

Purchasing

Extract from The Young People's Substance Misuse Skills Development Manual, Home Office 2003.

Financial Management

<http://www.drugs.gov.uk/WorkPages/YoungPeople/SubstanceMisuseServices/SDManualFinfin.pdf>

The budgeting process and understanding accounts

Interpreting Accounts

1. Do they have more assets than liabilities?
2. Do they have money in the bank?
3. Who owes them money?
4. Who do they owe money to?
5. When will they have to pay off their liabilities?
6. Are they carrying forward funds to next year?
7. Where do they get most of their income from?
8. Are they heavily dependent on one source of income?
9. What proportion of their income do they spend on staff costs?
10. What proportion of their income do they spend on fundraising and administration?

**DORSETSHIRE ADVISORY TRUST FINANCIAL YEAR 2002/03
BUDGET TO ACTUAL FOR NINE MONTHS TO 31 DECEMBER 2002**

	Budget for Year	Budget for 9 Months	Actual for 9 Months	Variance	Notes to Accounts
	£	£	£	£	
INCOME					
Grants and Fees	244,818	183,614	174,058	(9,556)	1
Shop sales	36,000	27,000	14,966	(12,034)	2
Donations	10,000	7,500	9,930	2,430	3
Fundraising	5,000	3,750	3,713	(37)	
Bank Deposit Interest	1,700	1,275	1,333	58	
Trading Co Receipts	18,000	13,500	6,873	(6,622)	4
Total Income	315,518	236,639	210,878	(25,761)	
EXPENDITURE					
Salaries	220,362	165,272	150,474	14,798	5
Training	2,332	1,749	2,332	(583)	
Travel	1,200	900	663	237	
Recruitment	6,500	4,875	1,301	3,574	6
Volunteers' expenses	1,800	1,350	803	547	
Publicity	2,500	1,875	1,213	662	
Printing	7,500	5,625	3,695	1,930	7
Telephone	6,000	4,500	4,624	(124)	
Postage	4,500	3,375	921	2,454	8
Stationery	3,500	2,625	1,526	1,099	9
Equipment	6,400	4,800	3,667	1,133	10
Accountancy/Audit	8,000	6,000	1,725	4,275	11
Premises	28,885	21,664	6,674	14,990	12
Total Expenditure	299,479	224,610	179,618	44,992	
SURPLUS/DEFICIT	+ 16,039	+ 12,029	+ 32,160	+ 19,231	

DORSETSHIRE ADVISORY TRUST FINANCIAL YEAR 2002/03 FINANCIAL MANAGEMENT REPORT UP TO 31ST DECEMBER 2002.

Budget to Actual For Nine Months – Notes to the Accounts

The budget figures are the budget for the year 2002/03 as approved at the management committee on 13th February 2002. These have been apportioned to nine months by simply taking three-quarters. The actual for Nine Months figures are the accruals basis income and expenditure figures prepared from the accounting records for the first nine months of the financial year.

Significant Variances

The variance column shows the difference between the budget for nine months and the actual for nine months. The notes below explain the significant variances.

1. The grants incomes is less than expected because the council have not yet actioned the increased level of grant funding agreed verbally with them. We assume this will be paid in the final quarter, which is still outstanding.
2. Shop sales are much lower than expected. This seems to be due to over optimistic budgeting and the long sickness of the shop coordinator, causing the shop to be open for fewer hours.
3. Donations are higher than expected for nine months, due to a legacy from one of the users who died last year. However, no further amounts are expected.
4. Trading company receipts are lower than expected because the transfers from the trading company have been delayed. A separate report to the trading sub-committee shows that net income should reach the budget for the year. A significant transfer will be made from the trading company before the end of March.
5. Salaries are lower than expected for two reasons: a) the pay increase had not been implemented on time and this will have to be backdated. This will be put through payroll at the end of January and amounts to £3,456 including National Insurance contributions; b) the post of advocacy coordinator has been vacant for three months and the post of administrative assistant has been vacant on and off for six months. The recruitment for a new advocacy coordinator has been undertaken and a new person will be in post at the beginning of February. The administrative assistant recruited earlier left because she found a better job and a new round of recruitment has commenced.
6. Recruitment costs are lower than expected as the personnel manager has changed the advertising policy and expensive adverts in national newspapers are no longer required. This will affect the budget for the year and projected expenditure on this item can be significant reduced.
7. Printing costs are lower than expected, but this was due to a delay in the reprinting of a large number of forms and stationery items. This will now happen in the last quarter of the financial year.

8. Postage is low compared to budget because the petty cash expenditure was not analysed for these accounts, although a quick review suggests that this will be lower than budget anyway. This is probably because the budget was too high.
9. Stationery is under spent because the budget was too high. It is likely that printing and stationery budgets overlap and some costs have been budgeted twice.
10. Equipment includes maintenance and depreciation. The under spend may well be used up by the end of the year.
11. Accountancy/Audit budget includes the amount for the year end work, which will have to be accrued in the year end accounts, but the accrual is not in these management accounts. The actual expenditure relates to advice during the year, which was not budgeted.
12. Premises costs are under budget, because the correct amount of rent has not been charged by the council. We will have to accrue the full amount in the budget when we do the year end accounts, even if we do not know the actual rent to be charged.

Contracting

Method

4.1 This session introduces the three types of financial clauses within contracts. The option should be explained and then a discussion invited on the pros and cons of each option and where different options might be appropriate to use at different times.

