

Spectrum

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Policy & technical perspectives for CIPFA members and students

CIPFA

There is a strong international flavour to this edition of Spectrum. An article by staff from the World Bank considers the approach to public financial management (PFM) in client countries. One of the most important recent trends in multi-lateral and bi-lateral development assistance has been the shift to general budget support rather than direct linkage to specific projects. The approach to PFM has been one of the most important initiatives allied to this trend.

The shift to a balance sheet approach to financial reporting has posed particular challenges for the public sector in the UK, where the performance statement has traditionally been the most significant of the annual financial statements. It is therefore interesting to see how this issue is being tackled in other countries. Adam Awty from CPA Australia discusses a survey of balance sheet management in Australia, a country at the leading edge of public sector financial reporting, and highlights a pro-active approach from the state of Victoria.

The creation of foundation hospitals is, as Caroline Clark from Homerton University Hospital reminds us, just one aspect of New Labour's plans for the NHS. Nevertheless it has been one of the most controversial. Caroline analyses foundation hospitals from the perspectives of increased autonomy, investment and community engagement.

In a climate of dissatisfaction with traditional financial reporting, sustainability accounting aims to provide a better measure of the public sector's overall contribution to society and sustainability into the future. Alison Atherton argues that, as trusted providers of organisational information, accountants have a key role to play in the development and uptake of new reporting models.

Glasgow's renaissance in the 1980's and 1990s has been one of the major success stories in UK urban regeneration. Whilst celebrating the successes of Scotland's largest city, Lynn Brown of Glasgow City Council acknowledges that major challenges remain and discusses Glasgow's approach to capital investment for regeneration in the climate of the new prudential framework.

The Charity Commission is active in raising accounting and reporting standards in the charity sector. Where accountants act as volunteer independent examiners they need to be aware of their professional obligations. In an article overseen by CIPFA's Charities Panel, Stephen Gogerty and Nigel Davies review the current reporting framework for charities, explain the main duties involved in the role of independent examiner and highlight the pitfalls sometimes encountered.

CIPFA Spectrum is also available at www.cipfa.org.uk/pt/spectrum.cfm. As always we are pleased to receive feedback. I can be contacted at john.stanford@cipfa.org

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AT THE HEART OF
PUBLIC SERVICES



The World Bank's approach to analytical work on Public Finance

Public financial management (PFM) is an essential part of the development process. Sound PFM ensures accountability and efficiency in the management of public resources, which are critical to the achievement of public policy objectives, including achievement of the Millennium Development Goals (MDGs). In recent years, the World Bank has greatly expanded the attention it pays to PFM in client countries, and PFM has become one of the most prominent issues in the broader initiative to harmonize practices and procedures across the donor community. The Bank's support to country PFM reform programs has increased in all areas of the Bank's lending operations as well as through selected grant programs. Project- and country-level analytic work has increased, and now underpins all of the Bank's lending operations.

The Bank has two main objectives with respect to PFM: (a) to improve country PFM performance as a key contributor to successful development; and (b) to apply appropriate fiduciary arrangements to the financial support the Bank provides.

In the past several years, the Bank has invested heavily to obtain an unprecedented understanding of the performance of country PFM systems. The knowledge obtained has underpinned a significant increase in Bank support for country PFM reform programs. It has also informed assessments of the risks to the use of Bank funds, and measures to mitigate these risks. Over the same period, the Bank has worked closely with other development partners, for whom PFM has also become a more prominent area, and with relevant international and regional organizations.

At the country level, the Bank's analytic work on PFM comprises three separate but interrelated instruments – Public Expenditure Reviews (PERs), Country Financial Accountability Assessments (CFAAs) and Country Procurement Assessment Reviews (CPARs). PERs both analyze the size and

composition of public expenditures, and assess the effectiveness of public expenditure management processes (budget formulation, implementation, and reporting) in achieving fiscal discipline, linking budget allocations to the government's strategic policy priorities, and enabling cost-effective provision of public services. CFAAs diagnose a country's financial management systems, assess the strengths and weaknesses of accountability arrangements, help identify risks to the use of public funds, and support the government in designing and implementing capacity-building programs. CPARs analyze a country's public sector procurement structure, and establish the need for and guide the development of an action plan to improve a country's system for procuring goods, works, and services.

