

# Managing Performance

Volume 4: Accounting  
Performance Measures  
Asset Management  
Procurement

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ISBN

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# Preface

The original Local Government Financial Management (LGFM) series was conceived in the mid-nineteen nineties in Lucenec, in Eastern Slovakia. The United States Agency for International Development (USAID), through a contract with the International City/County Management Association (ICMA), had initiated a local government capacity building programme in Slovakia and financial management was one of the areas targeted for development.

When the City of Lucenec was approached as a potential recipient of technical assistance for the specific purpose of developing a capital improvement budget, they were grateful but not impressed. They saw the need for financial management assistance for the local government and others in Slovakia in much broader terms. Working with a group of dedicated local finance officers in Slovakia, ICMA assembled a small team of LGFM consultants. Together they produced the initial fourteen handbooks in this series.

Over time, the series spread quickly to other counties in the central and eastern European region and beyond. Funding for the adaptation and translation of the materials came from a variety of sources, including The World Bank and private foundations.

While UN-HABITAT had contributed to the initiation of the series, their involvement in the development and dissemination up to this point had been minimal. Nevertheless, they recognised the series' potential for worldwide use. But, they needed to be updated to reflect new ideas in LGFM and revised to make them more user friendly as they crossed national borders and language differences. Among other things, the initial series was based on Slovak laws, regulations, and experience, which varied significantly from those in other countries. UNHABITAT commissioned a written user survey and convened a small group of experts to help determine how best to carry out the revisionist task. The expert group included the Slovak initiators and others who had used the materials in various countries around the world.

While the initial edition of these materials was directed to Slovak local government finance officers, this edition is intended for a much larger audience. It includes not just finance officers but all local government financial management personnel as well as chief executive officers, department heads, elected officials whom we refer to as policy makers, and others in local governments worldwide who might find them useful. National government departments that have oversight responsibility for local finances should also find them useful as should those educational institutions preparing students for jobs within local governments. And, of course, the audience includes financial management trainers and training managers. In other words, this series is aimed at a worldwide mix of training providers and training users.

Kay Spearman  
Principal Author

# Acknowledgments

The preparation of this revised and updated version of the Local Government Financial Management (LGF) Series has drawn upon the professionalism and expertise of many persons and institutions.

First, we would like to acknowledge the various authors, both of the original series and the current revision, of each respective chapter in the series. **Introduction and Trainer's Guide** written by Fred Fisher. **Chp 1: Policy Making.** Essay rewritten and expanded by Kay Spearman. Exercises rewritten by Kay Spearman and Fred Fisher. Original essay by Jack Matzer. Original exercises by David Tees. **Chp 2: Financial Planning.** Essay rewritten and expanded by Kay Spearman. Exercises rewritten by Kay Spearman and Fred Fisher. Original essay by Winston Evans. Original exercises by David Tees. **Chp 3: Citizen Participation.** Essay rewritten and expanded by Kay Spearman. Exercises rewritten by Kay Spearman and Fred Fisher. Original essay by Winston Evans. Original exercises by David Tees. **Chp 4: Evaluating Financial Condition.** Original essay by Sanford Groves and Maureen Valente. Published by International City/County Management Association (1990 Washington DC). Exercises by Kay Spearman and Fred Fisher. **Chp 5: Operating Budget.** Essay rewritten and expanded by Kay Spearman. Exercises rewritten by Kay Spearman and Fred Fisher. Original essay by Kay Spearman. Original exercises by David Tees. **Chp 6: Financing the Operating Budget.** Essay rewritten and expanded by Kay Spearman. Exercises rewritten by Kay Spearman and Fred Fisher. Based on original essays by Winston Evans, Kay Spearman and Maureen Valente. Original exercises by David Tees. **Chp 7: Capital Investment Planning.** Essay rewritten and expanded by Kay Spearman. Exercises rewritten by Kay Spearman and Fred Fisher. Based on original essays by Jack Matzer and Allistar Law. Original exercises by David Tees. **Chp 8: Financing the Capital Investment Plan.** Essay rewritten and expanded by Kay Spearman. Exercises rewritten by Kay Spearman and Fred Fisher. Based on portions of original essays by Jack Matzer, Winston Evans and Allistar Law. Original exercises by David Tees. **Chp 9: Accounting.** Essay rewritten and expanded by Kay Spearman. Exercises rewritten by Kay Spearman and Fred Fisher. Based on portions of original essays by Jack Matzer, Winston Evans and Kay Spearman. Original exercises by David Tees. **Chp 10: Performance Measures.** Essay rewritten and expanded by Kay Spearman. Exercises rewritten by Kay Spearman and Fred Fisher. Original essay by Jack Matzer. Original exercises by David Tees. **Chp 11: Asset Management.** Written by Kay Spearman. Exercises by Kay Spearman and Fred Fisher. **Chp 12: Procurement.** Essay rewritten and expanded by Kay Spearman. Exercises rewritten by Kay Spearman and Fred Fisher. Based on original essays by Allistar Law. Original exercises by David Tees.

We also appreciate the participants of the User Survey that was carried out on the original LGFM Series. Their experiences and insights were instrumental in identifying gaps and shortcomings in the original series and thus shaping the content of the current series.

We recognise the input of the participants of the Expert Group Meeting (EGM) held in Kenya in early October 2002. Based on the findings of the User Survey, the EGM made recommendations for major changes, resulting in a more comprehensive, user-friendly and up-to-date series. In particular, we appreciate Fred Fisher of IDIOM, USA and Kay Spearman of Spearman, Welch & Associates, Inc., USA who were the principal facilitators of the EGM and who were both deeply involved in the production of the original series. We equally appreciate the expert input of the other participants, namely, Deborah Welch of Spearman, Welch & Associates, Inc., USA, Luba Vavrova of Local Government Assistance Centre, Slovakia, Eva Balazova of the City of Lucenec, Slovakia, Kristina Creosteanu of Partners Romania Foundation for Local Development, Romania, Galina Kurlyandskaya of Center for Fiscal Policy, Russia, Gangadhar Jha of the National Institute of Urban Affairs, India, Mudite Priede of the Union of Local and Regional Governments of Latvia, Latvia, Bulat Karibjanov of the Local Government Initiative, Kazakhstan, Jack Mbugua of the Nairobi City Council, Kenya, Justus Mika of the City of Gweru, Zimbabwe, Billow Abdi of the Ministry of Local Government, Kenya and Liibaan Hussein of the Burao Water Agency, Somalia.

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Rafael Tuts  
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# How to Use This Series

**T**his chapter and others in the series can be used in many ways by a variety of local government (LG) officials and officers, as well as those who want to provide training and consulting services to LGs and related organisations. To support this mix of potential users, each chapter, with the exception of the *Trainer's Guide*, includes two distinct parts. Part One includes a discussion of concepts, principles, and strategies associated with the specific topic covered in the chapter. Basic information is provided first. In the more technical chapters (*Accounting, Procurement, Financing the Operating Budget, Operating Budget* and *Financing the Capital Investment Plan*), Part One is divided into Basic and Advanced Concepts so that the reader or trainer can pick the most appropriate place to begin. Part One is supposed to have something for everyone—meet the needs of developing, developed, centralized, and decentralized countries. To meet this requirement, many of the chapters are divided into Basic and Advanced concepts. Our idea was that the Basic concepts would be for persons who had little or no understanding of the topic and the Advanced concepts were for those who already had a foundation. If we have erred in this balance, it has been to provide more basic information than advanced.

Part Two includes training or management tools that are primarily designed to support group learning. However, many of the exercises in Part Two can also be used to support self-study and, with some adaptation, can be turned into financial management tools to use on the job. Also, the ***Learning Applications*** provided in Part One can be easily modified for group exercises. In other words, this series is designed to be used in a variety of ways to meet the LG financial management learning needs of many audiences.

## ***PART ONE: CONCEPTS, PRINCIPLES AND STRATEGIES***

Part One of each chapter is designed to meet two needs. First, it has been written to encourage self learning by LG finance managers, their staff, elected officials, chief executive officers and department heads of LGs, and others who need to know more about specific functions important to LG financial management. To enhance the self-learning process we have inserted ***Learning Application*** exercises where we encourage you to stop for a moment and reflect on what you have been reading as it relates to your own work experience. Each learning application exercise is prefaced by a small box listing the four most important roles and responsibilities associated with LG financial management: the elected official; the chief executive officer (CEO); the finance manager; and the operating department managers. Readers are encouraged to use these reflective moments to think about the issues covered by the ***Learning Application*** from their own experience and perspective as elected or appointed officials.

Of course, readers are welcome to stop anytime to reflect on what they have read in terms of their own experience, so these are just friendly reminders of the importance of the financial management concepts, principles and strategies that have just been covered in the text. We also encourage readers to check out the training tools in Part Two of each chapter. Many lend themselves to individual learning moments as well.

The Part One essays are also designed to provide trainers, consultants, researchers, and others with in-depth information and ideas about specific roles, responsibilities and processes within LG financial management systems. While these essays are important resources for those who are developing group learning (training) programmes for their LG constituents, they can also be valuable resource guides for central government officials who may be responsible for monitoring LG financial transactions, or providing technical assistance to LGs.

## ***PART TWO: THE MANAGEMENT TOOLS***

The Part Two components in each of these chapters are targeted primarily to those individuals who are designing and conducting group-learning experiences in LG financial management. While the main recipients of the training will be LG officers who have financial management responsibilities, many of the chapter materials can also be tailored to work just as effectively with elected officials, chief executive officers (CEOs), operating department heads—such as public works, and others such as staff members of LG associations and public service research organisations.

Another feature of the tools in Part Two is the built-in encouragement for participants to incorporate their own work experiences as part of the learning event. We believe that professionals can and do learn a great deal from each other when given the opportunity. Since most of the tools are based on an interactive approach to learning, these value-added opportunities are not just available but encouraged.

While the training tools in each of the chapters have been organised in a sequence that could be used effectively in a workshop situation, trainers are encouraged to be creative in designing group-learning experiences based on these materials. For example, you can reorganise the various tools in each of the chapters, use some of your own designs, alter those we have included in the chapters so they are more suited for your learning audience, or even find something in a different chapter that might work better given your style of training and the participants' learning needs. ***And don't ignore the various Learning Application exercises that are included in Part One as potentially valuable training tools.*** We have highlighted this statement to draw your attention to this added-value reserve of group learning opportunities.

Finally, we want to remind the practitioners of LG financial management that a number of the tools we have included in the Part Two sections of these chapters can also be adapted for use as management tools. For example, they might be used to help develop policy positions for consideration by your governing body, or help a team of mid-managers to sharpen their skills in developing performance measures, or assist financial clerks to redesign the flow of financial documents within their work units.

## A WORD ABOUT TERMINOLOGY

One of the challenges we have faced in developing this set of materials is the wide range of terms that are used in different parts of the world to describe LGs and the key roles associated with LG financial management. For example, LGs are called cities, towns, townships, counties, boroughs, regions, and other things depending on the country where they reside. Equally challenging are the names that are attached to the officials and officers. For example, elected officials are known as elected officials, legislators, councillors, supervisors, board members, or commissioners, to name some of the more common titles.

To reduce the potential for confusion among the readers and users of these chapters, we have decided to be consistent in our use of the most common terms that occur frequently through these chapters. In addition, we have included glossaries of technical terms to help users develop a common frame of reference about various financial processes when working together. Equally important, those who are given the task of **translating these chapters** into other languages can only be effective in this important task if there is consistency in the use of the more commonly used terms. We have highlighted the need for *translators* because they are unique users of these manuals and often come to the translating task with a limited knowledge of the technical aspects of financial management.

### *SEEKING COMMON GROUND AMONG KEY TERMS, WORDS, AND PHRASES*

In the *Learning Application* exercises in Part One of each chapter we have identified four key LG roles that correspond to those individuals whom we consider to be the most important clients of these learning materials. They are: elected officials, chief executive officers (CEOs), finance managers, and department heads. Since these roles are given different names in LGs around the world, we have listed a few of the variations in the following discussion. Hopefully, this will clarify just who is included when we talk about elected officials, CEOs, finance managers, and department heads. We have also included a few more terms that can be problematic in writing for LG audiences.

**Elected officials:** We use this term to identify those individuals who are chosen, hopefully through a democratic election process, to represent the citizens of their respective LGs in the legislative/governing process. They are also referred to in different parts of the world as: *policy makers*,<sup>o</sup> *legislators*, *councillors*, *supervisors*, *commissioners*, and *board members*. You may also know them under some other name or term.

**Chief executive officer (CEO):** This term is used in these chapters to identify the individual who has the sole responsibility for making overall management or executive decisions that affect the whole LG organisation. The CEO position is complicated since it can be filled by either an elected official, i.e., a mayor, or an appointed official, i.e., a city manager. We don't make this distinction in our use of the term CEO. As just stated, the CEO might also hold one of the following titles depending on the country, local laws or tradition: *mayor*; *chief administrative officer*; *city, township*,

*town, borough or county manager; general manager, town clerk, or even commissioner* if the executive powers are shared among several elected officials.

**Finance manager:** This term is used to identify those individuals within LGs who have significant financial responsibilities on a day-to-day basis. Since we want more than just the chief finance officer to use these chapters, we are deliberately including anyone within the LG who has supervisory responsibilities within the financial management domain. Depending on the location, these individuals might be known as: chief finance officer; director of finance; finance director; accounts manager; chief auditor; controller; and no doubt many more names or terms. We want all those individuals who have finance responsibilities in their LGs to benefit professionally from using these materials.