Options for Financial Clauses

OPTION A	"The purchaser will pay all costs incurred by the provider, up to the maximum sum shown in the attached expenditure budget".
OPTION B	"The purchaser will pay the provider a fixed price of £XX,XXX for the provision of the service, as described in the attached schedule".
OPTION C	"The purchaser will pay to the provider £XXX for each unit of care provided".

The Provider's Viewpoint

	Advantages	Disadvantages
OPITION A	Our costs will be met as long as we do not exceed the budget.	It is hard to be sure that everything is included in the budget, especially overheads. The purchaser might "claw back" unspent funds. Costs may be higher than budgeted, especially if demand for the service is high
OPTION B	We can keep any surplus we make, and use it to improve the service We have a clear agreement with the purchaser about the nature of the service we are providing	We still have to provide the service, even if it turns out to cost more than we expect If demand is higher than we expect, we still have to provide the service within a fixed price
OPTION C	If there is strong demand for our service, we will receive extra payment	Our income will be very low if demand is lower than we expect

The Purchaser's Viewpoint

	Advantages	Disadvantages
OPTION A	<p>All payments are used according to the budget provided</p> <p>We know exactly how much our commitment is going to cost us and we cannot be asked for any extra payments</p>	<p>It is difficult to follow the details of the provider's expenditure budget</p> <p>The provider may not have enough money to provide a good service, if demand is high</p>
OPTION B	<p>We still know exactly what our commitment is going to cost us- we can't be asked for any extra payments</p> <p>We have agreed what service we will receive in exchange for the fee</p>	<p>We have no control over the exact way that the provider spends the fee</p> <p>The fee may not be sufficient if demand is high</p>
OPTION C	<p>We only pay for what we get</p>	<p>If demand is high, the total cost to us could be very high.</p>

Pros and Cons of Different Types of Contracts

Pros	Cons
Unit based contracts	
Can be linked to an individual's need.	Most costs are fixed and are incurred however many users there are.
Can lead to greater flexibility for the purchaser.	Organisations have to achieve break even point. This factor and the need for some contingency could push price up.
Could lead to greater choice for users. Users could be given a range of possible providers to pick from.	Could require separate negotiations for each user. This would take up time and add to management costs. Assumes that each unit is roughly the same. Units might vary considerably in their demands of the service
Time based contracts	
Easy to manage as the limit is clear	How does the input of time equate to quality?
Easy to monitor output.	Easy to trim some time off and still keep service
Flexible contracting for purchaser	Same disadvantages as for unit based contracts
Contract for specific project or activity	
Very clear about the service being contracted.	Organisation has to be able to quickly start up and close down projects.
Easy to measure results	What happens when the project ends?
Allows flexibility for purchaser.	Reluctance of some purchasers to pay for the full indirect management costs of the project
Total service agreement	
Feels secure as all of the organisation is dealt with	Having only one funder can make the organisation vulnerable
Negotiation is straightforward.	Difficult to measure outputs and outcomes as it is geared to funding the organisation rather than its services.
Easy for funder to make marginal cuts every year	Grant aid mentality still applies
Useful for work that is interrelated and cannot be easily split into different contracts	Can become complicated if the organisation bids for other work from purchasers. What extent of management costs should they be expected to pay?

Pros	Cons
Outcome based contracting	Outcome based contracting
Focus is on quality	Who says what the outcome is can be a contentious issue.
Allows flexibility of methods to achieve outcomes	Requires skills to assess needs, agree outcome and milestones.
Strong emphasis on measurement is built in.	Can be difficult to accurately project costs and time needed to achieve outcome
Emphasis on achievable results rather than doing things because the contract says no.	Can lead to organisations picking the clients most likely to meet the outcomes

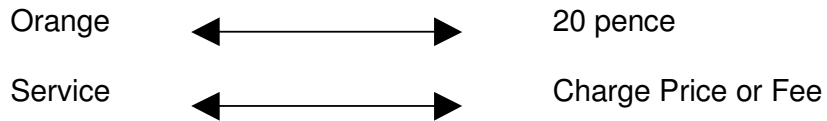
PRICING

Method

5.1 This session starts to look at the pricing of services by showing there are a number of factors to take into account within the cost of a service and a number of ways to price a service. The trainer should work through the examples explaining the different approaches. The examples are:

- Borchester Community Centre
- The cost for running a day centre
- Well Being Drop In Centre

Goods & Services are exchanged for a consideration



The Cost of an Orange...	The Price of an Orange...
Wholesale cost Transport cost Stall cost Wastage Wages Profit requirement Bank costs	"20 pence"
...is complex	...is simple

EXAMPLE

The Borchester Community Centre has three projects and operates from small premises. They employ a permanent Centre Coordinator and project staff are hired on a sessional basis. They have prepared the following information about costs.