CFAAs, CPARs and PERs represent three components of the "core" economic and sector work (ESW) to support Bank lending. The Bank committed to putting in place current (i.e., not more than 5 years old) PERs, CFAAs, and CPARs for all active Bank clients by the end of FY04. As of June 2004, most active Bank clients had current PERs, CFAAs and CPARs.

The three core products have evolved to reflect lessons of implementation experience and to meet the needs of diverse country programs and conditions. In a number of countries, they have been combined into a single, integrated review.

Reviews are now also undertaken at the sub-national level where the Bank plans significant lending at those levels. Periodic updates have been prepared in response to program needs. The information from country-level analytic reviews is beginning to be used to inform the assessments of sector institutions. They are also one of the important factors taken into consideration in determining whether to make increasing use of country systems – rather than stand-alone project implementing agencies – in investment lending.

In addition to the core ESW products, the Bank and the International Monetary Fund have jointly pioneered an indicator-based PFM performance monitoring framework, in use since 2000. Staff developed and applied an instrument for assessing public expenditure systems, consisting of 15 key indicators of PFM system operation deemed essential for reliable

tracking of public spending, including poverty-reducing spending.

Borrowers are playing a more active role in PFM analytic work. In Tanzania, the annual government-led public expenditure review process is managed by a working group with representation from the government, donors, and civil society. Each year, the PER reviews the budget, and selected policy and budget management issues. The secretariat is moving to the Ministry of Finance. In Vietnam, the government is assuming greater responsibility for managing and producing the public expenditure review in support of their own budget and decision-making process.

Drawing on the lessons obtained from recent work, the Bank is working with other partners to develop a strengthened approach to public financial management work. As the Bank moves towards use of country public finance systems for delivering assistance, the distinction between development and fiduciary objectives is declining, and the emphasis is shifting from diagnosis to capacity-building, and towards harmonization of approaches to public financial management assessment and development.

At the High Level Forum on harmonization in Rome in 2003, the Bank and other donors endorsed the Organisation for Economic Co-operation and Development-Development Assistance Committee (OECD-DAC) Good Practice Paper on Measuring Performance in Public Financial Management. It called on donors to "support work on the development of...a comprehensive, internationally accepted performance framework in public financial management....with partner country government and donors

[collaborating] in the setting and monitoring of country-specific performance indicators. Donor collaboration should take place within a government-led strategy for improving overall management of public finances that sees performance measurement fully integrated with analytic work and capacity building efforts." ¹

The Bank also supports the work of several international and regional organizations active in PFM. It provides financial support and staff involvement in the work of the Public Sector Committee of the International Federation of Accountants in issuing international public sector accounting standards. It is supporting an initiative to harmonize international public sector accounting standards with the IMF's Government Financial Statistics, as well as private and public sector auditing standards on financial reporting. It is presently preparing a strategy on how the Bank can better support public sector auditing, in consultation with the International Organization of Supreme Audit Institutions and its member bodies. The Bank has worked with the OECD to prepare a Budget Database that provides PFM system information for 44 OECD and developing countries. It has also collaborated with the OECD Senior Budget Officials group in sharing lessons of reform.

Overall, the Bank has made substantial progress in advancing the PFM agenda. It has acquired an unprecedented understanding of country institutional performance in managing public finances. This knowledge has underpinned increased levels of lending to support PFM reforms. It has provided a better understanding of the risks to which Bank funds are exposed, and helped identify measures to

mitigate these risks. Moving forward, the Bank is actively working to streamline diagnostic requirements with other donors and develop a stronger framework both for assessing and managing risk. The key principles underlying the current direction include: greater country leadership and ownership of PFM assessment and reform planning for greater results; better coordination among donors and international financial institutions (IFI's) to streamline diagnostic work and provide coordinated support to implementation of country PFM reform plans; and, creation of a robust performance measurement framework that can monitor country progress over time and allow better targeting and development of capacity-building programs. ●

¹ See *Harmonising Donor Practices for Effective Aid Delivery, DAC Guidelines and Reference Series, 2003, page 52.*

Balance sheet management: an Australian public sector

When the balance sheet is effectively managed at a local, state and federal level, governments operate in an efficient, effective and ethical manner. But are they actually being actively managed? That is a question CPA Australia tackled in 2003.

Over the past 10-15 years Australian governments at all levels (local, state and federal) have moved to adopt accrual accounting principles for financial reporting and budgeting. This has seen a fundamental shift in public sector financial management and the type of information now available to decision makers.