**Department head:** We believe the responsibilities for financial management in any LG do not end with those who occupy the roles just outlined. Their success in managing the financial affairs of the LG is also dependent on those individuals who manage the staff and operational units of their respective LGs. Since this term encompasses many different titles, often associated with the mandate of the operating department, we offer only a few as descriptive of who we have in mind. They might be: highway superintendent; water plant manager; director of human services; head nurse; chief mechanic; case work supervisor, or so on.

In addition to the four terms that are used most frequently in the chapters, translators and other users will benefit from what we mean by some other commonly used words or phrases. For example:

**Governing or elected body:** This is the collection of individuals elected to represent the citizens of your LG as policy makers, decision makers, and community leaders. Depending on where you are in the world, they might be known as the: *legislative body or council; political body; city, town, village, or county council; local parliament; board of commissioners; policy making body;* or some other name.

**Local government (LG):** LGs are called all sorts of things: *cities, towns, counties, municipalities, parishes, townships, villages, boroughs, regional governments,* and we suspect many other things, but hopefully, you get the picture. Usually, the common element is that they are the lowest self-governing unit of government in the country.

**Executive branch:** You might come across this term in these chapters, so here is what we had in mind. The executive branch of LG consists of all those departments that operate under the general management of the CEO, whether or not that individual is elected by the citizens, or appointed by the elected body, or some other appointing power.

**Legislative branch:** This branch of LG consists of the elected officials and their staff members if they have any. Supposedly, they are the *policy makers*, but that term is muddled since many people in LGs have a role in making policies, whether legitimately or through default. (If this statement raises your curiosity, we recommend you go immediately to *Financial Policy Making* and discover how this happens.)

**Citizens:** These are all of the residents of the LG, including women, and low-income persons. We also use the term community interchangeably. While we recognize different cultures may place a lower value or no value on the input of women and low-income persons in decision-making, our use of the term "citizen" throughout the



series is that it includes ALL residents of the LG and that women and low-income persons have an equal place at the decision-making table.

**Annual budget:** This is such a common term that we suspect many of you are shaking your head in wonderment. However, it does come in for some confusion and it is important to understand what the *annual budget* means in these discussions. The annual budget, as discussed in these chapters, is both the operating budget and the one-year capital budget based on the multi-year capital investment or improvement programme.

**Capital investment plan:** Sometimes called the *capital improvement programme*, or mistakenly the *capital budget*. That's why we made the distinction above. The capital budget is the one-year increment of all those long-term investment costs that is folded into the annual budget.

Hopefully, this lead-in to each of the chapters on how to use these materials will help in appreciating some of the subtle differences in who the clients are for the series and how they are referred to around the world.

There are additional resources for this series on the UN-Habitat website at <http://www.unchs.org/default.asp>.



# Introduction

## A BIT OF HISTORY

This Local Government Financial Management (LGFM) training series has a short but rich history. We believe it's worth relating to you for several reasons. First, many individuals and organisations contributed to its development, and now its redevelopment. They deserve to be recognised. Second, the redevelopment of the series was largely demand driven. Financial management and training professionals who saw the original set of chapters wanted them for use in their own countries. Consequently, they transported the old series across national borders from Slovakia to their own countries and ultimately created a demand for this new version. Finally, there are some lessons to be learned from the "redevelopment" of the original Slovak version of these training materials.

The original series was conceived in the mid-nineteen nineties in the office of Eva Balazova, the Finance Director of a small city, Lucenec, in Eastern Slovakia. The United States Agency for International Development (USAID), through a contract with the International City/County Management Association (ICMA), had initiated a local government capacity building programme in Slovakia and financial management was one of the areas targeted for development. The focus of the USAID assistance to Slovakia's local governments was initially the budget process; more specifically, the capital improvement budgeting process. Under the old centralised socialist approach to local governance there was no need for a capital budget. But the emergence of local self governments in Slovakia established the need for many new administrative and financial systems. Eva Balazova and her colleagues were sitting on a powder keg of potential change in how local governments could, and would, operate in the future.

When the City of Lucenec was approached as a potential recipient of technical assistance for the specific purpose of developing a capital improvement budget, Eva was grateful but not impressed. She saw the need for financial management assistance for her local government and others in Slovakia in much broader terms. Essentially, Eva was telling those who came with external assistance that the development needs for local government financial management were much more complex than just capital budgeting. Eva's insights and tenacity prevailed. Working through Eva and a cadre of other dedicated local finance officers in Slovakia, ICMA assembled a small team of LGFM consultants. Together they produced the initial series of these chapters.

End of story? Not quite. Word spread in the region that these training materials had been developed and had even been designed to make adaptation by other countries easier. For whatever reasons, neither USAID nor ICMA put the fourteen LGFM manuals on their websites so they could be accessed by others outside of

Slovakia. Fortunately, a small women-owned firm in Texas did. Kay Spearman, one of two principals of that private company and a member of the original ICMA technical assistance team who worked with the Slovak finance officers, became the linking pin. Once available, the series spread quickly to other counties in the central and eastern European region and beyond. Funding for the adaptation and translation of the materials came from a variety of sources, including The World Bank and private foundations.

While UN-HABITAT had contributed to the initiation of the series, their involvement in the development and dissemination up to this point had been minimal. Nevertheless, they recognised the series' potential for worldwide use. But, they needed to be updated to reflect new ideas in LGFM and revised to make them more user friendly as they crossed national borders and language differences. Among other things, the initial series was based on Slovak laws, regulations, and experience which varied significantly from those in other countries.<sup>1</sup> Not to be deterred, UN-HABITAT received permission from USAID to revise and republish the series. They commissioned a written user survey and convened a small group of experts to help determine how best to carry out the revisionist task. The expert group included the Slovak initiators and others who had used the materials in various countries around the world.

While it's a fascinating story of how international technical assistance often unfolds, there are a few lessons to be learned for those who will be using the new series.

1. Never under-estimate your own ability to make a difference.
2. Always challenge those who think they know more about what your training and development needs are than you do.
3. Never hesitate to step into a void that others may have created, regardless of their motives.
4. Be willing to take risks in adapting what was not invented in your own back yard.
5. Don't hesitate to help others even though there may not be anything in it for you at the time, or ever.
6. And remember, training and development is individual and organisation capacity building at its best when it is demand driven. Demand it for you, your colleagues, and your institutions.

## OVERVIEW OF THE SERIES

With that short history lesson out of the way, it's time to look at what else you can expect from this chapter and the rest of the series. Among other things, you will learn about:

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<sup>1</sup> UN-HABITAT has produced other region-specific manuals e.g. UNCHS (1991) *Training Manual on Urban Local Government for English-speaking East and Southern African Countries* and UNCHS (1991) *Training Manual on Urban Local Government Finance for South Asian Countries*.

- Why this set of training materials was developed in the first place and how it has changed.
- The expanded audience of potential users.
- Good governance principles and how they relate to LGFM.
- A revamped conceptual framework that more accurately reflects financial management reality.
- What each volume in the series will cover.
- How to get the most from the series.
- How not to be overwhelmed as either a trainer or user of this series.

## COMPARING THE ORIGINAL SLOVAKIA LGFM SERIES WITH THIS SERIES

We want to share with you the original reasons for developing this series of local government financial management chapters. We also want to see if these initial reasons are still valid; if not, why not; and what we plan to do about it. There were at least three good reasons why this series was originally written.

First was the fundamental importance of financial management for the economic health and stability of local self-government in Slovakia and other countries. The effective management of any local government's financial affairs ranks among its most important functions. How well this function is carried out depends in large measure on knowledge of the discipline, ability to perform effectively, and ethical conduct of the finance manager.

This assumption still seems valid with one exception. It's not just the ethical conduct of the finance officer that is important. It's the ethical conduct of all local government employees, the elected governing body, and those they interact with in the community and beyond. Local government corruption almost always involves individuals and organisations outside the official local government family. Consequently effective, ethical LGFM involves more than just the finance manager.

Second was the concern that training materials for training finance managers had been developed in a piecemeal fashion. While many training components related to an efficient finance management system existed at the time, it would be difficult and probably impossible to integrate them into a coherent whole. A comprehensive approach to the development and packaging of materials was needed to help finance officers recognize and appreciate the scope and complexity of a fully functioning financial management system.

This assumption is still valid although we now see the importance of this series for more than just the development of the finance manager as was mentioned in the initial assumption. Very few development agencies or training institutions have taken as comprehensive an approach to developing a LGFM training curriculum as that taken in Slovakia in the mid-nineteen nineties. Nevertheless, the original series left room for considerable improvement. For example, the original version was based on topics, not the interrelated functions of LGFM. This is one of the key changes in this edition of the series. The new conceptual framework is designed to make the series more user-friendly and help users appreciate the interrelated and systemic nature of many of the LGFM functions. We will get into this later when we discuss the conceptual frame

work for this series. The other key change is to emphasize how LGFM concepts and practices are fundamental to implementing the widely accepted principles of good governance.

Third was the absence of a systematic LGFM professional development delivery system that relies on local training resources rather than outside expertise. Such a system would provide training materials in a format designed to facilitate local use by local trainers with no additional technical assistance required after initial field tests and training of trainers.

This assumption is still valid and this new series will, hopefully, make the delivery of the training just that much easier. In this regard, we have cleansed the series of its Slovak examples and bias recognising the need to make it a global resource. We have also expanded the learning audience to include more than just the finance manager.

The original series was designed with all these considerations in mind. It provided a comprehensive perspective on financial management by addressing the basic functions and skills required. It also adhered to the learning needs of the Slovak local government finance officers as they were defined at the time which was, of course, what the series was intended to accomplish. The curriculum design also mirrored earlier UN-HABITAT training packages, such as the Local Elected Leadership series, by providing concepts, principles, and strategies in Part 1 and workshop training designs in Part 2 of each discrete chapter.

As the Slovak finance officers used the original series of handbooks, they discovered that the topical sequencing of the materials was not particularly functional. Nor did the design of training based on the content of individual handbooks provide for optimum learning experiences. There was just too much inter-connectedness and overlap of the various topics to present them in their original format. So, the Slovak financial officers and trainers experimented by reorganising the content of the individual handbooks to mirror the reality of their work environment. When UN-HABITAT convened the experts to provide guidance in developing the new edition, the Slovak experience in experimenting with the content and design of the original series proved extremely valuable. We appreciate their contribution in helping to make a good training product just that more effective.

But, there was another experience of the Slovak finance officers group that needs to be mentioned as a spin off of their involvement in developing the series and using it as part of their profession's development in Slovakia. These finance officers, and they happened to be mostly women, saw an opportunity to influence the direction and the quality of local government financial policies and management practices at the national level of governance. To do this, they needed to be organised so they created the Association of Municipal Finance Officers of Slovakia. This professional association continues to be a driving force in helping define the role of local government finances as an integral part of the nation building process in that country. Never underestimate the importance of training as an integral part of larger institution and nation building strategies.

## THE EXPANDED AUDIENCE OF USERS

While the initial edition of these materials was directed to Slovak local government finance officers, this edition is intended for a much larger audience. It includes not just finance officers but all local government financial management personnel as well as chief executive officers, department heads, elected officials whom we refer to as policy makers, and others in local governments worldwide who might find them useful. National government departments that have oversight responsibility for local finances should also find them useful as should those educational institutions preparing students for jobs within local governments. And, of course, the audience includes financial management trainers and training managers. In other words, these volumes are aimed at a world-wide mix of training providers and training users.

This expanded audience, however, has made the adaptation of these materials difficult. It initially looked like they would either have to be so general that they would be of no use to anyone, or so comprehensive in scope that nobody would be able to lift them, let alone use them. In wrestling with this dilemma, we decided to put the main responsibility for determining what to use in each volume and/or chapter, and how to use it, in the hands of the training managers and trainers. Given this fundamental decision, we want to direct the following comments to these individuals. While the following comments might be more appropriate for the Trainer's Guide, they are also important for finance officers, elected officials and others to hear. Thus, we have decided to put them in this Introduction chapter in hope that all training providers and users would read them. In addition, we have provided this Introduction, How to Use the Series, and the Trainer's Guide at the front of each volume so that each volume "stands alone," with all of the information provided in one place.

## HOW TO MANAGE THIS MASS OF MATERIALS

Here are several ideas on how to make the use of these volumes more manageable and productive for you and your training clients. If you are a potential training client and listening in on this conversation, these ideas should also help you oversee and monitor your training supplier's performance.

- Know who your training audience will be and match what your training offers with their learning needs. There is nothing more devious in the training world than the trainer defining the client's needs in terms of what the trainer can deliver.
- One of your best marketing and delivery tools as a trainer is to talk to members of your potential target group to learn what they think would be most useful, based on their needs at the time. For example, the development of the original series resulted from a comprehensive survey of key local government officials in Slovakia. The survey included not just the finance officers but mayors who also performed as chief executive officers, members of governing bodies, and the directors of operating agencies. Each role had their special needs in terms of financial management and many of these needs were general to all the roles.