- Centre coordinator's salary and national insurance **£16,000**
- Premises fixed costs amount to approximately **£15,000**
- Project A needs sessional staff costing **£3,000** and materials costing **£800**
- Project B needs sessional staff costing **£5,000**, additional telephone costs estimated at **£900** and extra print and stationery costs of **£1,000**
- Project C needs sessional staff costing **£4,000** and additional travel costs of **£500**

This information can be more usefully presented as:

Project Costs	<i>Project A</i>	<i>Project B</i>	<i>Project C</i>	TOTAL
Sessional Staff	£3,000	£5,000	£4,000	£12,000
Materials	£800			£800
Additional Telephone		£900		£900
Extra Print and Stationery		£1,000		£1,000
Additional Travel			£500	£500
Total Direct Costs of Projects	£3,800	£6,900	£4,500	£15,200

Centre Fixed Assets

Centre Coordinator's Salary and NI	£16,000
Premises Fixed Costs	£15,000
Contribution Needed from Projects	£31,000

TOTAL INCOME NEEDED **£46,200**

The Facts

<i>Expert Organisation's Expenditure Budget 199X</i>	<i>Consultancy Service</i>	<i>Training Service</i>	<i>Shared Costs</i>
Direct Costs	£90,000	£60,000	£50,000

The Consultants' View

<i>Expert Organisation's Expenditure Budget 199X</i>	<i>Consultancy Service</i>	<i>Training Service</i>	<i>Shared Costs</i>
Direct Costs	£90,000	£60,000	£50,000
Apportionment of Office costs	£30,000	£20,000	-£50,000
<i>Full Costs</i>	<i>£120,000</i>	<i>£80,000</i>	<i>NIL</i>

The Trainers' View

<i>Expert Organisation's Expenditure Budget 199X</i>	<i>Consultancy Service</i>	<i>Training Service</i>	<i>Shared Costs</i>
Direct Costs	£90,000	£60,000	£50,000
Apportionment of Office costs	£30,000	£20,000	-£50,000
<i>Full Costs</i>	<i>£120,000</i>	<i>£80,000</i>	<i>NIL</i>

Costs for setting up and running a Day Centre

TYPE OF COST	SOURCES OF INFORMATION	COST IN £
Fixed Assets Building Conversion Equipment Other Non-Recurring Costs Survey Legal fees Recruitment & training	OTHER PROVIDERS &: Architect Equipment suppliers Surveyor Solicitor Personnel officer	
TOTAL NON- RECURRING COSTS		£

RECURRING COSTS		ANNUAL COST IN £
Variable Costs Refreshments Chiropody Hairdressing	OTHER PROVIDERS &: Meal plans etc Service providers Service providers	
Fixed Cost Staff salaries Heat and Light Cleaning Premises and equipment Maintenance Insurance Office cost Depreciation Equipment Building Conversion	Salary data, pension firm Architect Contractor Architect, equipment Suppliers Insurance broker Administrator Fixed Asset cost & Expected life	
TOTAL RECURRING COSTS		£

Calculations

For the premises apportionment, the space occupied was measured and the relevant percentage of the total calculated.

	Space Occupied m ²	% Space	Premises Costs £
Information	331	35%	8,750
Advocacy	189	20%	5,000
Newsletter	236	25%	6,250
Outreach	189	20%	5,000
	<hr/>	<hr/>	<hr/>
	945	100%	25,000

For the other overheads apportionment a similar calculation was undertaken, based on the staff costs of each project

	Staff Costs £	% Staff	Other Overheads £
Information	45,380	25%	19,446
Advocacy	23,577	13%	10,112
Newsletter	32,654	18%	14,001
Helpline	56,027	30%	23,336
Outreach	25,920	14%	10,890
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	183,558	100%	77,785

Example Cost Centre Expenditure Budget

Direct Costs	Information £	Advocacy £	Newsletter £	Helpline £	Outreach £	Central £	Total £
Salaries	45,380	23,577	32,654	56,027	25,920	52,035	235,593
Training	300	150	500	500	325	500	2,275
Travel	150	150	250	250	800	250	1,850
Recruitment	-	-	-	-	-	5,000	5,000
Volunteers' Expenses	-	-	800	1,000	-	-	1,800
Publicity	-	-	500	500	600	1,000	2,600
Printing	500	250	5,000	-	-	2,000	7,750
Telephone	-	-	-	1,000	-	5,000	6,000
Postage	-	-	2,500	-	-	2,000	4,500
Stationery	-	-	-	-	-	2,500	2,500
Equipment	500	500	2,500	-	-	2,500	6,000
Accountancy/Audit	-	-	-	-	-	5,000	5,000
Premises	-	-	-	5,000	-	25,000	30,000
Total direct costs	46,830	24,627	44,704	64,277	27,645	102,785	310,868
Central Cost Apportioned							
Premises	8,750	5,000	6,250	-	5,000	(25,000)	
Other Overheads	19,446	10,112	14,001	23,336	10,890	(77,785)	
Total Costs	75,026	39,739	64,955	87,613	43,535	-	310,868

**Well Being
Annual Income & Expenditure Budget
Current Year – NEW FORMAT**

	Drop In	Therapy	Advocacy	Management	Unrestricted	Total
£000						
INCOME						
Drop In Grant	50					50
Counselling Contract		15				15
Core Grants					60	60
Publications			5			5
Voluntary donations					10	10
TOTAL INCOME	50	15	5	0	70	140
EXPENDITURE						
Staff Costs	40	10	15	15		80
Service Running Costs	25	5				30
Publicity & Publications			15			15
Office expenses				15		15
DIRECT COST	65	15	30	30	0	140
APPORTIONMENT OF MANAGEMENT COST	18	6	6	-30	0	
FULL COST	83	21	36	0	0	140
OVERALL SURPLUS	-33	-6	-31	0	70	0