Extensive financial management reform coupled with the widespread introduction of accrual accounting and reporting has resulted in the public sector now having a balance sheet. The implementation of legislation setting out the new financial regulatory accountability and accounting frameworks has given agencies the authority to manage it. Despite all of this there was no strong indication as to the extent active management of the balance sheet was occurring or even if the balance sheet was understood.

We believed that the level of awareness and understanding of balance sheet management in the public sector was pretty low in Australia (and for that matter internationally) so we researched over 170 agencies across government to find out what they thought.

This resulted in a publication, Striking the Balance, which provided a snapshot of balance sheet management in the Australian public sector. Key findings of that report indicated that despite all the financial management reform there is still some way to go in getting a focus on managing the balance sheet.

Some of the key findings from the agency research indicated:

- most agencies (72%) are preparing a monthly balance sheet for internal purposes
- variance analysis of actuals to budget is occurring and explanations are being sought (around 68% do this)
- property, plant and equipment were the main components of the balance sheet that were actively managed
- overall, agencies are now aware of their assets and liabilities and managers are being provided with information relating to them

Likewise, some results indicate challenges to overcome in the future:

- very few agencies are currently actively managing the balance sheet. There is still confusion as to who is ultimately accountable for the balance sheet
- only 64% of participants identified the CEO as accountable for the balance sheet
- 8% of respondents believed that the balance sheet wasn't managed at all
- when asked whether the balance sheet was planned, 40% of the CFO respondents simply saw it as a by-product of revenues and expenses.
- few agencies are using performance indicators.

When exploring the concept of balance sheet management in the public sector we started with the following givens:

1. The balance sheet is a statement of an agency's assets (all resources controlled by it) and liabilities (all the obligations that it has) at a given point in time

2. Balance sheet management is the active management of these assets and liabilities

3. When managed the balance sheet helps agencies to meet their obligations of ensuring that their affairs are managed in a way that promotes the efficient, effective and ethical use of the Government's resources

We found that the role of the central agency has changed from one of controller to leader. Central agencies no longer have authority over line agencies for day-to-day financial management. Their responsibilities now focus on the budget and the whole of government financial statements. However, it was at the whole of government level where management of the balance sheet was most evident, notably in the State of Victoria (see Box 1).

Box1: The Victorian Approach to Balance Sheet Management

The Victorian Department of Treasury and Finance has formed a Balance Sheet Management Committee. The Committee, consisting of the Secretary of the Department and senior executives, meets on a regular monthly basis to review and discuss the General Government Sector Monthly Financial Report. The broad aim of the meeting is to provide the senior executives within the Department with information regarding the current progress of the budget. The analysis highlights variances between budget and actual figures and also covers issues that present risks to the final outcome.

Following review and discussion, the report forms the basis of a brief to the Treasurer.

As a result of this, the Department has found that the key decision makers are now conversant with the balance sheet. This is evidenced by the change of behaviour that has resulted since the information has been provided and the types of requests for additional information and review that are now being received.

At the same time we found that the current status of balance sheet management at the line agency level in Australia is varied. Very few, if any, agencies are currently actively managing the balance sheet. There is still some confusion as to who in an agency is ultimately accountable for the balance sheet. Although there is some delegation of accountability and authority levels lower than the whole of agency level, especially in service delivery agencies, this is often not supported by a delegation of authority. Agencies believed that this impeded effective and efficient management. Most executives are now being provided with appropriate balance sheet information and are developing the skills to be able to use it effectively. However, many still require additional training.

In many agencies the main focus is still on revenue, expenditure and cash with the balance sheet a by-product of the other statements. Some planning is evident. However, it is largely for capital works and asset sustainment.

Most agencies prepare a monthly balance sheet for internal purposes, within a reasonable timeframe, and make an attempt to ensure that the format meets user needs. Variance analysis of actuals to budget is occurring and explanations are being sought. Few agencies are using performance indicators and financial ratios that they consider to be appropriate for the public sector.

Overall it would appear that agencies are now aware of their assets and liabilities and managers are being provided with information relating to them. However, most have yet to decide what do with this information. Few are considering what impact their decisions or approaches will have on the balance sheet and in many jurisdictions there is limited support or incentive for them to do so.

A number of issues relating to balance sheet management in the public sector are currently being debated in Australia. These include:

- should the public sector be managing the balance sheet?