- Think seriously about providing a training programme for senior local government finance officers in your country that includes all the volumes. This is obviously a heavy commitment on the part of trainers and finance officers but essential. It also means you will need to spread the training out over a longer time period. If you want to get the attention of these finance officers but not their attendance, schedule the programme during the budget preparation season.
- Since many finance officers may be concerned about making a long term time commitment, start with those modules that they believe are most important from their point of view. Also think about creating a certificate programme for those who successfully complete training in all volumes in the series. Some kind of official recognition for completing the series will be a good incentive to most professionals.
- As for those elected officials, several briefings using the chapters from Financial Policy Making, Financial Planning, and Citizen Participation in Volume 1, before the budget preparation cycle begins would be useful. Hopefully it would get them thinking about some of the longer term issues in terms of financial management. Follow this with sessions from the chapter on Financing the Operating Budget from Volume 2, before those budget hearings begin. In other words, target the training to their needs.
- Department heads could benefit from sessions on the Operating Budget, Financial Planning, and Performance Measures. These chapters are contained in Volumes 2, 1, and 4 respectively.
- Target those officers who have specialised responsibilities. For example, are there purchasing agents in the larger local governments? If so, schedule sessions using the chapter on Procurement in Volume 4. In some countries, the Procurement chapter might even become one of the study guides for developing national legislation that provides guidelines for local governments. If there are local finance clerks who have responsibilities for asset management, the Asset Management chapter in Volume 4 offers the concepts and training designs to meet their needs.
- Think about briefing sessions on the full scope of LGFM for specific local government teams of elected officials, managers and key financial personnel. One of the best times to do this is just before the budget cycle begins. This way they all get the big picture. It's also a good time to learn about specific training needs. For example, the governing body might have been talking about involving citizens more directly in the budgeting process. Or, they might be faced with some major capital expenditures and need more knowledge and skills on their options in undertaking long term investments in public infrastructure.
- In other words, be creative in cultivating the potentials for using this rich storehouse of learning materials with a wide range of local government audiences.

With these opportunities in mind, here are four important clues on how to use these volumes successfully.



1. Don't panic by their size and comprehensiveness. Remember the old joke about how to eat an elephant? As the joke goes, one bite at a time.
2. Figure out who your training audiences are and give them an opportunity to tell you what they need in the way of training. Remember, your potential audiences for LGFM training are both many and significant. We've only touched on the most obvious in the examples just given.
3. Design the training based on these needs and the knowledge and skill levels of your specific audience.
4. Finally, select from these volumes only what is needed to meet the needs of your specific learning audience. The worst thing you can do is to overwhelm them with either too much stuff or the wrong kind of stuff. We've highlighted what we think might be advanced principles and practices in each of the manuals but the judgement call is really yours as a trainer. And, your judgement about what to include in each training design should be based on the roles and responsibilities of your participants, their learning needs, and their general level of sophistication as a group.

## LGFM AND GOOD GOVERNANCE

One of the shortcomings of the original series of chapters was the absence of any explicit attention to the principles of good governance that have become standards in the past decade to define the performance of local governments worldwide. While these principles were implicit in many of the concepts and strategies in specific chapters in the original version, we will make them much more explicit in this edition. Since the good governance principles vary a bit from one official proclamation to another, we will start by presenting two versions and then tie them to financial management as the operating framework for achieving these principles.

In UN-HABITAT's Global Campaign on Urban Governance<sup>2</sup>, these principles are defined as:

- **Sustainability** in all dimensions of local development;
- **Subsidiarity** of authority and resources to the closest appropriate level consistent with efficient and cost-effective delivery of services;
- **Equity** of access to decision-making processes and the basic necessities of community life;
- **Efficiency** in the delivery of public services and in promoting local economic development;
- **Transparency<sup>3</sup> and Accountability** of decision-makers and all stakeholders;
- **Civic Engagement and Citizenship** with all citizens participating in and contributing to the common good; and

<sup>2</sup> For more information on the Global Campaign on Urban Governance, visit <http://www.un-habitat.org/campaigns/governance//>. See also UN-HABITAT (2003) *Tools to Support Participatory Urban Decision-Making*.

<sup>3</sup> See UN-HABITAT (2004) *Tools to Support Transparency in Local Governance* for further information.

- **Security** of individuals and their living environment.

For a slightly different look at governance, we turn to The United Nations Economic and Social Commission for Asia and the Pacific (ESCAP). Their interpretation of good governance has eight characteristics:

1. It promotes and encourages participation including that of children.
2. It requires respect for the law and the full protection of human rights.
3. It involves transparency in decision making, and information is freely available and easily understandable to all.
4. It is responsive, implementing decisions and meeting needs within a reasonable time frame.
5. It is consensus-oriented, involving the mediation of different interests in society and sensitivity towards the relative influence of different actors including the poorest and most marginalised.
6. It promotes equity and inclusiveness, such that all members of society feel that they have a stake in that society.
7. It means that processes and institutions produce effective results that meet the needs of society while making the most efficient use of resources and promoting sustainability.
8. It is founded upon accountability, not only of governmental institutions, but also of private sector and civil society organisations.

As you can see, there isn't total agreement even within the larger UN community about what constitutes good governance principles. Nevertheless, most institutions that promote these principles agree that governance is much bigger than just government. The Global Campaign says that governance includes government, the private sector, and civil society.

ESCAP's definition of governance embraces just about every organised entity as well as individual citizens. For example, they include governments, NGOs, the private sector, the media, grassroots organisations, and more. To simplify our task of relating good governance to LGFM, we will take what we believe to be the most important principles in the two UN statements and provide some examples of what they might look like in practice.

- **Rule of law:** This principle is central to LGFM. For example, the budgeting process is established by law, even determining when elected and appointed officials must do what by when. Procurement standards and accounting procedures are often established by law and the development of financial policies by local governing bodies is also an act of law making, albeit local. Local government corruption is more often than not based on financial transactions that violate the rule of law.
- **Transparency:** This principle cuts across a variety of LGFM functions and responsibilities including financial policy making and planning, budget hearings and postings, financial audits, and the involvement of citizens in the full range of financial management activities.

- **Accountability:** This presumably is what the budget process is all about. It holds elected and appointed officials accountable by stating how public funds will be spent. Programme and financial audits should determine if public officials were accountable in their implementation of the budget.
- **Participation and civic engagement:** One of the current hot topics on the international circuit is participatory budgeting. The days when financial management was confined to the backrooms of city hall has passed.
- **Equity and inclusiveness:** These principles, when implemented, assure that financial decisions are made in the best interests of all citizens not just the privileged few. They cut across such financial functions as budgeting, procurement, financial policy making and planning, and the development of performance measures that focus on issues of equity and inclusiveness.
- **Subsidiarity:** This rather daunting term describes the process of determining how best to deliver services in efficient and effective ways. It may mean contracting out services to the private sector, or subsidising NGOs to perform certain services. These decisions cut across financial policy making and planning, the need to establish performance and accountability measures, the budgeting process, and a host of other LGFM activities.
- **Effectiveness and efficiency:** Financial management is really all about these two fundamental principles. Peter Drucker, the management icon, says “Effectiveness is doing the right things” and “Efficiency is doing things right.” Budget decisions should sort out the right things to spend public funds on and the management of the expenditure of those funds and resources should assure that it’s done right. These two principles should be your financial management mantra.
- **Sustainability:** We complete this principled look at LGFM by including UN-HABITAT’s principle # One in their Global Campaign on Urban Governance: sustainability in all dimensions of local development. This covers a myriad of financial decisions: from making certain that maintenance of public buildings, infrastructure and equipment is covered in the annual budget, to long range financial planning of community programmes so their sustainability can be assured.

As you can see, LGFM is a very principled role and responsibility. Keep these good governance principles in mind as you use these training materials for your own professional development and the development of your local government organisation and community.

## A NEW CONCEPTUAL MAP TO NAVIGATE BY

We mentioned earlier that the original version of these materials took a topic by topic, or function by function, look at the financial management roles and responsibilities associated with local government and the broader definition of governance. The original version included fifteen handbooks: Introduction; Accounting as a Management Tool; Financial Policy Making; Financial Planning; Operating Budget; Capital

Programming; Debt Management; Cash Management; Revenue Maximisation; Cost Containment; Procurement; Performance Measures; Construction Cost Management; Citizen Participation; and Grants Management.

When the Expert Group Meeting of LGFM users was convened by UN-HABITAT in Kenya to determine the content and format of the new edition of these materials, the members were challenged by the experience and insights of the Slovakia finance officers. Not only had they helped develop the original series, they also had experience using the materials to train other finance officers in their country and the region. Again, Eva Balazova proved to be the key person in helping to take this series to a new level of anticipated performance. After many variations of how to reorganise and revitalise the LGFM series for worldwide use, the team of experts agreed on the following strategy.

1. The short-term operating budget and long-term capital investment plans are the engines that drive local government financial management: The two chapters from the original series that covered these topics remain and are expanded to include materials from other manuals in the original series. In this series they are: Volume 2, Chapter 5, *Operating Budget of* and Volume 3, Chapter 7, *Capital Investment Plan*.
2. In each of these two major LGFM functions there are financing requirements that need to be addressed separately, thus we have two new chapters in this series that are, in a sense, companion learning tools; Volume 2, Chapter 6. *Financing the Operating Budget*, and Volume 3, Chapter 8. *Financing the Capital Investment Plan*.
3. Several of the financial management functions covered in the original series are integral to the operating budget and capital investment planning processes and are incorporated into the chapters covering these topics and their companion chapters that deal with their financing. These functions include: Debt Management; Cash Management; Revenue Maximisation; Cost Containment; Construction Costs; and Grants Management. In other words, the materials covered in these original chapters are now integrated into Volume 2, Chapters 5 and 6, and Volume 3, Chapters 7 and 8.
4. Three new chapters were recommended by the expert team and they are included in this series. They are: *Trainer's Guide*, which is included in all four volumes; *Evaluating Financial Condition*, Volume 1, Chapter 4, and *Asset Management*, Volume 4, Chapter 11.
5. The remaining chapters in this series, which mostly represent cross cutting competencies, are updated and expanded versions of handbooks in the original series. They are: Chapter 1. *Introduction*, which is in all four volumes, Volume 1 includes Chapters 3, *Financial Policy Making*;, Chapter 4. *Financial Planning* and Chapter 5. *Citizen Participation*. Volume 4 includes Chapters 9, *Accounting*, 10, *Performance Measures* and 12 *Procurement*.

We hope this provides a mental picture of how this set of training and management volumes/chapters evolved from the original series. Of course, there are many

ways to slice this complicated set of competencies, functions, and responsibilities within LGFM and we suspect that a few of you are already saying, “Well, the next time they are updated I think they should .....” We do to but in the meantime we hope you find this new series a bit more easy to use as trainers and public officials responsible for LGFM in your communities.

## VOLUME CONTENTS

The contents of the remaining LGFM volumes and chapters are summarised below to give you a brief idea of what to expect from each.

### *VOLUME 1: CREATING A FINANCIAL FRAMEWORK*

#### INTRODUCTION

#### TRAINER’S GUIDE

This chapter is designed to help trainers and other key individuals use these materials in a variety of situations with a wide range of participants. It covers the adaptation and possible translation challenges of making the chapters more user friendly in the context of their use and the planning process of developing and delivering effective training. Clues will be included on how to design and deliver interactive learning experiences based on the input of concepts and strategies from the chapters and participant experiences in their application within local governments. The materials can and should be adapted by trainers to meet the learning needs of their clients and ways to do this will be provided. Various training design techniques will be covered, such as how to write a critical incident, case study and role play situation. Finally, there are ideas on how to evaluate training and its impact.

#### CHAPTER 1: FINANCIAL POLICY MAKING

This chapter examines ways that formal, written financial policies are developed and implemented at the local government level. We will provide a definition of financial policy and describe the benefits to a local government that establishes and uses sound financial policies. We will delineate the basic steps to take in identifying, proposing, adopting, and implementing financial policies. We will also discuss various obstacles to the financial policy making process.

#### CHAPTER 2: FINANCIAL PLANNING

This chapter will examine ways that financial planning can be developed and implemented in local governments (LGs). The focus of the chapter is primarily on one aspect of financial planning—medium-term financial forecasting of revenues and ex-

penditures. We will provide a definition of forecasting and relate it to good governance, citizens, performance measures, and financial policies. We will also describe the benefits that accrue to LG when implementing a financial forecasting process, considerations for organizing the process, types, and methods of forecasts. Included in the discussion will be obstacles, limitations, and risks inherent in developing a financial forecasting process.

### CHAPTER 3: CITIZEN PARTICIPATION

This chapter examines ways that citizens interact with their local governments (LGs). We provide a definition of citizen participation and describe the benefits to a local government that establishes and uses citizen participation policies and techniques. We discuss obstacles to the use of these policies. We provide ten steps to involving citizen participation in resolving an issue. Finally, we provide a compendium of techniques that can be used by local governments to involve citizens in a timely and constructive way in the development and implementation of public programs.

This chapter is written for LG officials, managers, and policy makers. It does not attempt to provide a citizen's point of view towards dealing with LGs. Because some reviewers indicated an interest in Participatory Monitoring which focuses on citizens monitoring the LG, Appendix B: World Bank Information on Participatory Monitoring has been added to the chapter.

### CHAPTER 4: EVALUATING FINANCIAL CONDITION

This chapter focuses on identifying, measuring and analysing various financial and demographic factors that affect a local government's financial condition. The financial data needed for the analyses is taken from the local government's financial records. Managers can use the information to: better understand the local government's financial condition, the forces that affect it, and the obstacles associated with measuring it; identify existing and emerging financial problems; and, develop actions to remedy these problems.