Consequences of pricing Decisions for Well Being's Drop In Service

Annual Price	Consequences
Below £65,000	Drop In faces closure without heavy subsidy from elsewhere
£65,000 to £83,000	<p>Drop In able to survive, provided management is subsidised by Well Being</p> <p>Quality of service below both purchaser expectations</p> <p>No resources for developing new services</p>
£83,000	<p>Current level of service assured</p> <p>No capacity for quality improvement or developing new services</p>
£6,000 extra	Pays for depreciation and capital loan costs for a £20,000 refurbishment
£30,000 extra	Buys improvements in service quality sought by both provider and purchaser
£5,000 to £10,000 extra	<p>Drop In able to use surplus to develop capacity for new services</p> <p>Competitors encourage to bid for new services</p>

Drawing up a Tender Specification

Method

6.1 This introduces the steps involved in drawing up a specification for tendering a service. The trainer should introduce the topic and work through each section. The content for this section can be organised around a number of possible areas which include:

- Brief description of service.
- Needs of client group.
- Activities and/or outcomes expected.
- Standards required.
- Management arrangements
- Financial arrangements
- Specific expectations of contractor
- Bidding requirements
- Tender criteria and process

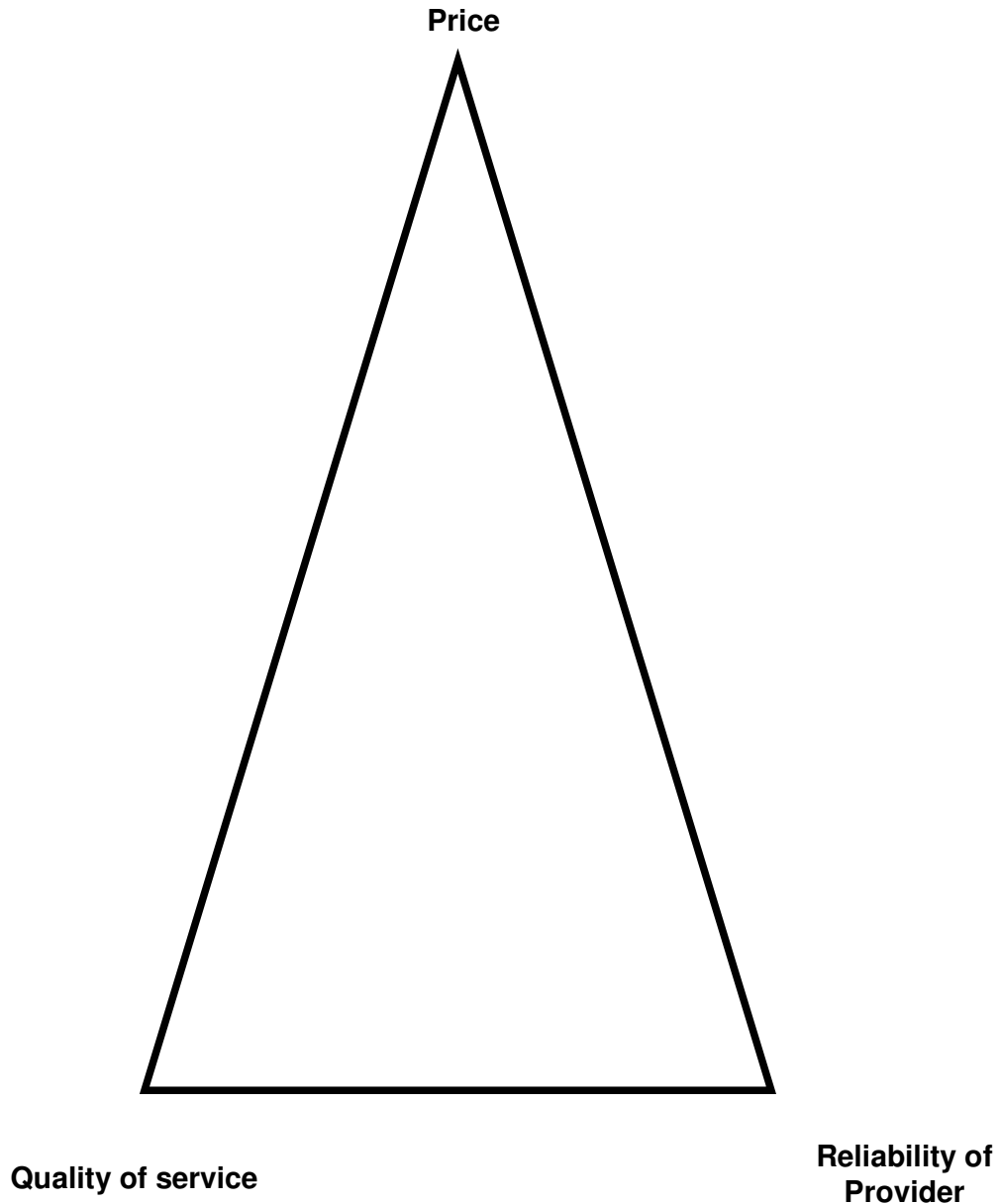
6.2 Starting with who does what participants should be encouraged to discuss the elements described and considering How can users and voluntary organisations influence how decisions are made about service plans and specifications? How logical and organised is this process in practice?

The Purchaser	The Provider
Makes priorities about recognised needs	Bids for the service
Decides by what mechanism service should be delivered.	Proves that they have the capacity to provide service.
Writes specification.	Provides the service.
Decides who should provide the service.	Evaluates its work.
Monitors the service to ensure specification is met.	
Evaluates the service.	