- does the public sector know what it is trying to optimize?
- are there any incentives for agencies to manage their balance sheet?
- is the balance sheet, in its current form, appropriate?
- the balance sheet does not represent all the value that is at the public sector's disposal, so what other approaches could be used?
- what impediments are there to effective balance sheet management in the public sector?
- what impacts are there likely to be to managing the balance sheet in the future?

The general consensus is that the public sector should be managing the balance sheet even though there is little incentive for agencies to do so. But the level at which this should occur is not clear, as, in many jurisdictions, it is only at a whole of government level that any impacts could be made.

There is a range of views about what the public sector is trying to optimize and concern that there is little focus on sustainability.

Most considered the current format of the balance sheet to be inappropriate, and that approaches to ensure that the other resources available to the public sector such as the skilled workforce and intellectual capital are appropriately reported and monitored, need to be considered. Several constraints to effective balance sheet management, including policy and political objectives counter to good financial management, and a lack of delegation of authority were raised. Considerations for balance sheet management in the future included the growing use of public private partnerships, the advent of extensible business reporting language and the transformation of the value chain by e-business. ●

Adam Awty,
Public Sector Director
CPA Australia

Foundation Trusts – Have we been here before or is this something re

Diversification, plurality, patient choice – all key words featured in New Labour’s NHS Plan. Foundation Trusts are but one element of this

much bigger picture, but an interesting and potentially important one nevertheless.

Many commentators have rather sceptically viewed the creation of these pseudo autonomous hospitals as being akin to the creation of NHS Trusts in the early 1990s. Any freedoms that those early “self-governing” trusts were initially granted were removed fairly rapidly, and that is the fear under the current regime. There are some similarities, but it is the differences that make the current changes more interesting, and potentially more far reaching. In addition, the overall policy context of expanding the supply side to accommodate and expand patient choice throws up some curious conflicts.

The lure of Foundation Trusts for erstwhile NHS Trust Boards was a promise of greater autonomy to make local decisions, greater investment powers, and better mechanisms for community engagement. It is worth examining each of these to see if the reality has matched expectations.

Increased Autonomy

In terms of increased autonomy, the first thing that should be noted is that Foundation Hospitals are piloting the new Payment by Results system. Over 60% of income is driven by patient activity and paid for at a nationally determined price (as opposed to the old block payment mechanisms where essentially, a hospital would receive a grant in exchange for hitting key NHS Plan targets). Legally binding contracts exist with Primary Care Trusts (PCT’s) which are commissioning services more aggressively than ever – the incentive clearly being that they cannot afford to sit back and watch the acute sector suck up activity that would be more appropriately undertaken in a cheaper community or primary care setting. And this is one of the first policy conflicts – what incentive do acute trusts have to reduce demand if this will

▶ reduce their income? Bearing in mind that Foundation Trusts will have their very own Insolvency Regime, the need to maintain a healthy income, and, through that, financial stability, is ever more pressing.

So PCTs are changing their behaviour in an effort to tame the acute sector and make the most of the changes to the GP contract that should improve chronic disease management.

There is a further paradox, which is that, in order to make significant investment and disinvestment decisions, a Foundation Trust will need to consult both the local Overview and Scrutiny Committee, as well as seeking permission from the Independent Regulator. One can foresee difficult times ahead if a hospital is providing an uneconomic service, but one that the Regulator and OSC may consider essential.

A final point on the autonomy issue: prices are calculated by the Department of Health, using historical average costs for individual trusts based on their annual Reference Cost returns. As long as the civil service remains in charge of this process, there is an argument that price movement will be the subject of political expediency, and could represent further challenge to a hospital’s financial position. In many other regulated industries, it is the Regulator who acts as a price regulator. Early days for the Regulator, and it is not clear that anyone has a stomach for a battle of this magnitude with the civil service.

Investment powers

Increased investment powers have been tempered significantly by the consultation document that outlines a Prudential Borrowing Code. The ratios that determine the Code are significantly more limiting than originally anticipated, and are much more conservative than comparable industries in the UK and US. Whilst it is understandable that the Regulator should seek to ensure that a stable early market is created for Foundation Trusts, this limitation in borrowing potential could dampen enthusiasm from further waves of applicants. It could also create a further driver for trusts to seek investment through the PFI route for relatively small projects, which was something that early applicants had hoped to avoid. The political context for this prudence is also worth remembering – Foundation Trust borrowing, regardless of source, contributes to the Chancellor’s overall borrowing requirement. This, it appears, was one of the concessions demanded by the Treasury in order to get the policy through, and partially explains the tight Borrowing Code.

