial systems can produce the balance sheet report quickly, for this to be meaningful it usually requires lengthy reconciliations that can take weeks to process.

Often there are barriers relating to the feeder systems involved, in particular capital financing and accounting. For example, many asset registers are unable to undertake in-year capital accounting entries. A more challenging hurdle though can be lack of resources and the competing pressures on finance departments. Service accountants in particular can view it as a time-consuming exercise that reaps them little immediate benefit.

Given these barriers, many authorities have decided against producing a full balance sheet in-year and instead are looking to improve their balance sheet management by setting and monitoring performance targets for key elements of the balance sheet. Authorities already consider many aspects of the balance sheet when



A few authorities are starting to bring the disparate elements of the balance sheet together in their MTFP by including a full balance sheet projection

preparing their medium-term financial plan (MTFP) and setting their budgets. Many of these are driven by regulatory requirements – for example, the reserves and balances policy, prudential indicators, treasury management strategy and the capital programme. A few authorities are starting to bring these disparate elements of the balance sheet together in their MTFP by including a full balance sheet projection.

Whether authorities decide to include a full balance sheet in the MTFP or just key elements, the real benefit comes from translating these into performance targets that can be monitored and reported in year. Some balance sheet components have well established performance indicators, such as those set in the prudential code. However other areas are less developed.

As balance sheet management becomes more established it is hoped that standard indicators will emerge for all key elements of the balance sheet. Consistent indicators and reporting will enable authorities to benchmark and evidence their performance on areas such as debtors, fixed assets and financial instruments.

EARLY STARTERS

Several authorities have started to undertake this regular in-year monitoring and reporting on their balance sheet. As it's a relatively new area, most are still developing their approaches. But they tend to cover key indicators on debtor management, treasury management, provisions and contingent liabilities. Councils tend to align the timing of balance sheet reporting with their established financial reporting timetable, usually either monthly or quarterly.

Producing balance sheet data on a regular basis will not in itself improve financial management. It is how this information is used that will make the real difference. Integrating revenue and balance sheet reporting can provide a fuller picture of an authority's financial position, if, say, bad debts are higher than forecast the subsequent increase in the bad debt provision can be immediately factored into the projected revenue outturn and the future level of balances included in the MTFP.

Historically many councils have not fully considered these longer term impacts as the focus has tended to be on short-term outcomes. However, many of the benefits of better balance sheet management are realised over a longer time scale. For example, improving the utilisation of assets may initially incur costs but may eventually generate a saving.

As authorities increase their budget planning timeframes, the impact of decisions on the balance sheet can be forecast and monitored much more effectively. Authorities need to ensure they use decision-making tools and techniques, such as investment appraisal, option analysis and cost/benefit analysis, to ensure they consider the longer term impact of decisions on the authority's finances. The inclusion of such longer term balance sheet considerations in decision-making reports is a relatively new area for authorities, but it is one that they will need to develop in the future.

The economic climate has highlighted the importance of the balance sheet and unsurprisingly members and senior managers are starting to take a greater interest in this area. It may be an ideal time to gain the necessary corporate support for strengthening your balance sheet management arrangements.

* The FAN has recently published a *Rough guide to balance sheet management*. It is available from the FAN website, www.cipfanetworks.net/fan

• *Emma Stabler is a former regional adviser with the FAN*



By Phil Harding

Adjusting to the climate together

Managers and finance need a mutual understanding of each other's business

THE NEXT FEW years are likely to be tough financially. Thoughts understandably turn to what can be done to manage in such an economic climate. Does it help if managers have a good understanding of finance? And how important is it for finance to understand managers? In fact, these are two sides of the same coin.

Managers' understanding of finance is very much linked to finance's understanding of managers and the services they manage. This is clearly seen in the findings of a recent National Audit Office study, *Managing financial resources to deliver public services*. Part of the survey asked finance staff what they saw as being the barriers to improving resource management. The most significant barrier was seen as poor financial awareness among non-finance staff

When managers were asked the same question they remarked that improving the management of resources was also dependent upon finance's understanding of managers and the services they manage.