6.3 Participants may wish to consider two questions at this point:

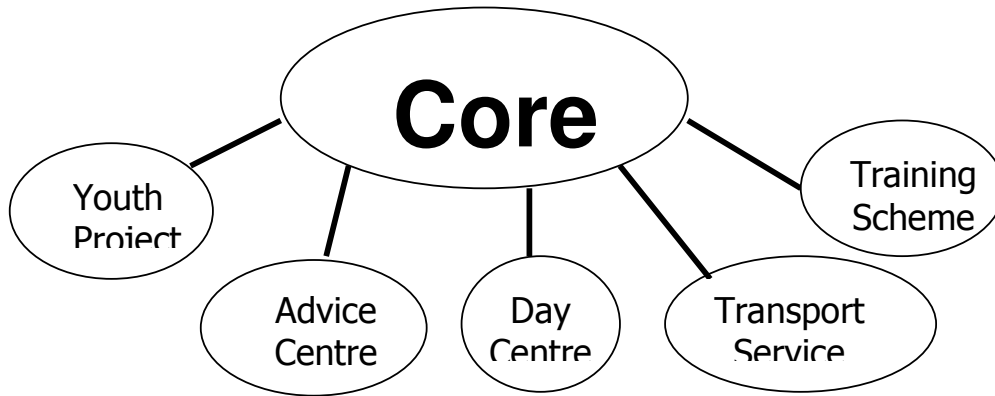
- How can users and providers influence how decisions are made about service plans and specifications?
- How logical and organised is this process in practice?

Factors in a Purchasing Decision



6.4 Commissioners and planners need to know how much a service will legitimately cost; the following gives some idea of the factors to be taken into account.

How much does it cost?



Costing the Advice centre:

Direct Costs:	
Advice workers salary	
Advice resources	
Helpline	
Training costs	
Publicity costs	
Campaign costs	
Direct cost.....	£33,000

+

Agreed share of organisational Indirect cost	
Share of indirect cost.....	£17,000

=

Total cost.....	£50,000
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6.5 Participants require knowledge of how to test for quality and the reliability of both an organisation and the services provided. The trainer using the example provided should ask participants to discuss the various elements and how they relate to individuals and/or group practices.

Example of Evidence of Quality and Reliability

Quality	Reliability
Quality Assurance System.	Accounts.
Service evaluations.	Business Plan.
Practice Standards.	Management Practice.
External inspections.	Staff development.
External validations.	Track record elsewhere.
Qualified staff.	Contingency arrangements.
User surveys.	
User outcomes.	

6.6 The following points should provide a guide for participants in respect of performance measures. These are set out as questions to assist participants identify a number of key components.

- What is the service/project for?
- What values should influence it?
- What do we want to measure?
- What are the possible indicators?
- How will the information be used and interpreted?

6.7 More than just price, is one possible answer to the question how would you build quality into the tender process? By taking participants through the following points and facilitating discussion they should create a picture of how quality can be built into tenders.

- Evidence of minimum standards that reflect good managerial and organisation practice.
- Evidence of quality systems for working with young people, research design and management and dissemination of findings.
- Evidence of good management practice, staff development and supervision arrangements.

6.8 By working through and discussing the following points participants should identify how they can ensure reliability of each organisation tendering.

- Through reviewing recent annual accounts to check on financial stability and track record.
- Through reviewing the organisation's business or strategic plan to see if management assumptions are realistic.
- Through submission of evaluations of similar projects and activities.
- What more work might you have to do to ensure an effective tender process?

6.9 Participants should be asked the criteria by which they would judge tenders and to list the information that they would request and for what purpose?

Information	Purpose
Business plans, previous accounts and examples of previous projects. Evidence as listed above.	To check that the organisation is reliable.
Estimate of fee and estimates for three years.	To consider budget and value for money.
A project plan setting out how they would undertake it.	To consider their approach.
Evidence of appreciation of relevant policies (e.g. equality, staff development).	To check on their understanding of needs.

Audit

Method

7.1 The following is an example of an audit statement. The trainer should explain the key points which are relevant to participants, and follow this by looking at the audit requirements table.

EUROPEAN REGIONAL DEVELOPMENT FUND

GRANT RECIPIENT:

PERIOD 1ST FEBRUARY 2000 TO 31ST OCTOBER 2001

Auditor's Report to the Department of Transport, Local Government and the Regions

We have read the document the financial agreement between the above grant recipient and the Secretary of State of Transport, Local government and the Regions and also guidance notes ERDF8G.

We have audited the above grant recipient's Statement of Grant Expenditure for the period 1st February 2000 to 31st October 2001, which is attached to this report, each page of which we have initialled.

Opinions:

1. The Statement of Grant Expenditure fairly states the eligible expenditure and the source of funding in the period 1st February 2000 to 31st October 2001 and has been prepared in accordance with the financial agreement between the above grant recipient and the Secretary of State for Transport, Local Government and the Regions.
2. During our audit, nothing material came to our attention that is inconsistent with the statements made in the Statement of Grant Expenditure.

Name

Signature Date

Professional Qualification

Chartered Accountant

STANDARD REPORT TO ACCOMPANY ANNUAL INTERIM CLAIMS OR PROJECT CLOSURE REPORTS

(To be sent out under the reporting firm's/organisation's letterhead).