The other way of increasing investment is to increase free cash flow. Traditionally NHS bodies have been reluctant to generate large surpluses for mainly political reasons around the efficient use of public funds. There is a further reason to urge caution around declaring a

Really different? *Caroline Clarke*

surplus in the new world of Payment by Results – large-scale generation of surpluses will inevitably lead to questions about the generosity of the NHS price tariff: unfortunately, another possible incentive for NHS accountants to behave creatively at year end?

Community engagement

Finally, to community engagement. A conventional Board of Directors, with the usual Executive and Non-Executive mix, now leads Foundation Trusts. In addition, a stakeholder Board of Governors has also been created, and the early work has been to try to establish just what the governors are there for. The notion of consultation rather than participation, and of defining a role in those terms, can be totally pre-occupying. But they do have one important role defined in statute – they are charged with appointing the external auditor. Many of the early Foundation Trusts have understandably chosen not to exercise their freedom to market test external audit services just yet!

Foundation Trusts are in the middle of a challenging policy framework that appears to be growing organically. At the time of writing, the jury is out on whether the promised freedoms will materialise in quite the way anticipated by the original policy makers. ●

Caroline Clarke
Director of Finance & Information
Homerton University Hospital NHS Foundation Trust

Towards sustainability: beyond the financial bottom line *Alison Atherton*

In recent years there has been a growing recognition that traditional financial accounting is no longer sufficient to meet the needs of organisational stakeholders. Partly

there is new awareness that traditional financial reports do not tell investors enough about organisational risk.

Increasingly though, a wider body of stakeholders is interested in knowing more about the contribution that an organisation makes to society beyond its financial bottom line.

Environmental, social and economic impacts are therefore subject to closer scrutiny.

As a result, we have seen the development of new legislation on reporting, such as the introduction of a statutory Operating and Financial Review (OFR) for quoted companies from 2005.

At the same time organisations are voluntarily adopting alternative reporting methodologies, such as the Global Reporting Initiative (GRI). GRI encourages voluntary reporting on the economic, environmental, and social dimensions of an organisation's activities, products, and services. For a public sector body, of course, its overall contribution to society is of central importance. However, reporting on many different targets and performance measures can blur the clear picture of this contribution. New forms of reporting aim to provide a way to make sense of it all.

Perhaps unsurprisingly, many of the emerging reporting models are subject to criticism of one form or another. For instance, as yet, they do not provide clear standards, so comparability and accountability is difficult to achieve. As a result, overall quality is often judged to be low. More importantly perhaps, to date there is little evidence that they are effective drivers of sustainable behaviour. Forum for the Future, the UK's leading sustainable development charity, has been developing a methodology, Sustainability Accounting, which it believes can tackle the criticisms that have been raised in relation to the emerging alternatives. ►

► A popular definition of sustainability is meeting the needs of the present without compromising the ability of future generations to meet their own needs. Sustainability Accounting makes visible the link between financial, social and environmental performance. The method focuses on accounting for and internalizing environmental and social externalities, such as climate change, gas emissions, or air pollution. In other words, it is about getting the prices right today, and not relying on unseen subsidies from the future, to sustain current activities. It aims to calculate the 'sustainability cost' of an organisation – that is, the amount of money an organisation would need to spend to restore or avoid the most significant environmental and social damage caused by its activities and operations over an accounting period. This cost can provide a powerful indicator of an organisation's progress towards, or away from, sustainability.

Leading organisations, like the Co-op Bank, BT and B&Q, recognise that their long-term future and sustainability is inescapably linked to their ability to reduce their external impacts and to continuously improve their overall environmental and social performance. What were once external costs can quickly become internalised through regulation and taxes. Consequently, being aware of their environmental and social costs (and benefits) can assist an organisation's management in their forward planning and help them to reduce exposure to future risks and liabilities.

Several leading organisations are already using the environmental accounting methodology developed by Forum for the Future. These include AWG (formerly Anglian Water Group), Wessex Water, Bulmers (a cidemaker), retailer Marks & Spencer, and UPM Kymmene, at Europe's largest newsprint mill, Shotton. For the first time in 2004, a public sector organisation, the Natural Environment Research Council (NERC) is also using the environmental cost accounting methodology. They have published the results in their annual report for 2003-2004 (see Box One) These organisations are at the vanguard of sustainability accounting and reporting.

