

## **Commission for Local Administration in England**

### **Grant in Aid Update**

Attached in Appendix 1 are the detailed findings of the research undertaken with the Standards Board for England as part of the Commission's preparation work for the change in funding regime next year.

The Commission will be required to submit monthly bids which will vary throughout the year to reflect the pattern of transactions. The larger sums such as payroll and premises costs will be reasonably prescriptive, although they may not be uniform throughout the year. The costs associated with supplies and services will be on the margin for each bid but are the most difficult to predict. The Commission will need to negotiate monthly tolerances for error and the carrying balances between months that are allowable to smooth fluctuations in spending variations. We are liaising with DCLG officials over the monitoring and reporting requirements (in addition to the monthly bids). Early indications are the DCLG recognise flexible transition arrangements are sensible and any changes will be largely light touch to the existing provisions in the grant memorandum. The details still have to worked out. What did become clear is the continued downward pressure on public spending which will follow through into the next three years spending cycle with 2010/11 being the base year. Thus there is little prospect of any restoration of the Commission's position and further efficiency targets will probably exceed any allowed inflation.

This means budget management will need continuing improvement within a disciplined framework. All our current financial systems for recording expenditure will need refining to allow for cash as well as accrual accounting the latter of which is the basis for the monthly BCR reporting to the Commission. Cycles and processes will need tightening to allow forecasting for cash requirements. This will involve budget holders and the finance team acting in concert.

### **Conclusions**

Appendix 2 indicates a suggested timetable to enable the Commission to be best prepared for the new regime. There are clearly still a number of questions and approaches which can be taken. At present there is no obvious solution to the most effective way in which we can move to the new arrangement with the minimum disruption and the least amount of resources that we would need to commit. It is likely that in year one with the current systems that we have in place, which I do not believe we should sweep aside at this critical time, we would need to operate a hybrid arrangement which includes elements we have learnt from the SBE. These could dovetail in for a "best fit" solution to enable the Commission to confidently have appropriate mechanisms in place for the pilot study towards the end of the year.

Because there are a number of potential routes to be taken and evidently there is a significant amount of preparation work involved taking into consideration existing heavy demands on the service which is supporting many Commission initiatives I believe the project to deliver this new regime would be at serious risk without some dedicated time being allocated probably from an outside source to kick start the process. But I do feel we have gathered sufficient material and experience from existing GIA users to enable the Commission to make suitable preparation for the new funding scheme.

Appendix 3 gives an indication of an outline project brief and an indicative cost which I have taken the liberty of including in my paper on the subject of the mid year supplementary estimates. Whether this is sufficient I cannot say at the moment.

I reported early today at the Audit Committee my view about the wisdom of following DCLG's encouragement to let our external audit contract to the NAO for this year. That paper is included as Appendix 4 and is self explanatory.

For information and approval on the suggested steps in the report and appendices.

**S D Jones**  
**Head of Finance and Estates**

## **APPENDIX 1**

### **Introduction**

Commission paper CLA 1645 described some early preparatory work the finance team had undertaken to establish the likely information and reporting requirement which will be necessary for the Commission to submit its application for grant in aid payments commencing 2009/10

The Commission asked for a further update at the July meeting.

The Commission in its exchanges with DCLG officials had been encouraged to approach the Standards Board for England who were established under a grant in aid regime and were familiar with the reporting requirements.

A meeting was held with an SBE official in London and it was decided that a field trip would be best to meet SBE officers who were directly involved with the preparation of GIA applications.

Because the Commission is geographically dispersed and there seemed an evident requirements for all offices to participate in the “working group” it was felt due to their experience and significant budget responsibilities that the Facilities Managers should participate in the visit in order for them to see at first hand the scope; and level of information that ordinarily needs to be gathered for the payment applications. Clearly there needed to be close liaison and an integration between the supply of information and the calculation of cash flow forecasts which would be done within the finance section. As a consequence the Financial Controller was included as one of the party.

The visit took place on 7 July at the Manchester office of the SBE and the Commission party met with three senior finance officers who ran through in some detail the processes that they used to generate their forecasts and to submit the monthly bids.

### **Findings**

The SBE since its existence has been in a GIA arrangement and thus its systems and procedures have been created to serve the particular funding framework under which they receive their grant.