## ***VOLUME 2: MANAGING THE OPERATING BUDGET***

### INTRODUCTION

### TRAINER'S GUIDE

### CHAPTER 5: OPERATING BUDGET

This chapter is divided into basic and advanced sections. This basic section describes how to design and implement an operating budget system for LGs. It defines operating budget terms, explores concepts, and examines the benefits and potential obstacles associated with establishing and using a system. It provides a 12-step

process for preparing, reviewing, adopting and monitoring the operating budget. The advanced section provides information on cost containment, various management analysis techniques and awarding grants within the LG community.

This chapter deals with budgeting matters in general and does not apply or take into account each individual country's laws or regulations. LGs are responsible for making local decisions, including compliance with any applicable laws, statutes, decrees or regulations.

## CHAPTER 6: FINANCING THE OPERATING BUDGET

The concept of “financing the operating budget” combines many functions across the local government (LG) organization. It involves estimating revenues (covered in the Financial Planning chapter), cash budgeting, revenue billing and collections, investing idle or excess cash, setting prices and user fees and the day-to-day monitoring of all of these functions to ensure that sufficient monies are available in the bank to actually pay for the day-to-day operations of the LG—the operating budget. It is important that all of these separate but very interrelated functions are considered when developing policies, procedures and making decisions about the LG programs and services.

This chapter examines how you can use the revenue structure, cash management, internal controls, the accounting system, revenue billing, and collections, investing idle cash, and cash budgeting to assure that the revenues needed to fund the operating budget are available when needed.

## *VOLUME 3: MANAGING CAPITAL INVESTMENTS*

### INTRODUCTION

### TRAINER'S GUIDE

## CHAPTER 7: CAPITAL INVESTMENT PLAN

This chapter is divided in basic and advanced sections. The basic section will describe how to design and implement a capital investment planning and budgeting system at the local level of government. We will define capital investment planning terminology and examine the benefits and potential obstacles associated with establishing a system. We will also discuss the steps involved in preparing, reviewing, adopting, and monitoring a capital investment plan and budget, including an extensive section on actually constructing facilities. The advanced section includes an introduction to value management and real estate analysis.

## CHAPTER 8: FINANCING THE CAPITAL INVESTMENT PLAN

It seems that most policy makers and staff are familiar with putting together the capital investment plan—holding public hearings and putting a plan together that will move the LG towards the policy maker’s vision of the future. Unfortunately, few have taken the time to understand the equally important function of financing the capital investment plan. Decisions made about it have a much longer-term effect than those made about the operating budget—they may affect several future generations of citizens.

This chapter examines how the financing for the investment plan is developed and implemented. We will provide definitions of debt management and other related terms. We will also review the benefits of instituting a debt management program, identify and provide examples of policies that should be developed, and discuss the legal environment surrounding the use of debt. We will address types of financing, methods for selecting credit instruments and the mechanics for obtaining financing, as well as a review of credit analysis, disclosure requirements and administration of the debt.

## *VOLUME 4: MANAGING PERFORMANCE*

### INTRODUCTION

### TRAINER’S GUIDE

## CHAPTER 9: ACCOUNTING

This chapter is divided into basic and advanced sections. The basic section includes background information on basic concepts and definitions of accounting, the importance of accounting and good governance, accounting standards, the accounting cycle, and types of accounting. It also includes policies, obstacles and benefits to accounting. There is a section on management accounting and various costing techniques. The advanced section includes information on computer technology, modernizing the accounting system, accounting manuals, fund accounting, utility funds, depreciation, and advanced financial and budgetary reporting.

## CHAPTER 10: PERFORMANCE MEASURES

This chapter examines the development and implementation of performance measurement at the local level of government. We will define performance measurement and describe the benefits to a local government that uses it to improve the odds of success in achieving its service goals. We will also discuss the steps involved in setting up a performance measurement system and obstacles that may be encountered along the way.



## CHAPTER 11: ASSET MANAGEMENT

This chapter examines how you can use asset management as an effective management tool. We define the term assets, as it is used in this chapter, asset management systems, and plans and describe the benefits of using asset management to better plan capital investments and achieve service delivery goals.

The best place to start developing an asset management plan is with the basics. According to the World Bank, these include:

- Developing basic asset inventories including surplus real property,
- Documenting asset operation and maintenance processes,
- Developing primary asset information systems,
- Preparing basic asset management plans, and
- Developing staff skills and governing body awareness.

We have structured the book to provide information on these basic components from two perspectives. The first deals with the assets that are used to provide day-to-day services to the citizens of the LG. The second recognizes that some countries are in a decentralization process where the central government is giving LGs responsibility for assets for which they have not previously been responsible. For those local governments that may be in the second category, we have provided a section on Surplus Real Property since it represents a different challenge than working with the assets used to provide ongoing services. However, this chapter does not deal with managing apartment or housing units.

## CHAPTER 12: PROCUREMENT

This chapter is divided into a basic and advanced sections. The basic section examines the process of procurement in local government with emphasis on procurement planning, legal procedures for the acquisition of goods, services and public facilities, and details of procurement administration. It also includes policies, benefits and obstacles in the procurement process. Steps for a comprehensive procurement process for goods, services and public works are also included. The advanced section deals with construction contract administration, store operations, procurement and e-Government, and procurement and economic development issues.

## USING THE SERIES

We have designed the series described above to be used by a variety of individuals and institutions. Obvious among these are the trainers and training institutions on the supply side of training and finance officers on the demand side. But, we see the potential users as many more as alluded to earlier. We hope that chief executive officers (CEO) and department heads in local government will use them along with staff members of municipal associations. There should be interest likewise on the part of community NGOs that are hoping to see citizens get more involved in the budgeting processes of their local governments. And community colleges and other educational

institutions that are preparing entry level public financial management professionals for future employment could easily integrate many of these chapters into their curriculum.

For those mainstream users like finance trainers and finance management professionals we offer the following ideas. Use these chapters:

1. As self-study guides. We hope policy makers, CEOs, department heads, and a range of financial management personnel from local governments will be inclined to pick up these chapters and read them. To add value to the reading we have interspersed each essay with Learning Application tasks. With each of the short application tasks, we have identified in a call-out box who might best benefit from undertaking each of these tasks. Of course, we encourage all users to pause from the reading to critically assess what they have been reading in relation to their own financial management responsibilities and challenges.
2. As workshop learning guides. We anticipate that these chapters will become the basis for a wide range of learning experiences for local government elected and appointed officials. As we mentioned earlier, there are many ways to organise these materials to meet a variety of learning needs within the broad local government community. For example, if you are operating as a trainer or manage a public sector-oriented training institute, think about the following options:
  - A ten-day workshop that includes approximately a half day on each of the substantive topics;
  - A five-day workshop that covers fully three or four of the topics included in the series based on the assessed interest of finance managers in a particular region of the country;
  - Twelve workshops, each one to one and one-half day in length, covering all of the topics;
  - A three-hour program in conjunction with an annual conference of local finance officers that deals with the most important aspects of one particularly high-interest topic in the series.
  - A presentation at the annual meeting of the national association of local governments on the advantages of supporting LGFM training for key local government elected and appointed officials.
  - Teaming up with a formal educational institution to offer a certificate programme based on the series, or to integrate selected materials into their degree programme in public administration, with you being an adjunct instructor who delivers the education modules.

In addition to the options mentioned, there are other ways to use these materials. For example, think about meeting with an interested group of finance officers from the same region every Friday afternoon for several weeks to hold discussions on several of the topics. Rather than give you any more ideas, we suggest you do a bit of brainstorming for other ideas by completing the following Learning Application exercise. By the way, these interludes in your reading are identified by the term just

used, Learning Application. You will find them throughout the texts of Part One of each of the chapters. Trainers have also found them to be useful as learning exercises for workshops and other structured learning events. Just modify them to meet your specific training design needs and add them to your training toolkits.

### LEARNING APPLICATION

Take a few moments and jot down some ideas about how these chapters might be used in your country to support the further professional development of your public officials and institutions.

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Of these ideas, which ones do you think are the most important?

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What can you do personally to help support these ideas so they become real?

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# *PART TWO: MANAGEMENT TOOLS*

## **PURPOSE**

The materials included in this overview are designed to be used by the trainer to initiate a series of workshops on financial management. In other words, they are intended to serve as an introduction when several of the topics on financial management are to be covered during the same workshop series. On the other hand, they can be adapted to supplement the content of a program devoted to just one topic. Either way, they are intended to get the training off to a successful start by helping participants get acquainted with each other, providing them with information on workshop content, and letting them experience the type of interaction to be used throughout the workshop series.

While we have stressed in Part One of this chapter and in the Trainer's Guide the importance of adapting these materials to meet the needs of your training participants, we want to reemphasize it again. Many of the exercises can be changed to meet the needs of various audiences with differing levels of knowledge and experience in financial management. Don't hesitate to adapt them to meet the learning needs of your participants.

## **CONTENTS**

A brief description of each learning activity is shown below with an approximation of the amount of time required. If you wish to change the order, to omit something, or to add training material of your own, feel free to do so. In addition, use your judgment and experience about the time needed to complete the tasks involved in the exercises. While we have attempted to judge the times it might take to carry out a group task, for example, it will vary from group to group. Adapt to the learning needs of your participants in these workshops and you will be successful.

### **0.1 WARM-UP EXERCISE: GETTING ACQUAINTED**

Introductions should be made to acquaint participants with each other and the training staff, let them know what will be expected of them, and help them to feel more comfortable in the learning environment. (15 - 60 minutes)

### **0.2 EXERCISE: ASSESSING KNOWLEDGE AND EXPERIENCE**

Participants individually assess their level of knowledge and experience in relation to a list of financial management topics, and compare results in small groups. (60 - 75 minutes)

### 0.3 EXERCISE: IDENTIFYING FINANCIAL RESPONSIBILITIES

An alternative to the preceding exercise. Participants work in small groups to identify and compile lists of financial management responsibilities and rate the responsibilities on challenge and the need for training. (60 minutes)

## 0.1 WARM-UP EXERCISE: GET ACQUAINTED

### TIME REQUIRED:

15 - 60 minutes

### PURPOSE

This exercise is to help participants get to know each other and the trainer, let them know what will be expected of them, and cause them to feel more comfortable in the learning environment.

### PROCESS

After welcoming remarks by the host agency representative and a short description of program objectives, scheduling and logistics, give a brief personal introduction and invite participants to get acquainted. Here are some alternative ways to organize the get-acquainted exercise.

**Self-introductions** —Ask participants to say a few things about themselves such as their names, the local governments they represent, the number of years they have served as finance officer or some other position, and why they have chosen to take part in this workshop or workshop series.

**Paired introductions**—Ask participants to pair up to get acquainted, to gather some personal/ professional data on one another, and then, in turn, for each participant to introduce his or her partner to the group.

**Small group mixer**—Have participants write on a card the name of the finance management area in which they would most like to be more skillful. Since many of the participants may not be aware of the topics to be covered by the training, you may have to make a list of them on newsprint or a blackboard before starting the exercise.

After participants have completed the task, ask them to get up and wander around the training room until they locate another participant with a similar need. After a few minutes, have participants who are interested in the same area of financial management to join together in small groups to discuss what they would like to know or be able to do better about that area. Ask for volunteers from the various groups to introduce their group's members and report on their group's results.

## 0.2 EXERCISE: ASSESSING KNOWLEDGE AND EXPERIENCE

### TIME REQUIRED:

60 - 75 minutes

### PURPOSE

This exercise is to help participants relate their own professional experience to the various financial management topics included in the workshop series.

*(Note: If participants have not read the essay at the beginning of this chapter and are not familiar with the topics included in the series, substitute Exercise 1.3 for this one.)*

### PROCESS

Using a questionnaire like the one shown on the next two pages, ask participants to provide some information about their own performance and the performance of their respective local government organizations in relation to various topics.

When participants have completed the task individually, ask them to share their responses in small groups. Suggest that a recorder in each small group make a list of the responses and tabulate them to identify the patterns (i.e., which topics are most often mentioned in response to items in the two boxes).

After about 30 minutes of small group discussion, reconvene the participants. Ask for a summary report from each small group. Encourage a discussion of similarities and differences in small group results.

## Assessment of Financial Management Knowledge and Experience: A Questionnaire

### INSTRUCTIONS

Read the descriptions of functions performed by local governments in conducting their financial management responsibilities that are presented in Table 1. After you have read each of the functions, fill in the information as requested in the boxes in Tables 2 and 3.

**Table 1. Description of Financial Management Functions**

Accounting	Provides the basic concepts of accounting and reporting for LGs.
Asset Management	Provides a method for identifying and managing the assets of a LG.
Capital Investment Plan	Examines the process of planning for the financing of future physical development needs to ensure that construction priorities and schedules are coordinated with the availability of needed financial resources.
Citizen Participation	Provides a guide for local government officials in their efforts to involve citizens in a timely and constructive way in the development and implementation of public programs.
Evaluating Financial Condition	Provides a illustrative set of indicators to be used in evaluating a LG's financing condition.
Financial Planning	Examines in depth the process by which local governments anticipate their future financial needs using a variety of planning and forecasting methods.
Financial Policy Making	Explores the nature of financial policy and how policies are formulated and used systematically by local governments to guide and direct their financial affairs.
Financing the Capital Investment Plan	Describes the short and long-term financing portion of the capital investment plan.
Financing the Operating Budget	Describes the revenue and short-term financing portion of the annual operating budget. Also includes cash budgeting and investment of excess.
Operating Budget	Concentrates on the annual operating budget and its use as a primary tool for financial planning and management as well as for estimating annual income and controlling expenditures.
Performance Measures	Describes the use of performance measures to determine if and how well the intended purposes of local government are being achieved and how to set up a performance measurement system.
Procurement	Reviews in detail the lawful, efficient and ethical procurement of goods and services by a local government including a step-by-step tour of the public procurement cycle.