Needless to say, Sustainability Accounting is still evolving. Consequently, the accounting framework developed by Forum for the Future is undergoing changes as more organisations begin to experiment with the methodology. It has, after all, taken us several centuries to develop the current, and still dynamic, framework of financial accounting and reporting standards. However, the broad approach is likely to remain constant – namely, to identify where an organisation is in terms of its environmental

and social impacts, to determine appropriate 'sustainability' targets or standards to aim for, and to work out the most cost-effective way for the organisation to close that 'sustainability gap'.

In any event, it seems likely, that eventually every organisation will have to make these calculations as part of routine accounting requirements – particularly as stakeholders begin to ask questions about the cost of unsustainable practices. There is a pressing need for accounting practitioners to actively engage with Sustainability Accounting and Reporting in order to be prepared for the requirements of a changing world.

Box One: National Environment Research Council's Approach

In 2003, as part of their Greening NERC programme, the Natural Environment Research Council (NERC) began working with the UK sustainable development charity Forum for the Future to put a price on their environmental impacts.

For this first year the focus was on the environmental impacts from staff, facilities and operations, including ships and aircraft. With Forum, NERC identified their key impacts and where they could improve the collection of environmental data. By identifying and pricing the impacts, NERC can move to managing and reducing them and so work more sustainably. Forum for the Future put a price on avoiding or restoring the environmental impacts by using the latest available scientific information, such as the International Panel on Climate Change (IPCC) recommendations for greenhouse gas reductions.

This year's information shows that NERC would need to spend about £2.1 million to avoid or restore their environmental impacts. As more environmental data become available, the accuracy of this estimate will improve.

The main costs come from the energy consumed by research ships, aircraft and buildings. These impacts will be addressed by setting targets for reducing emissions of greenhouse gases and other pollutants, and measuring progress with performance indicators and the environmental accounts. ●

*Alison Atherton,
Forum for the Future*

Delivering regeneration for the City of Glasgow: exercising freedom within boundaries

Lynn Brown

Glasgow has recently attracted favourable comments from around the globe including "UK's Coolest City" (National Geographic, USA), "Glasgow Ist In...Glasgow Ist Trendy" (MD Magazine, Germany), "Citta Scozzese piu glamour del momento" (Lo Donna, Italy). It is fair to say that Glasgow is generally looked upon as a friendly city, full of humour and vitality. In recent years, the City has also experienced economic growth at a rate above both the Scottish and UK average, a dramatic fall in registered unemployment and a net increase of around 2,500 new housing units each year.

Unfortunately, there are two sides to every coin. The City has almost 60% of Scotland's most deprived postal sectors, significant levels of adults out of work and a continuing declining population. The physical contrast is also clear. There are schools, which badly need to be replaced, but also a state of the art secondary school estate. There is poor housing but also good housing in areas such as the Gorbals, where it has been completely renewed. In addition, Glasgow contains 45% of Scotland's vacant and derelict land. There are environmental eyesores, which blight the landscape, but there are also areas where environmental improvements have been successfully implemented. Regeneration of the City is, therefore, a key priority for the Council. The success of the City to regenerate through capital investment has been achieved through innovative funding packages and strategic partnerships. The term 'horses for courses' is apt and is demonstrated through use of PPP, Stock Transfer, partnership working and maximisation of capital receipts, alongside traditional use of capital resources.

In the past, significant capital investment was restricted by statutory borrowing consents, and pooling arrangements served as a strong disincentive for many Councils to realise capital receipts. Much of the capital programme was concerned with the repair and refurbishment of existing assets, with limited scope for major regeneration. Nevertheless, within the boundaries of the old capital financing regime, Glasgow delivered an unprecedented investment of some

£225 million in its secondary school estate through a Public Private Partnership. Further, the Council transferred its housing stock of 80,559 properties to the Glasgow Housing Association (GHA) in March 2003. The transfer is anticipated to deliver significant improvements in the City's housing, together with some 3,000 additional jobs in the City, through the GHA's planned investment programme.

The financial landscape in which Councils operate has now significantly improved. There are now 3- year finance settlements, the disincentive to realise capital receipts has been removed, and the introduction of the prudential framework has been described as one of the most significant and positive changes to local government finance in decades. These new arrangements afford councils an important choice, enhancing flexibility in funding frameworks for capital investment.