Clearly this places them at an advantage in contrast to the Commission whose processes are not only geographically dispersed but are based on a system that is essentially 20 years old and relatively fragmented. It also became clear during our discussions that the SBE operates under a highly centralised environment which does enable them to impose a high degree of discipline in the processes and the maintenance of financial records which quite evidently was to the advantage of payment applications.

We asked and they were willing to share a number of control documents that they employ and whilst these will be invaluable to assist us in setting up some of our own procedures they do nonetheless require a significant degree of “population” and do require a high level of maintenance.

We noted that SBE benefited from not only a highly controlled system but one site and evidently all documentation being channelled through one department. In addition their

levels of transaction were significantly lower probably due to their size, in terms of numbers of staff and the levels of activity that one site would generate.

One of the most significant findings and again this is very much due to the single point of entry for payments is the speed at which SBE are able to record payments to be made on the financial software. This enables payment periods to be pre determined because they are sufficiently far enough in advance for a creditors listing to be run which tells finance staff the date at which a payment is due for release. The way in which the Commission currently deals with its cycle of invoice processing often means payments are not on the system until they are ready for release which means forecasting ahead is not possible at present.

The key question must be then whether we change our cycle of processing so that the creditor system can be used or whether we will need to fall back on some form of manual estimation based on service delivery which is not reliable because invoices typically appear sometime after the service has been delivered.

Thus the requirement to forecast a month in advance is thus severely impeded by the systems the Commission currently use. In addition the Commission does not impose sufficient rigour in its terms with its suppliers and there are a significant number with terms less than 30 days which also impedes sufficient time to forecast when a payment is due to be made. It is felt a number of house-keeping jobs would need undertaking just to place ourselves in a position to commence the project from a sound platform.

The Commission still makes a significant number of cheque payments and again this was seen to be an impediment with the Standard Board rarely writing cheques. Clearly the Commission cannot anticipate when a recipient will cash the cheque for payment and where these sums are significant there will arise an unexpected debit to the bank account.

Finally the Commission historically chooses to batch payments for efficiency and have irregular payment dates although typically there are two BACS runs each month. But for the new system to work there would need to be a rationalisation and fixed dates when BACS payments would be made. These must include a review of the number of authorised signatories who approve each run. SBE have seven who seem to be readily available. Recently there have been some difficulties over the timely processing of our Commission BACS run because the 5 signatories involved have variable availability. This can typically add a couple of days to the process of submitting the payment run. It is difficult to predict how much additional work this would take to build a BACS run, which takes time in itself and is not just the volume of invoices that need to go through at that time.

## **The Grant in Aid Application**

Towards the end of each month an application is made for cash to be deposited into the entity's bank account in respect of its forecast expenditure in the coming month. In addition there is a requirement to report by service segment the actual expenditure of the previous month which would be compared against the bid.

Thus two pieces of work need to be done for each application ie the cash flow forecast analysed across appropriate headings, to be agreed, and the insertion of the actual cash flows on those same range of headings for the previous month. It is possible and indeed preferable to input these actuals throughout the course of the month however that does mean potentially daily analysis of the bank account which the SBE indicated is a process they follow every other day.

In practice this means that all Direct Debits, cheque payments, BACS runs, charge cards and any other debits from the account, and for the Commission the transfers to and from the investment account would all need to be factored in to the daily cash flow as proved by the bank balance at the close of business. And this would need to be done on line by downloading the transactions, because bank statements do not come through on a daily basis thus there are risks because there are occasional difficulties in accessing the on line service. That bank statement would need to be reconciled against the underlying types of payment. For example there may be a single sum representing a BACS payment debit in the account which is probably made up of between 50 and 100 separate service costs. It is those service costs which are used to populate the SBE's list of expenditure types.

The Commission can take a view about the degree of detail it wants to disclose or aggregate but in any event the reconciliation between the bank debit and the service expenditure does require a reasonable degree of intervention. That source document then links into the aggregated grant submission the detail of which still needs to be negotiated with the DCLG. But for example SBE disclosures include Payroll, temporary staff and non-payroll activities – but supported by the underlying analysis.