With respect to my own management performance, I would rate the finance functions described in Table 1 as follows:

Table 2

My Performance	Function
The function in which I do the best is:	_____
The function in which I am least successful is:	_____
The function that is the most challenging for me is:	_____
The function that is the least challenging for me is:	_____
The three functions in which I want training the most are:	_____
	_____
	_____

With respect to my local government's performance, I would rate the finance functions described in Table 1 as follows:

Table 3

<b>My Local Government's Performance</b>	<b>Functions</b>
The three functions in which my local government performs best are:	_____
	_____
	_____
The three functions in which my local government performs the least successfully are:	_____
	_____
	_____

## Worksheet—Financial Functions: Challenges and Training Needs

### INSTRUCTIONS

In Column 1, on the left side of the worksheet, make a list of 10 important financial functions performed by the local governments represented by members of your small group. After completing the list, agree as a group on five of the functions on the list as the ones that are the most challenging for the local governments represented. Indicate your group's choices by blackening the appropriate five circles in Column 2. Then, agree as a group on five functions from the list as the ones in which training is needed the most by finance officers representing the local governments. Indicate your group's choices for training by blackening the appropriate five circles in Column 3.

Column 1 Finance Function	Column 2 Most Challenging	Column 3 Training Needed
1. _____	0	0
2. _____	0	0
3. _____	0	0
4. _____	0	0
5. _____	0	0
6. _____	0	0
7. _____	0	0
8. _____	0	0
9. _____	0	0
10. _____	0	0

## 0.3 EXERCISE: IDENTIFYING FINANCIAL RESPONSIBILITIES

### TIME REQUIRED:

About 60 minutes

### PURPOSE:

This exercise is to help participants identify the various individuals or roles that perform important functions within local government's financial management process. The intent is to increase awareness of the interrelated nature of the various functions and the importance of team work in carrying out these functions. This is an exercise that can be used with participant groups that include policy makers (elected officials), CEOs, and department heads as well as financial officers.

### PROCESS:

Divide the participants into small groups of five to seven and give each participant a copy of the list of FM functions from Exercise 1.2; Table 1. Ask each group to discuss who within the local government family of individuals, departments, boards, and commissions (such as the elected body or the planning commission) need to be involved in each of the twelve functions on the list. Out of the list for each function ask them to identify who does or should take the lead responsibility. Tell them they have about 30 minutes to come up with their responses.

This could get a little messy since many individuals, departments, and various boards and commissions need to be consulted or involved in many if not most of these functions. Remind the participants that the intent is to better understand the complexity of most LGFM functions. Ask each group to record their responses on flip chart paper so they can report on their findings in the following plenary session.

Don't hesitate to add any additional tasks to this exercise that you feel would be useful in helping the participants get a better understanding of the full range of functions within LGFM. For example, you might ask them to identify the roles that citizens should play, if any, in each of these functions.

# Trainer's Guide

## INTRODUCTION

When the Expert Group met in Kenya to plan this series of training and management materials the members agreed that the utility of the series would be enhanced by including a trainer's guide. While trainers will be the primary users of this guide, there are others that will also find it useful. For example, we have included a few notes for those who might be concerned about translating them into another language or perhaps adapting them to be more congruent with national laws and financing practices. We also see finance managers and other local government managers as potential users of this guide, particularly if they want to have an influence on the quality of training that is being provided for their employees. If your country has an association of finance officers, chief executive officers, or governing bodies, or is thinking about starting one, this guide might be useful. In other words, its potential users go beyond just those in the trainer role. We have tried to write it with this expanded audience in mind. We believe it's important to put training into a much broader context than just designing a learning event for a group of local government officials.

We will start our discussion in a moment by explaining what we mean by this. From there we will look at some of the challenges of adapting, and where necessary, translating the series into another language. We will also discuss some issues involved in planning and sustaining a successful local government financial management (LGFM) training programme. These aspects of training cover a range of training management tasks from doing a training needs assessment, to training trainers, and evaluating the impact of the training investment.

Finally, we will get to the trainer's concerns about how to use these materials to enhance their performance as learning facilitators. We will look at how to design successful learning interventions and how to carry them out successfully. It's one thing to design a successful training programme. It's another to conduct it successfully. In covering these aspects of the training trade, we will provide some clues about various kinds of learning tools such as case studies, role plays, and the use of instruments. We will also talk about the art of facilitating effective learning.

## PRE-PLANNING CHECKLIST

Before sending out workshop announcements for LGFM training, it will be helpful to do a bit of preplanning to assure that you get the most from your efforts. To help

you do this we collected a few questions you need to ask yourself and others. Don't hesitate to add to the list as you engage in this preplanning planning.

- Who will be your primary training target group? Local government finance directors? Finance department staff members? Operating department heads? Local elected officials? Central government or provincial officials with local government oversight responsibilities? A mix of these possibilities?
- What are the potential numbers of training participants you might be able to attract from each of those target groups you want to serve?
- Have you thought about doing a training needs assessment of these potential training participants? If so, do you know how you will conduct the assessment?
- What will be the potential market for a training programme that involves the full series?
- Is there a pre-service training potential for this type of training?
- Have you thought about the potential of addressing good governance principles through special workshops for both local government and civil society participants based on the content of this series?

These are the kinds of marketing questions you need to be asking yourself and others before sending out the training announcement. They also get to the questions of what is feasible in terms of time commitments on the part of the participants you hope to attract to your training. Offering a training programme that involves the entire series is ideal for senior finance officers but may present some financial and time constraints. There are several ways to overcome these constraints and they probably involve partnerships. For example,

- Can you partner with another organisation or individuals to plan and deliver the training? Is there a professional association of finance officers, chief executives or governing bodies that would be a likely partner? Or a national association of local governments?
- Are there funding possibilities to help underwrite the cost of the training? International development agencies? Foundations? Professional or trade associations that are concerned about the quality of local government management?
- Have you thought about educational institutions that might want to offer this type of training as part of their continuing education programmes? They have the incentive of being able to offer a certificate or other credential that could enhance the careers of those who complete the series successfully.
- Have you taken time to get acquainted with the entire series with the intent of deciding how you might use selected ones to meet specific training audience learning needs? For example, elected officials? Or, auditors? Department heads of local government operating agencies?

These materials offer a wide array of marketing and partnering potentials. It will be helpful to spend some time thinking about these potentials before making any firm decisions about how you want to use these materials. We mentioned the potential of conducting training needs assessments (TNA) earlier. We believe they are important to help you and your training colleagues determine not only what to offer in terms of training content but also how to work within the time and other constraints your potential training clients might encounter in participating in the training. TNAs can also be important marketing tools. They help those who might need the training to better understand their needs and to help you in return explore some ways to overcome the constraints of participating in the training.

The next set of questions to ask involves the logistics of getting ready to offer the training.

- Will the materials have to be translated into the local language? If so, how will you arrange to have this done? And, how will you pay for the translation? We suspect you have had lots of experience in this process and know the pitfalls to be avoided. Nevertheless, we will make a few comments later about how to make this part of the planning process less troublesome.
- Will you need to adapt the materials to accommodate accounting or budgetary regulations, local legislation, management arrangements, or other peculiarities that might create resistance from the potential training audiences? We have tried to make the volumes as general as possible to minimize adaptation problems while not making them so general that they are useless. If you don't have to translate them into a local language you may be able to handle any essential adaptations with addenda to each chapter that are printed separately and inexpensively.
- Will you need to train trainers to conduct the training? If so, how will you conduct this training? Who will pay for this training?

There are many other questions you will need to be asking as you begin planning to use these materials. Don't hesitate to ask them. Better now than saying later, "Why didn't I think of that when I was considering the use of this series?"

## TEN WAYS TO FAIL AS YOU USE THESE MATERIALS

One of the members of the Expert Group who helped to shape the content and format of these materials suggested we include a short discussion of how you can fail in using these materials. It comes from an earlier version of the Local Elected Leadership series also published by UN-HABITAT<sup>1</sup>. With a few adaptations to the source document here are some contrary thoughts on how to fail.

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<sup>1</sup> UNCHS (Habitat) (1995) Local Governance Manuals: Training for Elected Leadership Series. Set of 13 volumes.

1. Don't bother to discuss the training with any finance officers before they come to your first workshop on this series. After all, you're the training expert, and they are just your training clients.
2. Plan to hold the training in places that are convenient for you and your training team. Don't worry about the training participants. They all have big travel budgets. If they don't, it's their own fault since they put together the budget.
3. The same goes when you hold the training. Your clients should be able to adjust their schedules if they are really interested in the training. And, don't let their excuse that it's "budget time" bother you.
4. Don't waste time checking out the training venue before the workshop begins. Everyone knows it's the content of the training that counts.
5. UN-HABITAT training materials are always so complete that there is no need to check them out before the workshop.
6. Stick to lectures and guest speakers as much as you can and don't bother with small group exercises and other stuff. They waste a lot of time and take up too much space.
7. If you feel you must use exercises, just go with the ones in the chapters. Start with the first and go through them in sequence until time runs out.
8. Don't bother to make changes in the exercises in the chapters. Obviously, the authors knew what they were doing or UN-HABITAT wouldn't have hired them.
9. Always go with the time the authors suggested in the exercises. Even if the participants are really into learning, don't hesitate to shut them off when the time the authors said the exercise should take runs out.
10. Don't bother with evaluations or follow up. Those finance officers are the kind who will call you if they have any questions or want more training.

These comments sound familiar. Sure, we've all known trainers who operated this way. Did you notice the past tense of that last statement? Hopefully they are no longer conducting training!

## ADAPTING AND TRANSLATING THE SERIES

We mentioned briefly in the introduction some concerns about the possible translation and adaptation of the LGFM series for use in your country. Given the importance of these potential tasks, we want to share some lessons learned in preparing other training materials for local use.

The tasks of *adapting* and *translating* these materials will depend on a number of circumstances. If the training is to be conducted in your country in English and you have a cadre of seasoned trainers who are adept at modifying training materials to meet their needs, you may be able to use the series as published. Or, you might feel that new materials are needed to more accurately reflect the legal, cultural, political or managerial approaches to financial management in your country. If this is the case, you might want to produce a supplement for use by trainers and others.



For example, it might include different approaches to financial management tasks like oversight or procurement that are different in your country and need to be highlighted in the training; adaptation or abandonment of training tools that are not appropriate or otherwise acceptable to the potential participants of training; and development of new training and management tools that would be more user friendly and acceptable to your training clientele. We encourage these additions and changes.

If you need to translate the chapters into your local language, the tasks become more complex. Before you do anything, you should check with UN-HABITAT to see if any other institution or group has translated the series into your language. If they haven't, consider doing both an adaptation and translation if those who review the original text believe it will be necessary or desirable. The adaptation could include, for example, local case studies, role plays, and critical incidents, and changes of examples in the text to make them more country specific.

The following are some guidelines you might want to consider if you need to undertake adaptation and translation.

- Don't hesitate to make changes in the text and other important features in the materials.

While there are often rules and regulations that warn you not to copy, change, or otherwise mutilate someone else's published documents, they don't apply when working with this series of training materials. One reason UN-HABITAT training materials have been so successful is the freedom that users have to make them more compatible with their own circumstances.

In one country where one of the authors worked, he thought he had been clear about their right to make necessary and useful changes in the text. Only after the in-country version was translated and published in the local language did he discover that few, if any, changes had been made in crucial parts of the materials. Don't assume the permission to alter the materials has been clearly communicated. Even if it is clear to all concerned, don't assume the adaptation of even the most basic materials, such as case studies and role plays, has taken place.

- Assemble a small team of potential users, trainers, language specialists, and other key stakeholders to help with the adaptation and translation.

The task of adapting and translating these materials should not be left to one person although one person should have responsibility for pulling together the insights and inputs of others to produce the final product.

The selection of this team is important and might on rare occasions be problematic. For example, you will need one or two highly respected finance officers to serve on this team who are open to the need for training and understand the importance of introducing new concepts, principles and strategies into the management of financial responsibilities at the local level. Not only should they be familiar and skilled in LGFM principles and practices within your country, they will also provide a reality check on the use of these materials in their work environment. Their task will be to assure that the financial management concepts and strategies are either

compatible with local legislation and practice or represent improved approaches to current practices. In selecting these individuals, it is important to identify those who are open to change and willing to support new ways of doing things.

Include if possible one or two finance officers who also have training experience with adult education principles and strategies. They should also have a commitment to experiential learning, i.e., *learning by doing*. Let them know before they commit to working with your team that they will be responsible for helping to revise role plays, critical incidents, and case situations based on their own field experience and input from other members of the adaptation team.

Having a linguistics specialist on the team, in addition to the translator, may be important. For example, there may be certain words that are problematic even in the same language.

- Agree on some basic ground rules for working together as a team before you begin the adaptation and translation process.

For example, how will your team handle disagreements and differences of opinion about what to adapt and why? Be clear about each team member's role and responsibilities. Establish objectives, expected outputs and outcomes, and realistic time tables for reaching key milestones.