Addressee details:

- (i) The Secretary of State for Work and Pensions (*Government Office*)

Dear Sirs,

EUROPEAN SOCIAL FUND DOSSIER REFERENCE (DOSSIER NUMBER)

We refer to the above mentioned agreement (the "Grant"). Under the terms of the contract arising from the offer letter dated (...200(y)) (ESF Applicant) is required to submit (an annual claim/project closure report) that complies with the requirements set out in Annex 4 and to supply the addressees with a report by its reporting accountant upon its content.

The Director (or equivalent) of (ESF Applicant) have prepared (an annual claim/project closure report), a copy of which is appended to this report, for which they have sole responsibility.

Basis of Report

Our work was conducted in accordance with the framework for reporting in connection with European social Fund ("ESF") grants set out in the Article 4 Verification Certificate guidance.

Our work was based on obtaining an understanding of the compilation of the (annual claim/project closure report) by enquiry of management, reference to the Grant Agreement, comparison of the financial information to the sources from which it was obtained and recomputation of the calculations in the (annual claim/project closure report) which was in accordance with ESF rules and regulations.

For the purpose of providing you with this letter, other than as set out herein, we have not carried out any work by way of audit, review or verification of the financial information nor of the management accounts, accounting records or other sources from which that information has been extracted.

Report

Based solely on the procedures described above, we confirm that:

1. the financial information contained in the accompanying (annual claim/project closure report) has been accurately extracted from the sources identified therein and agrees with the underlying accounting records;

2. with exceptions detailed at (4) below all errors that we identified in the course of our testing have been corrected by the Directors (or equivalent) in the attached (annual claim/project closure report);
3. We have obtained written confirmation from the Directors (or equivalent) of (ESF Applicant) that they have reviewed the (annual claim/project closure report) to determine whether similar errors exist elsewhere and that any such errors have been correct in the attached (annual claim/project closure report);
4. We identified the following errors which have not been corrected by the Directors (or equivalent) in the attached (annual claim/project closure report);

Brief description of error	Value (£)

Our report as set out herein is confidential to the addressees of this letter and should not be made available to any other party without our written consent. It is provided solely for the purpose of the Secretary of State's assessment of (ESF Applicant)'s compliance with the terms of their contract. We accept no liability to any other party who is shown or gains access to this report.

Yours faithfully

(name of accountancy firm)

Signed:

Position in Organisation:

Date:

Cc (ESF Applicant)

EUROPEAN REGIONAL DEVELOPMENT FUND

GRANT RECIPIENT:

PERIOD 8TH OCTOBER 1998 – 31ST DECEMBER 2001

Auditor's Report to the Department of Transport, Local Government and the Regions

We have read the document the financial agreement between the above grant recipient and the Secretary of State for Transport, Local Government and the Regions and also guidance notes ERDF8G.

We have audited the above grant recipient's Statement of Grant Expenditure for the period 8th October 1998 to 31st December 2001, which is attached to this report, each page of which we have initialled.

Opinions:

1. The Statement of Grant Expenditure fairly states the eligible expenditure and the source of funding in the period 8th October 1998 to 31st December 2001 and has been prepared in accordance with the financial agreement between the above grant recipient and the Secretary of State for Transport, Local Government and the Regions and subject to the following notifications:
 - (a) The Revenue Interim claim has been reworked as it was incorrect and is being resubmitted under separate cover.
 - (b) The Capital final claim has no variation from the last interim claim but please note the following variations from initial budget.

	Agreed Grants	Actuals	Variance
Land Acquisition	105,000	90,000	(15,000)
Site Investigation	2,956	2,953	(3)
Building Construction	656,438	670,857	14,419
Plant/Machinery	15,800	17,045	1,245
Fees	82,136	67,259	(14,877)
Others*	198,950	103,776	(95,174)
	<u>£1,061,280</u>	<u>£951,890</u>	<u>£(109,390)</u>

- (c) *VAT on works has not been levied and thus £116,120 has not been claimed.
2. During the audit, nothing material came to our attention that is inconsistent with the statements made in the Statement of Grant Expenditure.

Signature Date:
Chartered Accountants

Name of Hostel –

CERTIFICATE OF AUDITOR

We certify that we have examined the entries in this form and the related accounts and records of the hostel and have carried out the tests we consider necessary and we have obtained such explanations as we consider necessary to provide an audit opinion.

We are of the opinion that the entries are fairly stated and that the expenditure has been properly incurred in accordance with the conditions under which Home Office grant is paid.

Auditor Signature:

Date:

Auditor Contact:

Accounting and Audit Requirements

Unincorporated Charities	Accounts	External Scrutiny
Gross income over £250,000	Accruals basis following SORP	Audit by registered auditor
£10,000 - £250,000	Accruals basis following SORP	Independent examination
£10,000 - £100,000	Receipts and Payments Accounts and Statements of Assets and Liabilities	Independent examination
Less than £10,000	Receipts and Payments basis – No need to submit to CC	No external scrutiny required by statute
Charitable Companies	Accounts	External Scrutiny
Gross income over £250,000	Accruals basis following SORP	Audit by registered auditor
£90,000 - £250,000	Accruals basis following SORP	Compilation report
Less than £90,000	Accruals basis following SORP	No external scrutiny required.

Value for Money

Method

8.1 This session uses the workbook to explain the components of value for money equations.

Value for Money

- **Economy**

How does the cost of the service compare to the costs of similar services?

Are monies and resources allocated on a sensible economic basis?

- **Efficiency**

Is the service well managed?

Does the service operate in a way that achieves the maximum output?