Under the prudential framework, by rationalising the number of pre-12 education establishments, the City Council is able to release £2.2 million of revenue efficiency savings to support some £22 million of capital investment. These resources would have been otherwise tied up financing under-occupied accommodation. Capital receipts of £10 million and drawdown from the Capital Fund (£22 million) completes the £54 million investment package. Similarly, prudential borrowing, funded from future revenue streams, will enable potential infrastructure investment of

some £36 million in multi-storey car park provision and an additional £1.3 million investment in an enhanced catering facility within the Kelvingrove Art Galleries and Museum.

A number of strategic regeneration projects are planned such as, the Clyde Gateway project and the River Clyde Regeneration. The Clyde Gateway project incorporates the completion of the M74, which will complete the motorway ring around Glasgow. A further link between the M74 and the M8, the East End Regeneration Route, is also planned. Other elements of the Clyde Gateway Project include a strategic business site at Dalmarnock and a new housing development at Oatlands, involving the private sector. The planned transport links will open up opportunities to attract new businesses to that part of the City, presenting job opportunities for local residents.

The Council does not have the resources or the capacity to deliver this regeneration programme on its own. This vision for the City may only be realised by the formation of strategic partnerships with both the public and private sector. For example, in respect of the River Clyde Regeneration, Glasgow City Council is working in partnership with the Scottish Executive, Scottish Enterprise, Communities Scotland, and Renfrewshire and West Dunbartonshire Councils, through a strategic Partnership Board, to promote and facilitate project implementation. ►

The role of independent examiners for un

► The regeneration plans will be financed from a wide variety of funding sources, including the Scottish Executive, the Scottish Enterprise Network, lottery bodies, the European Regional Development Fund, the private sector and the Council itself. The Council's contribution may comprise of capital receipts, the lease of land or buildings, or revenue funding. Local authority assets often lie dormant and are not managed as a strategic resource. Strategic partnerships have the potential to allow the value of such assets to be released. Glasgow's large areas of vacant and derelict land can be turned to its advantage, giving the City the ability to grow within existing boundaries.

Whilst Glasgow City Council is striving to maximise new freedoms and flexibilities to deliver regeneration, it can only do so within the boundaries of severe financial constraints and the Prudential Code. It is now recognised that national development is linked to city development, Cities are now key to national economic viability. The future local government finance system needs to do more to give councils greater incentives to deliver regeneration, recognising that city councils have an important role to play in ensuring that the national economy continues to thrive. ●

*Lynn Brown
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The Charities Act 1993 ("the 1993 Act") makes provisions for Regulations governing the form and content of charity accounts, trustees' annual reports and the duties of charity auditors and independent examiners. The 1993 Act embodies the concept that some form of independent scrutiny is required for the accounts of all but the smallest charities, but that this will fall short of a full audit for many charities.

Charities are eligible for independent examination if both their gross income and their total expenditure for the year is £250,000 or less. There is, however no requirement for any independent scrutiny where both gross income and expenditure for the year is £10,000 or less.

However, an audit obligation may arise due to factors outside the 1993 Act such as;

- the charity's governing document requiring an audit
- there is a requirement for an audit under another statutory or regulatory regime (eg, registered social landlord)
- a donor or financier places a requirement for audit on the charity (e.g. grant giving institution)
- the trustees opting for an audit if they prefer a higher level of assurance.

A charity which is also a company must comply with the accounts scrutiny requirements of the Companies Act 1985. CIPFA members are not qualified to act as auditors or reporting accountants under the Companies Acts. CIPFA members working for the National Audit Office or the Audit Commission, however, may act as auditors in specific circumstances where their client organisation has obtained a dispensation from the Charity Commission where charity audits arise, for example, in connection with local authority managed charities or NHS managed charities.

Many charities have trading subsidiaries. The Charities Statement of Recommended Practice (SORP) requires a charity to prepare consolidated accounts for wholly owned or majority controlled subsidiaries and the independent examiner must ensure that the combined gross income or expenditure does not exceed the £250,000 threshold.

Section 43(3) of the 1993 Act defines an independent examiner as an independent person who is reasonably believed by the trustees to have the requisite ability and practical experience to carry out a competent examination of the accounts. CIPFA members, possessing a formal qualification and relevant experience, would be well suited to this role.

The Charity Commission's leaflet CC63, Independent Examination of Charity Accounts, is available on the Commission's web page www.charitycommission.gov.uk/publications/. This sets out by means of 12 directions the responsibilities of an independent examiner and further defines the independent examiner as an independent person, who should have no connection with the charity trustees which might inhibit the impartial conduct of the examination; the guidance gives examples of those who, in the Commission's view, would not be independent.