- If you are translating the materials into another language, hire the best translator available and don't allow that person to work in a vacuum.

The translation process is too important and difficult to be carried out without supportive interaction with a small bilingual team of trainers and finance specialists who are responsible for reading the translations and giving constructive feedback. We had an instructive experience when working with a two-language team in the development of the initial set of these materials. Much of the dialogue about how to translate certain technical terms took place between two continents and sometimes the interactions were, well, amusing. As some of the technical terms went from one language to another and then back again to the originating language, the initiator of the discussion often could not recognize the concept that was being discussed. Never underestimate the difficulty and importance of the adaptation and translation processes.

- Share the wealth of your experience and labour with others.

The translation of these learning materials can be a difficult, costly, and time-consuming venture so think about how you can share your final products and experience with others who communicate in the same language. If there is a regional language that is dominant, such as Spanish in Latin America, you may want to encourage joint production to optimize your production investments.

## LEARNING APPLICATION

Adapting and, if necessary, translating the financial management series will be among the first and most important actions you will take once the decision has been made to use these materials. Stop for a moment and reflect on how you and others will undertake this responsibility. Jot down your thoughts on what kinds of adaptations might be needed to make this series of training materials more acceptable and useful in your country and culture; some of the key persons to be involved in adapting and translating; and how best to get this part of the process underway.

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## PLANNING FOR TRAINING IMPLEMENTATION

There are so many tasks associated with planning a successful training programme. For example, how do you get organised to conduct LGFM training? Who can, or will, be your sponsors? How do you market the training and follow-up activities? How do you build the trainer capacity to do this type of training if it doesn't exist? And how will you measure the impact of this training on the individual, the organisation and its various operations, and the community?

To help you sort through these many tasks, we are going to start with a technique that should serve you well in a number of situations. We borrow it from the consulting profession, but it works equally well in the training business and other entrepreneurial ventures. What we are about to discuss is called, among other things, *Contracting with your client*. This is not a legal contract; rather, it's a psychological contract. The concept and strategy has a rich history in the helping professions like consulting, training, and coaching, to name a few. Moreover, it's a great management tool and an effective tool for trainers and finance managers to use as well in conduct-

ing their business. As a trainer, think about how you can use this process as part of your LGFM training offerings.

## BUILDING EFFECTIVE WORKING RELATIONSHIPS

Ed Schein wrote an important book called *Organizational Psychology* (Englewood Cliffs, NJ: Prentice-Hall, 1965, p.11.) In that book he took the concept of the “social contract” and gave it an organisational spin. Here’s what he had to say at the time.

*The notion of a psychological contract implies that the individual has a variety of expectations of the organisation and that the organisation has a variety of expectations about him. These expectations not only cover how much work is to be performed for how much pay, but also the whole pattern of rights, privileges, and obligations between the worker and organisation.*

If you substitute *training manager* for the individual and *training client* for the organisation, then you can easily see how this concept applies. Schein’s definition also relates to many of the issues involved of putting together an operating budget in a local government organisation.

Design Learning (DL) has described what is involved in setting the psychological contract between two people or entities better than any we have seen. The elements DL believes are important to cover in an initial meeting between the training manager and client are these:

- **Personal Acknowledgement.** This is the first exchange of information and feelings between the training manager and the training client. The goal is to make contact and to establish a working relationship. For example, express your appreciation for the opportunity to meet. If the client initiated the contact, then this is a good time to learn why the client decided to get in touch. If you as the training manager initiated the contact, then you might want to say why you wanted to meet and how the contact was made.
- **Communicating and Understanding the Situation.** Talk about the role of the finance official and the challenges inherent in this important community role. If you initiated the discussion, talk a bit about financial management training and what it involves. If the client has reservations about getting involved, this is the time to understand what they are and to discuss them.
- **Client Wants and Needs.** Understand why the client might want to get involved in financial management training, what their expectations are about such training, and why they think it could be an important investment for their department and organisation. If you have initiated this conversation, then it’s important to help the client express what he or she can offer to help make the training effective. It may be financial, logistical, even symbolic such as endorsing the programme. Discuss the client’s

concerns about costs, schedules, and the format of the training and other issues that might be associated with planning and implementing the training.

- **Training Manager's Wants and Offers.** Be clear about what you will need from the client to make the training successful and what you can bring to the training relationship. This can include such issues as the numbers of trainees you think you need to conduct a successful training programme, how the training will be delivered, the quality of the trainers, possible venues, the time commitment required, what the training content and process will be, and other "wants and offers" you have that will factor into this being a successful working relationship.
- **Closing the Conversation.** If you have reached an agreement to go ahead with the training, summarize the key points of the agreement and talk about next steps. Most initial discussions about your offer of financial management training will probably not result in a firm commitment immediately, so you will need to talk about follow-up steps. Otherwise, you may have wasted your time and theirs. Make plans to meet again within the near future to move toward a firm commitment. If this is not the right person or group to work with to initiate elected leadership training, then determine who is and ask if the person you are talking to can help make the contact.

What we have just covered is a process of establishing a working relationship with your training client. It is also a process you might want to work into a training session with finance officers to help them develop better working relations with department heads, the chief administrative officer, and elected officials in developing the annual budget.

## SOME THOUGHTS ON FINDING SPONSORS AND CLIENTS

Sponsors of your local government financial management training efforts come in two basic types: those that provide monetary or other concrete kinds of support; and those who lend their name and prestige, and even clout, to support local government training.

Your concrete support list should include the usual grant giving institutions, i.e., bi-lateral and multi-lateral development institutions, foundations, private organisations, national and international NGOs that want to support local government capacity building initiatives, and more. If you have an association of local governments or several associations that represent local governments in your country, they may also be sources of direct support if they believe that financial management training can benefit their mission. The same is true of professional associations. The central government may give funds to support training, or they may be able to help introduce you to third parties they know who would be interested in supporting your training initiatives.

Some of the same sponsors you thought might be able to provide monetary or other direct support might also be able to lend moral support by endorsing your

financial management training efforts or by providing entrée to key stakeholders. Think about conducting a stakeholder analysis to identify potential direct and indirect sponsors. You could do the same to identify potential clients for the training. By stakeholder, we mean any person, group, or organisation that has an interest, pro or con, and would be affected in any way by financial management training at the local governance level and the consequences of such training. As you can see, even the planning of elected leadership training can cut both ways.

## *THE SPONSORSHIP-FUNDING DILEMMA*

Before we go any further, it is essential to talk about the longer-term funding trap that is often associated with many of the kinds of sponsors we just mentioned. Many services and programmes often die on the vine once the sponsor's financial support is discontinued. Given this reality, you need to develop a strategy for sustaining the training after the donor or sponsor leaves town and to plan that strategy before you accept their money.

Here are some suggestions. Develop a sliding scale of participant training fees. As the acceptance and popularity of financial management training grows, you can increase the fees without suffering serious decreases in enrolment. Make sure you build as much of the developmental costs as possible, i.e. materials, translations, training of trainers, into any initiating grant or contribution. If you don't, you may be forced to increase costs later on to recoup these costs. In one country, regional training centres are supported by local governments through a modest membership fee based on population. In turn, the local governments are represented on the centre's policy board and get discounted and often free registrations to attend training programmes.

## *A POTENTIALLY DIVERSE CLIENTELE*

It is easy to define the "clients" of financial management training too narrowly, i.e. as only individual finance officers attending short workshops. As a trainer, training manager, head of a professional association of local government officials, or an elected official concerned about the quality of your local government's financial management you need to think "outside the box" (the box being the traditional way of handling things!) in terms of ways these learning materials can be used. Here are just a few ideas.

- Involve local elected officials, the local policy makers, in LGFM training by focusing on their need to understand the big picture regarding their local government's financial management responsibilities. If there are national meetings of local elected officials, get on their programme to make a short presentation on the potential benefits of supporting LGFM training, not just for their finance officers but other key stakeholders including themselves. The conceptual framework used to put this new series together and the various components is a good place to begin such a presentation.

Follow this with a summary of the kinds of short training sessions you can provide elected officials. For example: a one day session on the various components of an effective and efficient financial management process for their local government; a half day briefing on the operating budget and the financing of this budget timed to happen just before they will be getting the budget from their administrators; a similar briefing on capital programming for those local governments that are establishing a capital programme or faced with major infrastructure expenditures; a similar briefing on assess management and evaluating the financial conditions of their local governments is another possible one-half day training opportunity; and, of course, special sessions on financial planning and policy making and citizen participation in the financial management of their governments are important elected official roles and responsibilities that can benefit from training. As we said, think outside the box in exploiting these materials for your benefit and those who can benefit from training.

- We assume that you already are planning a series of workshops for senior local government finance officers, but don't forget their subordinates who might want to enhance their opportunities to make a career of LGFM. This series, as mentioned before, provides a solid foundation for developing a certificate programme in conjunction with an educational institution, such as a community college or an association serving financial institutions or finance officers.
- Most countries have national government agencies that have oversight responsibilities over local government finances. Professionals in these departments could benefit from training in areas like evaluating financial conditions, asset management, and performance measures.
- One of the co-authors of this series has successfully combined key elected and appointed policy makers with finance officers in one day financial management workshops in Indonesia. She and her local colleagues covered the concepts, principles and strategies of certain topics in morning sessions involving a mix of these participants. In the afternoon, they held skill development workshops for technical and professional staff members on the same topics.

This series is a potential gold mine of opportunities for creative and entrepreneurial trainers and training managers.

## ***MARKETING FINANCIAL MANAGEMENT TRAINING***

The potential use of these materials will benefit from creative marketing on your part. While every country has its own values and behaviours regarding marketing, it will be up to each country team to decide what will be most effective in promoting this new training opportunity. Based on our experience and that of others who have carried out successful marketing initiatives, here are some ideas for you to consider.

- Get information out to as many media sources as possible about the financial management series and how you plan to use it. Raise awareness about the need for this kind of training, opportunities for attending such training, and the benefits to be realized. Think about addressing those audiences who are themselves concerned about improving the quality of local governance. These include service clubs, chambers of commerce, and others you are familiar with in your country that support the development of local governments.
- Contact key elected leaders who are trend setters and influential with their colleagues and ask them to help you mobilize support for financial management training. If corruption is a problem in local governments in your country, for example, emphasize the importance of this training. Work with public officials and civic leaders who have expressed concern about the need to curb corruption in local governments.
- If you have one or more local government associations or associations of local government professionals, get them involved in your marketing efforts. If there is no association of local government finance officers, help start one. If there is one, get them involved in your marketing initiatives. If they have a newsletter or journal, get an interview with the editor and provide them with a short article describing the series and how it can help them meet their association's goals and objectives.
- Get invited to their annual meeting or other membership meetings. Offer to make presentations to both explain the series and to solicit interest in follow-up training. Conduct short demonstration training events based on the series.
- Work with trainers and training organisations who have established working relationships with local government and other public and civic institutions. Of course, they may be your competitors. If this is the case, try to figure out how to collaborate so it's a win-win situation for everyone concerned.
- Hold information and demonstration workshops on a sub-regional basis within your country. Often potential training participants expect training to be a series of dull lectures. This series is designed to help you conduct practical, skill oriented, and interactive learning events. Short demonstration workshops can win over those who have had negative experiences with academic-oriented training. It also helps if you can offer these introductory workshops at no cost to the participants. Consider it an investment, an expected cost of launching a new programme.
- Conduct periodic or targeted training needs assessments of local financial management officers and others focusing in part on various roles and responsibilities of potential training participants. Share the results with those who have been assessed and with other key decision makers.
- Once your programme has a sufficient number of graduates, conduct impact assessment evaluations to learn how participants have used their new knowledge and skills to be more effective in carrying out their roles and responsibilities. Use this data and personal testimonies from key par-



ticipants to market new programmes. Also, use the evaluation feedback to strengthen your financial management training initiatives.

- If your region doesn't already have an organisation devoted to building the capacity of other institutions that have the responsibility for local government capacity building, consider creating one. With support from the Local Government and Public Service Reform Initiative of the Open Society Institute in Hungary, Partners Romania Foundation for Local Development (FPDL) has conducted a very successful regional program for capacity building in governance and local government development for central and eastern European countries. They conduct training of trainer programmes based on new materials like this series and provide other on-going support initiatives to trainers and training institutions in the region. FPDL's yearly steering committee meeting involving users of the program assess progress, share ideas and materials, and recommend new initiatives for future support based on their collective needs.

To summarize, raise awareness about the potential benefits of LGFM training in every way possible. If your potential clients for this training don't know what is available, it's hard for them to be motivated to take advantage of it. Hold demonstration workshops at municipal association and other likely meetings. Take your show on the road by offering short one-half or full-day demonstration workshops wherever there is a cluster of potential clients. Join forces with key stakeholders who are concerned with good governance in your country and develop a strategy that involves financial management training as a major component. Create a training capacity building programme and train trainers. Mobilise these trainers to help in the marketing of your programme. Organise it so it's in everybody's self-interest. Carry out impact assessments with participants when they return home from the training. Use the results from these assessments to improve your programme and promote future programmes through personal testimonies from past participants and concrete examples of the training's impact on local government performance.

With this "pep talk" under your belt, it's time to move on to another key component in preparing for training implementation: training trainers.

