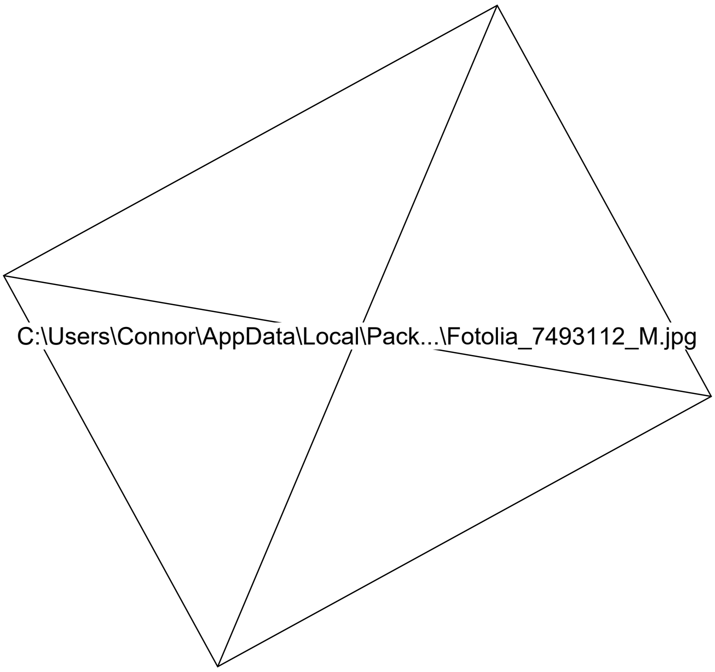
WHAT ABOUT 'THOSE LEFT BEHIND'?

Lisa Forster SS(PRAC)
is a Finance Advisor with CIPFA

In the SSA *Trust & Shared Vision Toolbox*, tool 4.04 is called the *Jenga Test.*

Jenga is the game, based on a house built of loose wooden bricks. The players take turns to gently remove bricks from the house and the loser is the person who makes it collapse, by pulling out a brick that finally destabilises the house.

The tool uses the metaphor of the *Jenga* game to remind practitioners, to also focus on the impact that might occur within the organisation de-merging the in-house service into a partnership.



Making the in-house costs go up

I was recently reminded of the tool when working with a number of CIPFA's clients in a slightly different context - organisations that are spinning out services.

For example, discussions on setting up trading companies, staff mutuals and charitable trusts. These new ventures were a mix of wholly and jointly owned council entities.

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On-site work with local authorities has seen this question, and realisation raised numerous times. The issues primarily centre – although not exclusively- around central support costs :

- How quickly can central support units react to changing (usually reduced) demand?
- How 'fixed' are the fixed costs of these units?
- How competitive are the support services compared to the 'outside world'?

It is essential that the financial impact is assessed for the whole picture, rather than just a segment.

Internal recharging must be assessed

Core or central support departments in any local authority, recharge their overall costs to 'clients,' ie other council departments.

However, if they lose those clients, it means either the central support unit 'shrinks', thereby reducing its costs and recharging a lower overall amount to clients; or, if it cannot shrink, it charges the same overall costs to fewer clients, making the charge per client much higher than in previous years.

Another impact on 'those left behind' is that of the council losing business rate income.

This is a fairly simplistic view of the choices, but its purpose is to highlight that those left within the council need to adapt to change delivery arrangements as much as those who are spinning out of direct council control.

It's difficult to shrink fixed costs…

Fixed costs, such as IT servers, licences and property rents/ leases, are more difficult to 'shrink' in the short term, whereas staff costs are simpler (in theory) to scale back to match demand- although this element of cost reduction is the least palatable part of the impact of alternative delivery arrangements!

Some organisations that have left local authority direct control are subject to an incubation period whereby they must buy from the council's support services for a specified time.

This at least gives the 'core' the opportunity to plan and adjust over a reasonable time. Forecasting techniques such as sensitivity analysis, can help them model the impact of losing clients, and identify the options they can then pursue in the future.

The true costs of services…

Another question we are often asked is how to calculate the 'true' cost of a service. This is critical when the service in question is entering into an alternative delivery arrangement - shared or wholly owned.

The direct costs of staff and supplies are easily assessed, but it is the cost of overheads where the head scratching begins.

Taking payroll as an example, the question has to be asked, 'Is the cost of a payslip supplied by the council similar to the cost of a payslip provided by an outside supplier?'.

Given that usually councils will take total costs, divide them by the number of transactions to come up with a cost per 'unit', ie a payslip, how competitive is this?

Business plans will need to make assumptions here, and finding out what competitors charge is always useful information to assess viability of services.

The loss of business rate income…

Another impact on 'those left behind' is that of the council losing business rate income.

If authorities set up charitable trusts – which is common practice for leisure services, and can involve a large number of valuable non-domestic properties - the charity is entitled to 80% relief on its business rates.

The localisation of business rates means that reductions in local business rates income now have a direct impact on the council's pocket.

The calculations are of course a little more complex than this, but this serves to highlight that the big picture matters.

Focusing purely on the cost of setting up and running the new services, is only half the financial calculations for success.

For practitioners, the moral of the story is *'Don't forget those left behind!'.*

You can contact Lisa at:
Lisa.Forster@cipfa.org