VALUE FOR MONEY DEBATE

There have been a number of contributions recently to the debate around spreading financial skills in the public sector and improving value for money, including:

- *Managing financial resources to deliver better public services* – National Audit Office, February 2008
 - *Doing the business – embedding financial management skills in government* – HM Treasury Financial Skills Advisory Panel, February 2008
 - *Improving financial literacy in public sector organisations – a good practice resource pack* – CIPFA, October 2008
- Each of these documents advocates the need

TABLE 1: IMPROVING FINANCIAL LITERACY

<p>When these three groups fulfil their financial management responsibilities successfully, they collectively create the financially literate organisation</p>	<ul style="list-style-type: none"> • Top management – the board or its equivalent. 'All members of the top management team, both executive and non-executive, need to accept individual and collective responsibility for the stewardship and use of resources and for financial accountability to external stakeholders.' • Managers – non-financial business managers. 'Managers remain accountable for the financial performance of their own service area – basic financial literacy and competencies are essential if managers are to understand the financial consequences of any decision they take.' • Finance teams – finance professionals. 'An excellent finance team is essential – the finance team has a role in supporting and advising managers on financial matters and robust quality assurance arrangements should cover all aspects of the work of the finance function.'
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TABLE 2: FINANCE UNDERSTANDING OF MANAGERS AND THEIR SERVICES

<p>Clinicians have much respect for NHS finance staff given the evidence based approach to financial management.</p> <p>For clinicians key to improving financial and resource management was the need for finance staff to get involved with them and the services they manage as we see in these comments.</p>	<ul style="list-style-type: none"> • 'Get out of the office. That's the key to credibility.' • 'The important thing is to get involved with clinicians. Walk around, meet the nursing staff and the consultant team. Don't try and understand it through the figures.' • 'Doctors get frustrated when finance doesn't understand our need to see patients in a timely way. They need to get out and see our pressures, such as the four hour [maximum accident and emergency department] wait.'
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for the two sides of the coin: for managers to have a better understanding of finance and for finance to have a better understanding of managers and the services they manage.

Each requirement is vital to ensure resources are well managed as was stressed in *Improving financial literacy* (see table 1). This CIPFA document is particularly helpful because it begins to define what all three groups should do to manage

resources well – why finance matters:

- What do we need to do to get the basics right – recognising we are stewards of money that has come from the local and national tax payer?
- How can we ensure limited money is in the right place – planned to be used to sustain and improve performance in those areas that matter locally and nationally?
- What can we do to deliver improved value for money – important at any time

- ▶ but even more so during a tough financial climate?

Building on the best practice in developing people's expertise, the document sets out the competencies/standards that members and managers need to develop to ensure they manage resources well:

- What I need to know – for example, what rules govern what I do financially – and where can I find the rule book?
- What skills I need to exercise – for example, understanding and comparing costs?
- What behaviours I should exercise – for example, setting a tone throughout the organisation that finance matters?

MUTUAL UNDERSTANDING

Just as important as managers understanding finance is finance understanding managers and the services they manage.

We see this reflected in several networks that CIPFA has established to help finance and other colleagues keep up to date with developments in a range of services from adult social care to asset management, benefits and revenues to children's services, health, highways, housing, and police.

But as important as keeping up to date with national developments is the need to keep up to date with local issues, a point emphasised by the Audit Commission in its *A prescription for partnership – engaging clinicians in financial management* (see table 2, previous page).

Copies of the financial literacy resource pack are available for a charge from CIPFA.

Managing in a tough financial environment will be the key theme of next year's series for managers and colleagues from finance, human resources and performance who have an interest in or responsibility for developing managerial skills across the organisation.

This theme of the two sided coin – managers understanding finance and finance understanding managers – will be explored in more depth in a series of events this year. Lets hope this bring improved understanding in our economy and that innovation and improvement will begin to flourish once more next year.

- *Phil Harding is an IPF associate*

Interview: new FAN adviser



Introducing... Lisa Forster

What was your role at East Riding?

I was the schools management accountant, overseeing the traded services team. This included development of the schools funding formula, budget analysis, visiting schools, overseeing the implementation of the financial management standard in schools (FMSiS) and providing training for schools and governors. I had a good team, who provided excellent day-to-day support for the schools, enabling me to focus more on developing the service and interpreting legislation.

What experience in financial services did you have?

Almost all my working life has been in local government. After graduation I joined East Yorkshire Borough Council in 1990 as a CIPFA trainee and stayed until 1996 when I moved to the East Riding of Yorkshire Council (ERYC) as a result of local government reorganisation. Prior to working with schools, I managed the team dealing with external grant funding for economic regeneration projects, which involved liaising with and providing training to other public, voluntary and private sector bodies. I joined the education team in 2001.

Did you know about the FAN when you applied for the job as adviser?