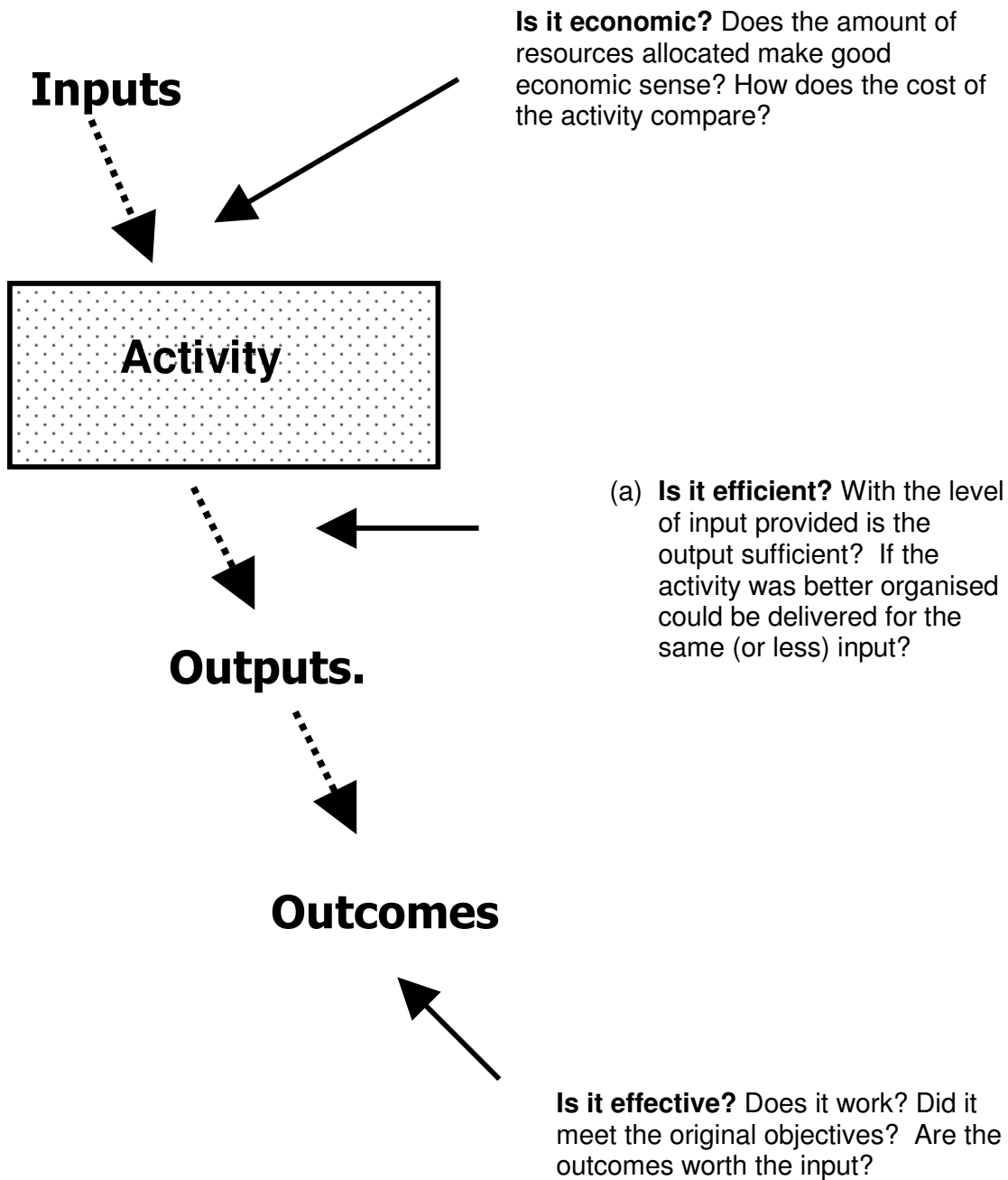
- **Effectiveness**

Does the service work?

Does it achieve the intended objectives?

Are the outputs and outcomes worth the investment?

Inputs, outputs and outcomes and value for money



Measuring performance

Method

9.1 This looks at a variety of measures of performance which participants can use. Several factors can be measured. The form provided is designed to record your current measuring and monitoring activity and identify gaps. An example is shown for an advice service.

	What we measure now	What we need to do	Notes
How we use the input? E.g. Recording total expenditure on advice.			
The volume of the output E.g. How many hours of advice provided?			
The reaction of users to the output E.g. What did users think of the advice given?			

<p>Short term impact.</p> <p>E.g. Did the service deliver immediate results?</p>			
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<p>Longer term benefit</p> <p>E.g. Did the service produce longer term benefits?</p>			
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<p>The link between the outcome and need</p> <p>E.g. Did it meet its original objectives?</p>			
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Inputs, outputs and outcomes.

How does this framework apply to your organisation?

The activity is -

Inputs

- * money.
- * time.
- * other resources.

Outputs

- * services.
- * products.
- * events.
- * achievements.

Outcomes	
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- * impact.
- * benefits.
- * side effects.
- * results.

Notes:

9.2 Participants should find the following five starting points useful.

- **Does the organisation have clear objectives?**
Does the organisation have a clear sense of its purpose?
Does it have aims, objectives and goals that are clear and specific?
What is the mission?
- **Is there an agreement on what is important about how it should work**
Do committee members, staff and volunteers have a clear sense of shared values?
What is important about the way that you work?
- **Is the organisation managed in such a way that allows for good communication and sharing of information internally?**
The agreement of effective measures and standards will require people to communicate with each other and exchange information. How effective are internal communication systems?
- **Are there processes for reviewing and planning work?**
What will you do with the information and feedback collected?
Do the people who manage the organisation have the time and skill to use it properly?
- **Do you know why funding bodies fund you?**
What are the expectations of the bodies that fund or purchase your services?
Do you share the same objectives and values?