## PREPARING A CADRE OF TRAINERS

Your potential pool of trainers for this financial management series is considerably less than what might be available for a less technical series on leadership or interpersonal skills, for example. Given this potential constraint, it will be important to forge a relationship with a few local government financial managers or individuals with knowledge and skills who you believe will make competent trainers. If there is an association of local finance officers in your country or region, this may be the first place to begin the search for your human resource needs.

Our preference for developing a cadre of trainers is to conduct a training of trainers (TOT) in-country even though the initial market for such training might seem small. The rationale is simple. A TOT is one of the best ways to field test the adapted or translated series. It is also an effective way to identify those potential

trainers you will want to work with initially in your LGFM training programme. It is important to recognise that everyone who completes a TOT workshop will not become a trainer. Nevertheless, they may become boosters for your programme. Assuming you agree with our rationale, here are some ideas about mounting that TOT.

- It's important to have a small team of competent trainers to train other trainers. Our experience in conducting TOTs suggests that a two person team is sufficient to conduct an effective TOT with this training series. But there are no hard and fast rules on how many to include on the TOT training team. Whatever the number, they need an in-depth knowledge about financial management and what's in the manuals, and confidence in their ability and skills to conduct experiential learning events. "Experiential" means interactive, knowledge enhancing, skill-based learning experiences that tap the needs, personal attributes, and experiences of the participants. It is also important for these trainers to be willing to take risks in their designs and training delivery and to be willing to experience occasional failure.
- The quality and number of TOT participants are also important ingredients for achieving TOT success. Before we talk about the quality of your TOT participants, let's talk about numbers. Your TOT for these materials probably should be limited to between eight and sixteen. Many of the training of trainer workshops we are familiar with have organised participants into four person teams who then become responsible for designing and delivering training modules to a group of finance officers on the second week of the TOT. You may be constrained in the numbers you can recruit for your initial TOT because of the requirement that they have knowledge, skills and experience in local government financial management. In terms of recruiting participants for your initial TOT, here are some lessons we've learned over the years.
  - o It helps if the TOT participants come from organisations that will support their efforts to participate in financial management workshops once the TOT is completed.
  - o Opportunities for success in launching and sustaining LGFM training programmes are enhanced if the participants come as teams who can work together after the training.
  - o Requiring previous training experience doesn't seem to be an important factor in the success of TOT participants, although it helps to have mentoring relationships in the initial stages of their development as trainers.
  - o When you are fortunate to recruit individuals who have a financial management background and training experience, it is important for them to come to the experience with an open and willing attitude to engage in new learning. The training materials and approach may be quite different from those they have used in the past.

- The tools in each of the manuals are designed to be modified at the trainer’s discretion. We encourage trainers to tinker with them, to improve upon them, and on occasion, to take only the core design idea and construct their own learning experience around it. In the TOT part of your programme, encourage your participants to incorporate their own ideas based on the needs of their training clients.
- While there are many ways to design TOT workshops, we are partial to one that is about two weeks long. During the initial week, participants work in teams to design a day or more of training based on the materials in the series. The second week these teams of two to four participants conduct one or more days of training to a group of finance officers with minimal assistance from the TOT training staff. In other words, the TOT participants conduct training work sessions with real live experienced participants. Since this particular TOT design has worked remarkably well in many parts of the world we are confident in recommending it.

As stated before, don’t expect every participant to become a competent and successful trainer of elected officials based on a two-week TOT. Nor should you be too concerned about the initial quality of the training your TOT participants deliver when they return home based on such a short TOT experience. We have learned over the years that it is better to have trainers from the same country or culture working with local officials, even though they might not be polished trainers, than some outside trainer with long experience. Trainers graduating from your TOT programme will have another advantage. They will be working with materials that are user-friendly.

## ASSESSING IMPACT

While it’s impossible to cover all the details about planning for implementation of your LGFM programme in this short User’s Guide, we want to mention one more planning detail we think is important. It’s the importance of assessing the impact of the training on individual learning and behaviour as well as the impact in the organisations where the participants are carrying out their financial management responsibilities. For example, what will be the impact of the training on improved systems of budgeting, introduction of capital programming, the use of performance measures, asset management systems, better procurement procedures, and more?

The importance of collecting data about the impact of training on organisation and community performance, such as participatory budgeting practices, is very important to your ability to sustain your LGFM training. However, determining how you will measure the impact of your training needs to be determined before you conduct the training, otherwise there are few benchmarks against which you can measure success. To learn more about impact assessments, contact UN-HABITAT for a copy of their *Manual for Evaluating Training’s Impact on Human Settlements*.

# TRAINING DESIGN AND DELIVERY

Training design and delivery includes a lot of planning tasks although they are different from those we just discussed. In the following discussion you will find an overall checklist of some key design and delivery factors to keep in mind; a look at some logistical factors to consider, such as time, venue and equipment; the importance of adaptation and creativity in using these materials; the art of writing learning objectives; and, how to design learning events that will keep your clients coming back.

There are many factors to consider in designing and delivering effective, efficient, and engaging learning experiences. The following checklist targets some of the more important ones. It is followed by more in-depth discussions about each. By the way, *effectiveness* has to do with providing training experiences for your clients that meet your client's immediate and short-term learning needs. *Efficiency* is how you deliver the training. *Engaging* is the process of involving your participants through sharing their ideas, life experiences, and visions about the future.

- Effective, efficient and engaging training is driven by purpose. Your ability to write clear and concise objective statements that describe what you plan to accomplish during the learning experience is the most important design task you will undertake.
- The quality of your learning events will be determined in large measure by the time and energy you invest in adapting these materials to fit the situational context of your participants.
- Complete learning events involve the infusion of new knowledge, ideas and insights and the opportunities for participants to process and apply these infusions based on their individual and collective experiences and needs.

The most insightful learning design can be sabotaged by external factors. Fortunately, most of these externalities are within your control, but they need to be managed.

Since the need to cope with the last set of factors often precedes efforts to sit down and design the training event, let's look at them first.

## MANAGING THE EXTERNAL FACTORS

It's impossible to design and deliver an effective training programme without taking into consideration many of the external factors that will often determine just how successful you will be when you begin the training. While most of these may be obvious to many of you, they are still worthy of review.

### EXPECTATIONS

To the extent possible, narrow the expectation gap between you as the trainer and the workshop participants. Your workshops are more likely to be effective if the par-

ticipants know ahead of time what they will be learning and the process to be used to facilitate their learning. This can be important if your intended audience is likely to have experienced only lecture-oriented training in the past. You might also consider developing a training calendar that can be provided to client organisations such as municipal associations, so they can announce when workshops on various topics will be available, their length, and location.

We encourage you to negotiate a mutually agreed-upon contract with potential training clients. These clients might be a cluster of local governments, an association of local governments, or even an educational institution that wants to broaden their services to local governments. Individual training contracts allow the trainer and the client organisation to be much more explicit about training content and scheduling. In any case, it is important that information on training content and approaches is specified beforehand so that participants know the learning opportunities being made available to them.

## ***DURATION AND TIMING***

The number of workshops to be conducted, their duration, and the sequencing and timing of training exercises depend on a number of considerations. If you can schedule the training as a single programme (e.g., one or two weeks in length) involving participants from many organisations, you will have considerable control over content and schedule. A series of 2 or 3-day workshops designed to cover the entire series presents a different design and scheduling problem. Since the materials provide lots of optional learning exercises for each of the subjects covered in the series, there is a substantial amount of design freedom built into their use. Be particularly careful to include enough time for participants to process the information being covered in every exercise or workshop fully before moving on to the next. Build reflective time into the overall design so that individuals and small groups can informally explore in more depth the issues and topics being covered.

## ***LOCATION AND PHYSICAL FACILITIES***

It is important to create an environment that supports learning, one that removes participants from everyday distractions and encourages them to think and act in new and different ways. Some of the worst training venues are those associated with the everyday work activities of the participants. Some of the best locations have been somewhat remote and rustic settings. These kinds of environments seem to foster a greater willingness to be open and to take risks in their interactions with others.

The physical facilities are also important. Look for workshop venues that offer privacy, have movable furniture, and provide enough space for several small groups to meet concurrently. Auditoriums and large, open buildings are usually not flexible enough and lack the intimacy needed for effective interaction. It is also important to arrange things so that participants are not interrupted by non-participants, telephone calls, or other annoyances during training sessions.

## **EQUIPMENT AND TRAINING AIDS**

Be sure that you have access to materials and equipment that can be transported easily or can be supplied by the training venue. Essential items include flipcharts, easels, numerous pads and markers, and an overhead projector or other audio-visual equipment that is compatible with your needs and expectations. If you plan to use power point presentations, check to see that everything is in good working order and have contingency plans when something malfunctions. Our experience tells us that anything that can go wrong will and at the last moment. Prepare participant hand-out materials including instruments, questionnaires, checklists, and worksheets in advance and make provisions to have access to photocopy equipment or service at the training site.

## **NUMBERS OF PARTICIPANTS**

We discussed earlier the number of participants we believe optimum for training trainers. While we won't be dogmatic about the number of finance officers or other public officials you can involve in LGFM training, we think there are some good guidelines to consider. Groups of 16 to 24 are just about ideal for one or two trainers to facilitate. These numbers also lend themselves to small group work sessions of four, six or eight members each. If you begin to include more than twenty four, although we realize this number is arbitrary, it makes the experience less intimate, more impersonal, and cuts down on the time that each member of the group has to contribute to the interaction. Unfortunately, these decisions are often determined by funding constraints.

We've covered only a few of the important external factors that can influence the quality of the learning experience you will be designing and delivering for the benefit of others. While there are obviously many more, we don't want to deprive you of the opportunity to discover them yourself as you initiate your LGFM training programmes.

## **KNOW WHAT YOU WANT TO ACCOMPLISH AND STATE IT CLEARLY**

As we said earlier, effective, efficient and engaging training is driven by purpose. Your ability to write clear and concise objective statements that describe what you plan to accomplish during the learning experience is the most important design task you will undertake. Here are some thoughts about how to do this and maybe even a few that are unconventional.

The best roadmap for guiding you to successful learning experiences is a clear statement of your overall goal and objectives. If you are able to state these clearly, you have increased your chances of success immeasurably. Now writing learning goals and objectives can be dull, deadly business. We don't know a trainer who enjoys doing it. And yet it has to be done. The old adage, "If you don't know where you are

going, you probably won't know when you get there," applies to learning design. It's not a very attractive alternative for either you or your workshop participants.

We are using two terms, *goal* and *objective*, to describe aspects of your learning roadmap. The *goal* we see as the accomplishment of the overall expectations you hope to fulfil with your participants as a result of the learning experience. It's the super-ordinate objective you hope to achieve, a statement of the big learning picture. *Objectives* are sub-goals, or statements of those things you want to accomplish through specific learning experiences during the workshop.

Many training textbooks recommend writing objectives in the following way: *By the end of the training, participants will be able to demonstrate their ability to write a policy statement*, or some other concrete task. This implies that we are going to be testing them in some way to make sure they can do it. This strikes us as being a bit too academic. Given this, we will reveal our own bias about this onerous training-design task, but not before making it clear that you should feel free to write learning objectives in any way that you feel clearly states what you plan to accomplish in the workshop.

We often write learning objectives based on what it is possible to accomplish through experiential learning. This includes:

1. increased knowledge and understanding;
2. new or improved skills, either technical or relational;
3. new or altered attitudes and values; and
4. creative acts.

The first two are standard learning objectives associated with knowledge and skill-based training. The next two are harder to defend. Let's look at the third one on attitudes and values. Some still argue that you can't change these personal attributes through training. We disagree. Take, for example, someone who believes strongly that citizens should not be involved in the local government budgeting process. Now that's an attitude, but it might also be a value that this person believes in. Through a learning experience, this person begins to understand the importance of citizen participation. Beyond the workshop, this person demonstrates this new attitude and value by supporting a move to involve citizens in local budgeting decisions.

There is no question that helping others alter their attitudes and values is a difficult learning objective to accomplish, but often it is the cutting edge of important community changes. Don't shy away from these more emotionally charged learning opportunities.

Regarding the fourth objective, "creative acts," it's more curious than difficult. What if you ask participants to develop an action plan as part of your learning objectives or outcomes? It hardly fits in the first three categories, so we invented a fourth.

The ultimate learning outcome is, of course, behavioural change. If local government officials and others do not change their behaviour as a result of learning new concepts or strategies, acquiring new or improved skills, or even changing a few attitudes and values in a learning experience, then the training investment is lost.

Another important distinction to keep in mind when designing learning programmes is the difference between *outputs* and *outcomes*. For example, when partici-



pants demonstrate that they know how to develop financial strategies to assure that basic local government services can be provided to low income neighbourhoods, this is an “output.” They have learned how to develop such delivery strategies during a workshop. When they go back to the organisation and lead the charge to implement their strategy, based on the knowledge and skills gained in the workshop, it is an “outcome.”

## ENGAGE IN ADAPTATION AND CREATIVITY

You need to take advantage of the opportunities in your immediate working environment to make these materials and the training you will be conducting as relevant, timely, and client-centred as possible. Here are a few guidelines to train by:

1. If you decide to use a case study, role play, simulation, or any other tool from any of these materials in your training programmes, adapt it to meet your needs and the learning needs of your participants. Change names, locations, circumstances, and anything else that says, “Not invented here!”
2. Talk to some finance officers or other practitioners before you sit down to finalise your workshop design. Ask them if they have any interesting experiences that might relate to the topics you plan to cover. If so, check to see if you can incorporate them into your design.
3. Whenever possible, exploit your participant’s experiences in the financial management competencies you are covering in the workshop. Use these experiences to create new learning exercises, or to modify those in the materials. For example, you can create a role play right on the spot based on something that might be bothering many in the workshop. Or you can have a participant describe a particularly difficult situation that he or she is experiencing and break the others up into small discussion groups to determine what they might do in this situation.
4. Look in Part One section of each chapter, the *Concepts, Principles, and Strategies* part, for clues to develop your own exercises. For example, many of the Learning Application exercises are ready-made to be turned into workshop learning experiences.
5. Don’t be afraid to deviate from your workshop design or agenda when you see an opportunity for significant learning emerging out of the dialogue and energy that has been created by your participants.