Yes, ERYC was a subscriber to CSFAN, so I'd attended events. I liked the fact that the events were small groups rather than a conference approach, and gave delegates the opportunity to ask questions and share best practice in a workshop environment.

What attracted you to the position?

In my previous role, the elements I liked best were the research and project role. I also had an enthusiasm for training. The role of the adviser is largely based on these elements. I find the world of children's services interesting, it's not just about pure finance but understanding that financial decisions can have a huge impact on children's outcomes.

What do you see as the key finance issues in local government?

The potential impact of the credit crunch is obviously immediate. For children's services, the private finance initiative, apprenticeships and school balances all face scrutiny. For practitioners, early years funding reform and the 14-19 agenda are big issues. Tackling deprivation is also a government priority with numerous initiatives aiming to 'raise attainment and narrow the gap'.

What would you like to achieve in your first year?

I'm aware of the challenges finance officers face in children's services. I'm keen to highlight best practice, by sharing information with other authorities, through either events or briefing papers. I want to maintain the confidence people have in the service, provide timely and proactive advice and to support subscribers. If anyone has any queries please feel free to contact me.

- *Lisa Forster is children's services finance adviser with the FAN*

By Paul Mason

INTERNATIONAL FINANCIAL

REPORTING standards are coming – and quicker than you might think. For local authorities, the IFRS transition date is 1 April 2009 – only a few weeks away. Yet misunderstandings and uncertainties remain about the transition to IFRS.

■ Does the 1 April 2009 transition date mean that local authorities are adopting IFRS from 2009/10?

No. A transition date of April 2009 does not mean authorities will be accounting for IFRS from 2009/10. What it means is that 1 April 2009 is the date at which local authority balances will need to be adjusted to an IFRS basis (but only in the first IFRS accounts). This date is key because authorities will produce their first IFRS based accounts for 2010/11, and these will need to include comparative figures (also on an IFRS basis) for 2009/10. To produce the 2009/10 figures, it will be necessary to calculate the opening balance sheet for this year. In other words, the balance sheet needs to be restated as at 1 April 2009, which is the IFRS transition date.

A key decision made by CIPFA/LASAAC is that, as required by IFRS 1 *First-time adoption of international financial reporting standards*, this opening balance sheet will need to be published in the accounts, so the 2010/11 accounts will include three balance sheets.

These will be as at 1 April 2009, 31 March 2010 and 31 March 2011. Authorities will need to include notes that explain any differences between the IFRS-based accounts and those prepared in earlier years under UK GAAP. The inclusion of the opening balance sheet (1 April 2009) will assist in this process. Future years' accounts will revert back to two balance sheets.

Restating the opening balance sheet will be one of the first steps for local authorities in moving to IFRS. Now is



COUNTDOWN TO IFRS

the time to start planning how to obtain the information you'll need. Gathering this in parallel with the information needed for the 2008/09 accounts is likely to make the process easier.

■ Won't the accounting changes introduced by IFRS only apply from 1 April 2010 onwards?

In most cases, no. Under IFRS, the general principle when restating the opening balance sheet is that items are restated on a retrospective basis. In other words, you adjust items to the position they would be in if they had always been accounted for on an IFRS basis. So if a finance lease (under UK GAAP) were to be reclassified as an operating lease (under IFRS), you'd need to write the asset out of the balance sheet, reverse all the entries (interest, MRP etc) made since the lease was taken out, then charge the general fund with the operating lease payments (subject to any smoothing of premiums) since the start of the lease.

Some people think there are lots of exemptions to this retrospection principle. Unfortunately, this isn't the case. IFRS 1 does permit some exemptions from this retrospective approach, but only in a limited number of circumstances.

■ What exemptions does IFRS1 allow?

If authorities change accounting policies on transition to IFRS, the normal disclosures aren't required. But disclosures about the transition to IFRS are required, so this won't reduce the disclosures that much. Retrospective recognition or derecognition of financial instruments is also prohibited – but as local authorities have already adopted the financial instruments standards, this doesn't really have any impact on them.

■ So what exemptions will benefit local authorities?

The first relates to the capitalisation of borrowing costs. This is likely to

TECHNICAL: IFRS

► change under the new code, but IFRS 1 permits the change to be applied prospectively from 1 April 2010.

When the revaluation reserve was brought in at the start of 2007/08, existing balances were deemed to be the cost of the assets, and there is no requirement to revisit these figures.