9.3 Three different approaches which should be discussed and considered by participants are

- Through measuring performance
- Through making comparisons - value for money.
- Through building in quality standards

9.4 Examples of Performance Measures to be shared and considered by participants are:

Unit Cost	Communications audit
Cost of overheads	User panels
Occupancy rate	Case audits
Take up rate	Follow up reviews
Performance against agreed standard	Matching expectations with post experience
Performance against an agreed plan	Policy indicators
User feedback	Referral indicators
	No service given

9.5 Provided is a checklist for using performance measures for participants

Are the Measures:

Related to a specific function or activity.	Agreed in Advance
Capable of being managed or improved	Easy to collect
Measurable	Easy to understand
Reflecting an even and total picture.	Linked into planning
Related to values and objectives	Cost effective.

9.6 It is easy to interpret a simple piece of information in many different ways. Discussion should focus on what interpretation could be made on information and data collected under each indicator.

9.7 Most performance review systems do not have an explicit statement of what kind of interpretation will be placed on the collected information. It may be appropriate to agree to a regular review meeting to look at trends and patterns that emerge from indicators, discuss possible interpretations and identify future action. Examples of performance measurers are provided:

Example

9.8 The following fifteen measures have all been used by different agencies to monitor performance. The description show their possible use and the notes comment on the positive and negative implications of using them.

Type	Description	Notes
Unit Cost	<u>Cost of Service</u> Number of times used	If a home visiting service cost £6,000 each month and in a particular month carried out 120 visits the unit cost would be £50. Unit costs only make sense if every unit is likely to be relatively similar. If one home visit takes 10 minutes and another takes 3 hours, then the figure of £50 becomes a fairly meaningless average.
Cost of Overheads	Amount of money spent on running costs and administration as opposed to direct service costs.	Assumes that the agency's financial procedures are able to report this information in an accurate and true manner. Can lead to "creative accounting".
Occupancy rate.	<u>Optimum Use</u> Actual use	If an arts centre had workshop space for three sessions a day its optimum use level would be sixty sessions in a four week period. If, in one period, it was used for fifty sessions that its occupancy rate would be 83%.
Take up rate	Number of clients, enquiries or users.	Numbers of service users, often broken down further into client profile (age, sex etc.), type of issue or time taken to deal with. Can provide useful information about trends in service use provided interpretation is fair. Often only records how busy the service is rather than how effective it is.

Performance against agreed standard

Numbers of time that a service has met or failed to meet an agreed minimum level.

Often used as part of a quality assurance framework. An agreed “benchmark” is set, e.g. “all initial referrals will be dealt with in four days”. Can be used as a negative indicator to identify when a service is not working to standard.

Follow up reviews

A random sample of past users and clients are contacted to comment on their experience of the service.

Some agencies have developed techniques for keeping in touch with ex-users and tracking their experience.

Matching expectations with post experience

Organised recording of users initial hopes about a service contrasted against their experience of using it.

Asking trainees to record what they hope to learn from a course and comparing it with their experience on completion of it.

Policy Indicators

A positive report on what actions and resource allocations have been given to advancing policy commitments.

An agency would report on how much time and money it had spent on responding to a policy. For example, what it did to implement its anti-racist policy in the past six months?

Referral Indicators	A report on how users first made contact with the service.	An indicator of how users found out about a service by referral routes.
No service given	A report on the occasions when the agency has had to turn potential users away.	Recording demands for a service which were not met. Lost opportunities can also be recorded, "...no available staff time prevented us from....".
Performance against an agreed plan	Reporting on the completion of objectives and tasks.	A plan of work is agreed with written objectives and timescales. Can be useful in activities of a developmental nature e.g. community work. One possible way to avoid the plan becoming too rigid is to build in flexibility by only planning for say 70% of time.
User feedback	Collation of user opinions, reactions and surveys.	Organised collection of the views of users. Thought needs to be given as to who should collect the information and also collecting the views of ex-users.
Communications audit	A survey of an organisations' users to measure their knowledge of it's services and activities	A review of how effectively the organisation informs users about its work. Simple direct questions e.g. "Is there a complaints procedure?"

User Panels	Establishing small groups of users, and clients to comment on services	A more open evaluation technique. Panels act as a point of reference for reviewing the service.
Case audits	Internal and external analysis and reviews of a limited number of cases to ensure that it has been managed in line with agreed practice.	Audits need to have clear standards of what is good practice. Cases could be audited by managers, other staff or independent experts. Clearly confidentiality would need to be managed.

9.9 Participants should now be familiar with performance measurement methods and the linkages to Value for Money. This element explores using Value for Money to make judgments but for it to mean anything participants will need to consider the following factors.

- The original needs and objectives.
- The context in which it operates.

9.10 Most Value for Money studies are used to make a comparison which is sometimes a difficult exercise. Participants should consider some of the more typical comparisons which are:

- Could it be provided on a cheaper basis elsewhere?
- Have more outputs been delivered this year compared to last year?
- Do similar organisations manage to provide the same services at less cost?
- Could the same value be achieved by providing a different (and possibly cheaper) service?