It is not uncommon for the independent examiner to be requested to format the accounts at the trial balance stage. Charities have to follow the SORP, which sets out the format and content of the trustees' annual report and accounts, which is significantly different from those of commercial companies and the public sector. The Commission's booklets - CC64, Receipts and

Payments, and CC65, Accruals Accounts-provide templates for the accounts and trustees' annual report, and a model certificate for the independent examiner to sign. The wording of the independent examiner's report must follow the precise wording set out in CC63 to fulfil the requirements of the 1993 Act.

The regulations permit non-company charities with a gross income below £100,000 to prepare receipts and payments accounts. The format of these accounts is very flexible and requires only a receipts and payments account and a simple statement of assets and liabilities. Accruals accounts must follow the SORP in all circumstances irrespective of income. Smaller charities which currently prepare accruals accounts may be well advised to opt for receipts and payments where permitted since the SORP requires a higher level of accounting expertise.

It is worth noting that of the 165,131 reporting charities on the register, as at 31 March 2004, circa 144,000 were eligible to report on the receipts and payments basis. Of these, only 9,456 had incomes exceeding £100,000 but below the audit threshold of £250,000. Therefore the majority of the accounts handled by independent examiners are receipts and payments accounts which are not governed by the SORP with respect to the format of the accounting statements.

Where receipts and payments accounts are permitted, the independent examiner has no responsibility to review the trustees' annual report. However, it is important that the trustees' attention is drawn to their legal requirements to write one. Where accruals accounts have been prepared, the examiner must review the trustees' annual report for any major inconsistencies with the accounts (direction 10).

The Charity Commission's campaign, Accounts aren't Optional, seeks to improve the number of charities submitting their accounts and returns on time. For the 2003 Annual Return cycle, over 30% of charities with incomes over £10,000 failed to submit their accounts to the Commission within the 10-month deadline. Following the campaign, the level of late filing has fallen to 21% of accounts receivable. Phase two of the campaign is to improve the level of SORP compliance of the accounts submitted to the Commission and the independent examiner has a key role in ensuring the timely submission of SORP compliant accounts.

The following information was taken from accounts that were independently examined and submitted to the Commission between 1st October 2003 and 30th April 2004 which were scrutinised for SORP compliance:

Number Reviewed	303
Number with SORP Issues	94
% rate of Non Compliance	31%

Total Income	£97M
Total Assets	£112M

The sample indicates that the standard of trustees' annual reports is generally poor (Table A), with 17 submissions containing no trustees' annual report, in breach of section 45 of the Charities Act 1993, and poor transparency in reporting with over 50 instances of missing policy statements (investments, reserves or grant making).

Missing Reserves Policy	21
Missing Trustees' Annual Report	17
Missing Grant Making policy (where applicable)	15
Missing Investment policy (where applicable)	14
Insufficient explanation and review of financial activities	13
Missing Risk Statement (required only where income exceeds £250000)	12
Insufficient explanation of charity's objectives/organisation and key relationships	50
Legal or administrative disclosures incomplete	8

The technical level of compliance with the SORP is also poor (Table B), with 86 submissions not having one of the two primary statements, the Statement of Financial Activities (SOFA) or Balance Sheet, poor reporting of restricted funds and permanent endowment (58 examples). In 12 cases an audit should have been conducted, rather than an independent examination, and for audited accounts where the income exceeds £250,000 a mandatory risk statement is required.

Missing Statement of Financial Activities (SOFA)	80
Endowment funds not shown	50
Missing FRS8 (related party) disclosure	34
Missing Notes	6
Incorrect Scrutiny (audit required)	12
Deferred income used incorrectly	17
Incorrect cost classification	1
Manipulation of thresholds or indication of activities in breach of objects	6
Restricted funds not shown	8
SOFA & balance sheet do not agree	7
Missing Balance Sheet	6
Missing Scrutiny	3
Missing Cash Flow	1

Working with CIPFA, and other professional bodies, the Commission is seeking to raise awareness of the unique features of charity accounts and reporting to improve the standard of reporting and accounting by the sector and CIPFA members, acting as independent examiners, have a key role to play. ●

Stephen Gogerty,
Senior Accountant, Charity Commission.
Nigel Davies, Deputy Head of Financial
Regulation, Charity Commission and
member of the CIPFA Charities Panel

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