IFRIC 4 requires authorities to review contracts for embedded leases; the transition provisions in IFRS 1 allow an authority to make this assessment based on the situation at the date of transition – in other words 1 April 2009 – rather than at the date the contract was taken out. So you won't need to dig out lots of historical information.

The accounting requirements in respect of changes in existing decommissioning, restoration and similar liabilities don't have to be applied retrospectively, but this is unlikely to apply to many authorities.

Finally, there are a couple of exemptions that apply to the group

accounts. The requirements of IFRS³ Business combinations are not applied retrospectively. If they were, councils with companies that had taken over other businesses would have had to revalue all the assets and liabilities at the time of the combination, with any gains or losses being reflected in goodwill. And the requirements for share-based payments



(should any local authority companies be using them) also don't need to be applied retrospectively.

Apart from these exemptions, authorities will have to restate their balance sheet using the retrospection principle.

■ What steps should my authority be taking to prepare?

CIPFA will be issuing a high-level project plan that councils can use as the basis for their own, more detailed project plans. This recommends steps councils should be taking in the next few months.

CIPFA/LASAAC has considered the areas expected to have the biggest impacts on local authorities. Draft sections of the new IFRS-based code of practice covering these areas (including separate sections relating to transition) can be downloaded from the CIPFA website*.

WELL DEFINED: AN INTRODUCTION TO IFRS

In November/December 2008, the CIPFA FAN ran a successful workshop series with Grant Thornton on the definitive introduction to IFRS in local government, writes Roman Haluszczak. It was delivered to more than 500 delegates in 14 UK locations and the delegate feedback was very positive. The series provided an opportunity to get authorities to think about what needs to be done, who might need to do it and by when.

In workshop sessions, delegates considered several themes:

- **Theme A** What are the capital asset recognition and measurement issues under IFRS? How might they be tackled and by when?
- **Theme B** What are the issues around presentation of financial statements under IFRS? How might they be resolved and when?
- **Theme C** Which areas of an authority's budget might require mitigation regulations protection to ensure any unforeseen IFRS driven elements do not impact unwittingly on the general fund?
- **Theme D** What changes to financial and non-financial systems are required to ensure an authority makes a successful transition to IFRS and by when?
- **Theme E** How can an authority plan for a successful implementation of IFRS and what level and quality of resources are required?
- **Theme F** How might an authority communicate and explain the effects of the new IFRS regime to its key internal and external stakeholders and by when?

■ **Theme G** Which parts of the authority and external bodies should be worked with to ensure a smooth transition to IFRS? A recurring issue was obtaining adequate information about the nature of current transactions. Authorities need to be sure of the information around their transaction accounting. This may involve analysis and research especially as it might relate to private finance initiative and lease transactions. IFRS is being introduced on a retrospective basis. Authorities will have to account as if they have always followed IFRS rules and this will involve replacing the previous UK GAAP based transactions with the transactions that would have been relevant had IFRS always applied.

The key year for moving to IFRS will be 2010/11, but authorities must not think they have 18 months of grace to prepare. A transition balance sheet on an IFRS basis will need to be produced reflecting an authority's IFRS position as at 1 April 2009. Authority budgets for 2010/11 will need to be prepared on an IFRS basis by January 2010 and the Department of Communities and Local Government and devolved administrations will need to be aware of any unforeseen effects on the general fund/council fund resulting from moves towards IFRS. This will enable them to introduce mitigation regulations to ensure there will be no effect on general fund/council fund levels. Authorities will have a critical role in identifying these potential IFRS based effects.

• Roman Haluszczak is manager of CIPFA Finance Networks

Authorities should be reviewing these areas to identify the high-level impact on their accounts and procedures and should use this to prioritise their work.

Once the high-level impacts of the transition to IFRS have been identified, authorities will need to identify who needs to be involved in the transition. Beyond accountants, human resources staff are likely to be involved in the discussions about accruing for holiday pay. Valuers will also have a key role in the changed arrangements relating to leases and property, plant and equipment. Getting key staff involved now will assist with a smooth transition.

The introduction of IFRS may also result in changes to systems and processes, which authorities should start considering now. Component accounting for assets will become more common, impairments will no longer be

accounted for differently to downward revaluations, and investment properties will no longer go through the revaluation reserve. Talk to software suppliers or IT people to ensure they are supported.

Finally, as you are pulling together the information you need for the 2008/09 accounts, think about the information you will need to restate the balance sheet under IFRS. It will often be easier to gather both sets of data at the same time, so build this into your plans.