As previously reported any unacceptable variance, which for the SBE is 5%, in the funds received and the expenditure reported require an explanation and potential offset in the following months application. The impression received, insofar as the SBE is concerned, the level of interest in the month to month applications appeared relatively light from the DCLG. This is in contrast to the Valuation Tribunal Service where our impression was a higher level of interest in the movements between months. The implication therefore is the commission ought to negotiate a “light touch” approach. And in year one a higher tolerance e.g. up to 10% variance to enable a soft landing in year one of our new funding mechanism.

The Commission should have a clear policy regarding the identification and funding requirement for capital expenditure. Hitherto revenue budgets have been set, capital expenditure incurred in line with the budget approval and capitalised at year end. The SBE for capital projects post all such expenditure through the balance sheet to be met by capital funds. If during the course of the year they generate a capital payment from a revenue resource they report at supplementary estimate stage a bid for capital monies to cover that expenditure but suffer corresponding reduction in their revenue. But this could mean we can meet the fall in revenue funding by swapping some elements into capital grant. The net effect will be cost neutral but best practice would dictate capital expenditure ought to be identified and separated from our revenue grant whatever the distinction the overall total must not exceed the DEL (Department Expenditure Limit).

## Appendix 2

### Timetable for Grant-in-Aid

1.	Preliminary research with Valuation Tribunal Service and English Partnerships	March/April
2.	Initial report on implication to Commission	11 May
3.	Obtain SBE Management and Financial Memorandum	6 June
4.	Hold meetings with officials from SBE	12 June
5.	Undertake site visit with key budget managers	7 July
6.	Meeting with DCLG officials	10 July
7.	Produce updated report for Commission	15 July
8.	Reconciliation of cash flow to creditor balance 2007/08 and 2006/07 if possible	August
9.	Prepare proforma profile indicative budgets for 2009/10 on all non-staffing budgets on accruals basis	September
10.	Draft new Grant Memorandum and Financial Agreement	September
11.	Consolidate cash and accruals budgets based on 1 <sup>st</sup> September submission	October
12.	Finalise new Grant Memorandum and Financial Agreement	November
13.	Prepare budget holders working papers and hold teaching	November
14.	Shadow returns for December – February	December
15.	Agreement accrual and cash profiles for 2009/10	February
16.	Go live month 1 2009/10	March 2009

## Appendix 3

### Outline Project Brief

1. Review current Sun system and reporting tools to determine capacity and capability to deliver required information.
2. Run enquiries over software for past at least two years to provide accruals and cash flow profiles.
3. Examine suppliers and other extended access and reporting facilities useful to add to budget holders' current permissions.
4. As agreed extend range of access and provide training in use as necessary.
5. Prepare indicative profiles based on the above for the 2009/10 budgets.
6. Run simulation exercise on 2008/09 of results of (2) above and assess variances. Undertake sensitivity profiling as necessary.
7. Prepare working papers for budget holders' submissions.
8. Outline scope, objectives and training requirements for teach-in.

A best estimate of the day's requirement to cover this work is 17 days at a cost of between £12,000 - £15,000.

## Appendix 4

### External Audit

Confidential paper AC266 referred to the impending expiry of the external audit contract currently performed by Baker Tilly.

The Committee discussed the option to accept the NAO as part of the transition to the new Grant-in-Aid regime.

The key factors the Commission need to consider include:

1. Scrutiny arrangements imposed by the DCLG.
2. The cost of the NAO contract, thought to be around four times greater than currently budgeted.
3. The resource implications of supporting a 24 day audit in three steps; interim, final and wrap-up.
4. Value to the Commission and external auditor's relationship with internal auditors.

Discussions with the Standards Board clearly demonstrate the process of external audit with the NAO is a time-consuming function and is quite invasive. Significant substantive testing, as well as compliance testing, is undertaken. Indeed, in year one that level may be considerable to enable the standing data files to be established. Our research indicated although a significant number of sponsored DCLG bodies took the NAO service a body called Firebuy Ltd who is in the same classification as LGO do not use the NAO. They appear to be new body and use CLB Littlejohn Frazer as external auditors.

Recent discussions with DCLG officials regarding the scope of changes required did not reveal any further encouragement to take the NAO service when discussing reporting requirements. With the amount of grant fixed it is thus assumed we should budget for a low cost external audit service through an independent procurement exercise.

The Audit committee are thus asked to approve running an open market tender to appoint for the forthcoming contract period commencing 1 April 2009.