■ Will the changes to accounting that the move to IFRS brings have implications for council tax?

Some of the changes, such as accruing for holiday pay, could have an impact on council tax (or housing rents). This could be a one-off adjustment on transition or could be ongoing. CIPFA is talking to the Department of

Communities and Local Government and governments in Scotland, Wales and Northern Ireland about the impacts. Further information will be published as it becomes available.

■ What help is available with implementing IFRS?

CIPFA is committed to helping councils. It is looking at areas likely to affect authorities early in the development process for the new code, and is publishing sections as they are developed. This will ensure authorities have the information they need early. CIPFA and FAN will also be running events in the run up to 1 April 2010.

• *Paul Mason is CIPFA technical manager – local government accounting*

* www.cipfa.org.uk/pt/cipfalasaac/ifrs.cfm

IFRS for Public Services Supporting you through change...

The aim to bring uniformity and transparency to a set of global accountancy standards is presenting a challenge for all local authorities as they gear up to produce their first IFRS accounts in 2010.

The impact of IFRS extends further than finance; it will impact on resources, assets, and training and presents a change in processes for example, holiday pay, data collection, and joint ventures and associates. Change must be embedded across all services meaning involvement from finance, internal audit, property divisions, IT and HR is paramount to achieving successful transition.

As a local authority you should now be:

- Getting ready to restate your 2009/10 accounts on an IFRS basis
 - Working on producing opening balances for 1 April 2009 on an IFRS basis (Whole of Government Accounts (WGA) produced on IFRS basis 2009/10)
- If you are not yet in line with the above or could just do with an extra hand, CIPFA is ready to help.

CIPFA continue to offer valuable IFRS support through:

- Information – Our website, IFRS related publications and courses will keep you on top of key issues
- Guidance – You can gain essential skills and knowledge through our flexible in-house training and IFRS Qualification
- Practical assistance – Consultants at CIPFA will help you through projects and implementation of IFRS and, if you need, experienced interim support is available

To find out how you can gain support throughout your transition contact us now:
T: 020 8667 1144 E: ifrs@cipfa.org [Quote: IFRS FANZ] or visit www.cipfa.org.uk/ifrs/fanz

CIPFA

Event

CIPFA FAN February/March 2009 Series –
Local Authority 2008-09 Accounts Closure

Dates for your diary

Leeds – 23 February, 26 March
Durham – 26 February
Birmingham – 3 March
Cambridge – 4 March
London – 10, 11, 24, 25 March
Scotland – 12 March
Southampton – 12 March
Cardiff – 17 March
Exeter – 31 March

To book, please visit
www.cipfanetworks.net/fan/events/

www.cipfa.org.uk/ifrs/fanz



By Phil Harding

Keep counting the cost

EVEN WITHOUT THE credit crunch, the transformation agenda is putting huge pressure on social care finance. In such a difficult climate, basics such as costing and counting are vital to be able to offer the solid financial advice the management of social care needs. Each year adult social care services:

- Receive requests from two million people looking for advice or support
- Undertake two million assessments and reviews
- Provide support to 1.8 million people
- Undertake 375,000 carers assessments of whom 335,000 are offered support.

Yet what information do we have on the support each person receives and how much this costs? We might have this information for support provided by others – but what about the services we provide ourselves? There is not even consensus on the cost that should be included.

Need for information

We need this information – how many hours of support are given, how many day sessions, how many transport trips? In some councils, we need this information geographically. It takes longer to reach someone in a rural area compared to an urban area – so we need a snapshot of the difference in travelling time between urban and rural areas. This is particularly important for the personalisation agenda and to support the development of robust resource allocation systems.

Counting and costing are also essential to robust financial planning – to know how many people we are supporting and how this might change over the next three to five years. This

should show a breakdown of the increasing numbers of elderly people and the proportion living on their own alongside the increasing numbers and needs of people with learning and physical disabilities.

Many councils are working jointly with health colleagues to pull this local information together as part of their 'strategic' needs assessments. We see a similar approach to national information and the NHS Information Centre is working with local authorities to simplify the way information is collected and improve its accuracy.



It may seem a small response to a macro-economic problem. But it is only by counting and costing that we can tackle it

The current financial climate makes medium-term planning difficult. But it is safe to assume the government will have to make dramatic cuts to public spending. History tells us this is unlikely to be in health and education. Sharing the as yet unallocated additional £5bn savings, unveiled in the Pre-Budget Report, across the

public sector would add 1.5% to our current 3% cash target and it could increase further in future years.

In response, some councils have recognised they need to radically transform what they do. Some now only expect to provide in-house services where these offer better value for money – requiring unit costs to be lower than other providers. Accurate counting and costing are crucial to making these comparisons.

Expanding rehabilitation services, extra and unique care and personalisation feature strongly in many councils' plans. But we will only make the most of these opportunities if we carefully model each transformation proposal, accurately recording the impact on activity and costs of any pilots and subsequent implementation.

Managing spend

Counting and costing are also key to managing spend. Councils using facilities in systems to monitor spend for each individual appear to be more successful in making ends meet. These systems work on recording activity and applying 'standard /predetermined' unit costs. This enables current activity and costs to be calculated and tracked and summarised from information collected person by person. Trends can be more accurately identified, improving the quality of forecasts.

Such systems allow planned and actual use of support to be more easily compared. Whatever planned support is offered, we need to recognise that few people actually receive a full 52 weeks of support. Tracking the actual support people receive ensures we only allocate money that will be used – often at least 10% less than the full 52 weeks.

It may seem a small response to a macro-economic problem. But it is only by counting and costing – often at the individual level – that we can tackle it. Only in this way can we offer the solid financial advice that the management of social care needs at this time.

• *Phil Harding is an IPF associate*

By Lisa Forster

SCHOOL BALANCES HAVE been a sensitive subject for some time now, and the issue does not look like becoming any less high profile. The rise in school balances in cash terms and how this could be addressed by both the local authority were the focus for recent CSFAN events

In some cases, there are good reasons for high balances – pathfinder funding is a prime example. There are also times when balances need to be held back for specific purposes – and this is acceptable, within the confines of the local authority's provisions in its scheme for recycling excess balances.

But concerns can arise when schools continuously hold on to large balances, putting them at odds with the principle that 'the funding a school receives in any one year should be spent for the pupils in that year'.

The Department for Children, Schools and Families' proposal at the start of this comprehensive spending review period – to redistribute 5% of all schools 2006/07 surplus balances – was not implemented. But it was made clear this or some other balance control mechanism would be introduced if balances continue to increase.

The CSFAN event brought up questions about how to ensure this message was delivered by the local authority and acted on by schools. The key areas for consideration were:

- Are schools aware of the DCSF message about increasing balances?
- Are schools aware of the position in their own school?
- What is the difference between the threshold (for instance, 5% or 8%) and actual balances?
- What support can the local authority give to schools?
- Do school staff have the ability and/or resources to monitor and plan balances?

A common calculation of school budget would be useful. The term 'school budget' has been interpreted in



Learning lessons in balance

different ways by authorities. Some defined it as just school budget share, others included school standards grant (SSG) and SSG(personalised), while others also included non-ringfenced standards funds. All are acceptable.

On non-ringfenced standards funds, some authorities have a blanket policy of carrying 5/17ths of the total into the next financial year for all schools. Others include it as part of their school budget calculation and others ask the school to state how much is unspent. If this funding is given to schools late in the financial year the council needs to decide how to deal with it.

There is also an issue around deficit balances – not as high profile but no less significant. Authorities identified this as a big problem for schools that had to raise attainment, while trying to make inroads into a deficit budget.

CSFAN events

• Building schools for the future – financial implications

5 March	Manchester
11 March	York
13 March	London
18 March	Bristol
19 March	London

There was consternation that a blanket policy of redistributing surplus balances may reward those that have badly managed their budget, while penalising those with strong budget management. This raises the tricky question of why are certain schools in deficit? Is it weak budget monitoring? Or are there challenging circumstances outside the schools' control?

The increase in school revenue balances sits uncomfortably in the current economic climate. Future financial settlements across the public sector are likely to be tight, so many services will have to look closely at cashable efficiencies. Aware of this, schools are holding onto balances to cushion the impact. But if school balances continue to rise there is a strong possibility further controls will be introduced in the next CSR period.

These extra controls are unlikely to be welcomed by schools. The clear message to them is: 'You've not seen the last of this yet'.

• *Lisa Forster is children's services finance adviser*

A briefing note on school revenue balances can be found in the library at www.cipfanetworks.net

'Service managers responsible for delivery are best placed to understand the relationships between costs and service outcomes. So finance matters.' Improving financial literacy in public service organisations –
A good practice resource pack

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