## DESIGNING LEARNING EVENTS

If you are able to decide with clarity what you want to accomplish during a workshop, seminar, or some other kind of planned learning event, you have cleared the first and most important training hurdle. We are, of course, assuming that you have also arrived at these conclusions in consultation with your client(s) and their training needs and transformed your ideas into written statements of purpose, goals, and objectives



that are concise, understandable and doable. If so, then the next step is to figure out how to accomplish them within the time allotted. This is the training design part of the puzzle.

As we said in our overview comments leading into this discussion on training design and delivery, effective, efficient and engaging learning events involve three interrelated activities: 1) the infusion of new knowledge, ideas, and insights; 2) the opportunities for participants to process these infusions, based on their individual and collective experiences; and 3) the application of what they have learned to their individual, work team and organisational needs and opportunities. Complete learning designs should, whenever possible, include a mix of input, processing and application.

The first two of these interrelated components are common to most experiential training designs. We provide new ideas, information, concepts and strategies as input, and we design some kind of interactive experience so participants can process the new input. The third, *application*, is less frequently used mostly because it is more difficult to design into training, or so it seems. Application is evident when we have participants complete an action plan design a new revenue reporting form in a financial management workshop, or develop a list of stakeholders who might be important to consider in carrying out a community development project.

The most important thing to remember about these three interrelated components is their complete flexibility. You can start with any one of the components and move to the other two in whatever sequence you want. While it is fairly common to provide a lecture, for example, and follow it with some kind of exercise to process the content of the lecture, it is less common to start with an exercise and then insert the lecture. When you realize you can start with any one of the three components and move to the other two in whatever sequence you choose, you have one of the most important value-added dividends of experiential learning at your command<sup>2</sup>. Before we move on to training implementation, we want to share with you the workshop template that Eva Balazova, the godmother of these materials, uses in designing her learning events. The overall framework includes:

1. The aims and objectives of the workshop;
2. The timeframe and agenda which spell out in detail what the participants can expect from one session to another; and
3. Lessons learned during the experience, back home planning, and evaluation.

Within the overall framework Eva designs around the following agenda:

1. Welcoming statement and introductions of staff and participants;
2. Learning aims and objective: what she and her staff plan to accomplish;
3. Information about the programme and logistics;
4. Ice breaker or energiser, depending on which seems most appropriate given the group;
5. First learning block includes cognitive input from the chapter being covered, i.e. lecturette, guided discussion, interactive presentation using visual aids;

6. Second learning block includes use of experiential materials from the tools or from her experience as a trainer, i.e., case study, role play, assessment instruments, problem solving exercise;
7. Based on the length of the workshop and the maturity of the group in the subject matter Steps 5 and 6 would be repeated; and
8. The completion of the workshop experience includes a participant look at lessons learned, preparation of personal plans by participants to indicate how they plan to use lessons learned back in their organisation, and workshop evaluation.

We believe this template is an effective one to use in designing experiential learning experiences for professionals. Of course, it's up to each individual trainer to arrive at a process that works best based on experience and results. As the expert group reminded us on more than one occasion these materials need to be *descriptive* and not *prescriptive*.

## IMPLEMENTING TRAINING DESIGNS

Each of the volumes in the *Local Government Financial Management* series consists of exercises and activities developed and sequenced to provide a comprehensive learning experience for your participants. They include role plays, case studies, simulations, instruments, and other learning opportunities that can be arranged in various combinations. These are designed to help participants make sense out of the concepts and ideas being presented in Part One of the chapter.

The exercises we have included in the chapters are all structured in about the same way although the subject matter from chapter to chapter is different. For example:

- Each exercise begins with a general statement of the objective to be achieved and an estimate of the time required. While staying within the recommended time frame is recommended, don't be a slave to it. Use your judgment. If the exercise has sparked lively and important discussions don't cut it off by saying, "Sorry, but we've scheduled a role play, and we need to get on with it." That's an example of the trainer meeting his or her needs and not the needs of the participants and is very dysfunctional. If it takes longer to complete an exercise than scheduled, you can either make up the time elsewhere in the workshop or discuss with the participants the need to add a bit more time to the schedule.
- Following the objective and suggested timeframe we have provided a step-by-step set of instructions on how to conduct the learning event. We call this the *process*. Occasionally, the process will include variations or alternatives for your consideration particularly if the exercise is to be used with participants who work together and may be interested in improving their team performance. A time estimate may be provided for various steps in the process.

- The process description is often followed by worksheets to be either read or written on by participants. Typical worksheets include cases, role-play situations and role descriptions, instruments to be completed, questions to be answered by small groups, and other participant-involving things. Hopefully the instructions on these worksheets are clear and easy for participants to read. If not, change them to meet your needs. All worksheets included in the chapters are designed and intended for mass duplication.

Each chapter includes an example of a warm-up exercise. Warm-ups are the means by which you begin moving participants from the known to the unknown and start the process of getting them acquainted as early into the workshop as possible with others, the learning process, and you. We haven't included different warm-up exercises in each of the chapters since most trainers and many of the participants have their own favourite exercises they like to use. Don't hesitate to involve your participants in providing and conducting their own warm-up exercises and energisers.

Many of the exercises in this series are designed to involve discussions and group problem solving on specific aspects of financial management. The intent of these exercises is to help workshop participants gain a working knowledge of a useful idea, strategy or process and at the same time some experience in using the new knowledge. For example, participants are introduced to brainstorming in one of the manuals, one of the common methods for generating ideas to solve a problem or make a decision. In another chapter participants are encouraged to use *force field analysis* as an analytical aid in planning ways to remove obstacles to the attainment of an operational goal. Many of the chapters include exercises that have general applicability to more than just the topic being discussed. Given this, you might want to get acquainted with what is available in all of them before designing workshops on specific aspects of financial management.

A number of the training tools are designed to build on participant-contributed situations or problems. Working in small task groups, they are asked to analyse the situation and suggest courses of action to be reported on during a plenary session. In other suggested workshop designs, there are problem-solving activities supported by worksheets. These are intended to be completed by participants working in small groups as an aid to analysis and for later reporting. Worksheets are useful for at least two reasons: they provide a record of small group reactions to the assigned tasks, and they give participants written record of their small group's results to take home with them.

At the completion of each workshop design is a skill-transfer exercise. The intent is to help participants begin the transition back to the "real world" of participating elected officials. It is important that participants begin making definite plans for trying out or changing certain aspects of their performance responsibilities. These plans are more effective if they are made in writing, realistically critiqued, and shared openly with other participants.

We have been talking about the tools in each of the chapters as though they are also workshop designs. They are, and they are not. They are because they include a sequence of training exercises that can be selected to conduct a workshop based on the substantive material covered in Part One of each chapter. They are also sequenced to help you develop a learning rhythm in your workshops.

However, we never intended that you should use all the exercises in one workshop, nor to adhere rigorously to the sequence in which they are presented. In this respect they are not workshop designs. Use your imagination, and your design knowledge, skills, and experience to develop a workshop design that will work for you and your participants.

## FACILITATING SUCCESSFUL SMALL GROUP LEARNING ACTIVITIES

With the possibility that we are repeating ourselves on some of these issues, we will nevertheless press on with some clues about how to work with small groups. We will focus on three aspects of managing small group learning: giving instructions, monitoring their progress or lack thereof, and helping them to report out and process what they have learned.

### *GIVING INSTRUCTIONS*

Most experts on giving instructions agree on one thing: begin the instruction by giving participants a rationale for the task or exercise. When participants know *why* they are being asked to do something, they will be far more interested in learning *how*. Beginning with this expert-driven mandate, giving good instructions can be viewed as a simple, four-step process.

- Introduce the exercise by giving a rationale. This should include the objective of the exercise and anything else you might add to help participants see the importance of the exercise from their point of view.
- Explain the task. Describe what participants will be doing. Usually the task of a small group is to produce a product. Use active verbs to describe the product such as, “list the three most important...” or “describe an incident in which you were involved that...” Make the transition from the rationale for the task to the explanation as smoothly as possible.
- Specify the context. It is important for participants to know who they will be working with, under what conditions, and how long. The context of the exercise spells out how they will be accomplishing the task.
- Reporting. Let them know that they will be asked to report out to the larger group the results of their small group discussions. The purpose is not just to explain what happened but to advance the process of learning. Reporting allows participants to share their experiences with one another, hopefully enabling them to expand, integrate and generalize learning from their individual or small group experiences. Ask them to decide on who will represent them in this reporting process before they begin their discussions.

## *MONITORING SMALL GROUP ACTIVITIES*

When participants are busy carrying out the tasks you have assigned them, you need to be busy keeping track of how their work is progressing. We call this monitoring. Monitoring is important for two reasons:

- It gives you feedback on how well participants know what they are supposed to be doing and how committed they are to the task. If you sense confusion, misdirection, or misinterpretation in a group, you may need to restate the task, perhaps by paraphrasing the original instructions or augmenting them with an example.
- It helps you to adjust the time needed for the task. Even the most carefully designed small group exercise will require some adjustments in the amount of time it takes to complete certain tasks. Each participant group is different. Therefore, your concern should be with assuring the small groups enough time to gain the most learning value for its members.

When you have given small groups their instructions, stand quietly and wait until they have convened and have gotten underway on the task. After a few minutes, circulate to find out how things are going. Enter the work area quietly being careful not to interrupt. If you are asked questions, and you usually will be, answer them briefly. If one small group's questions suggest there may be confusion in the other groups, then interrupt the others and re-phrase appropriate parts of the task for all of them.

As groups proceed with the task, there are several aspects of their activities you should be aware of and intervene in if it seems necessary to help them be more productive:

- Is the physical space and seating conducive to participation by all the members, or are some participants isolated?
- Are there changes in the noise level in the group? These changes may indicate that a group has finished its task, just getting down to work, or perhaps confused about the task. In any event, you need to check it out.
- Do participants seem to be working on the task, or are they engaged in idle conversation? If participants are discussing matters unrelated to the task, they may be finished, or they may be avoiding the task. Check it out.

Based on the task given and the time remaining, are participants behind, ahead, or on schedule? If time is running out but participants are still working intently, it may be more desirable to give them more time. When you notice that some groups are finished and others are not, you might offer a time check, "You have two minutes left," for example.

## FACILITATING THE REPORTING PROCESS

By reporting, we do not mean a detailed, “this is what we did during our meeting” recital. Rather, the term “reporting” is intended to mean an opportunity to share the most important observations and conclusions of the time spent by a small group on a task.

Logistics are an important aspect of facilitating small group reporting. What group will report when, and who will represent them? What kind of reports will be expected-- on newsprint, orally with no visuals, or by power point? One of the authors worked on a training programme in one of the Pacific Rim nations where every group was expected to make computer-assisted reports.

Time is also an issue in reporting and it needs to be managed. For example, you can have each group report two or three items from its list rather than report every item. Another approach to reporting is to have each small group examine and report on a different aspect of the same topic. Finally, where small groups have been working on the same task and some kind of synthesis or consensus is needed, a polling procedure can be used. For example, have each small group place its recommendations on a sheet of newsprint which is posted for all to see. When all the sheets are posted and reviewed, comparisons can be made, differences noted, and confusing entries clarified.

Three skills are required to facilitate the reporting process effectively:

- Asking initiating and clarifying questions. To help initiate and clarify group reports, you need to be able to ask direct, but not leading, questions. These should be open-ended questions usually beginning with what, when, where, how, or why such as, “What are the implications of this method given your role as a finance manager?”
- Paraphrasing. This is important to be sure you are actually hearing what the participant meant you to hear. Your objective is to assure the participant that you are listening and that you are eager to know if you have heard correctly. For example, if someone reports that, “*Elected officials have difficulty adopting the budgets we prepare for them.*” you might paraphrase or restate what you heard for clarification by saying, “*You mean elected officials know they have the responsibility to adopt the budget but often find it difficult because of conflicting priorities.*”
- Summarizing. While paraphrasing is meant to mirror the meaning with a change of words, summarizing is to synthesize or condense a report to its essentials. The intent, once again, is to test for understanding. Efforts by a trainer to summarize or reduce information to its essentials might begin with phrases like:

“In other words .... “

“If I understand what you are saying, you mean....”

“In summary, then, you feel...”

## SOME THINGS TO CONSIDER IN USING TRAINING TOOLS

While the training exercises in each of the chapters provide some of the important tools needed to construct a series of elected leadership workshops, they still need the skills of the master builder to apply them with success. Here are a few ideas on how to work with these tools more effectively.

### *BE FLEXIBLE*

Flexibility in working with the training materials and the participants may be the most important and often most difficult skill to develop as a trainer. While most of the exercises in the chapters can probably be conducted without a lot of modification, we don't recommend it. There are many reasons for this. You might experience time constraints that will require you to "cut and fit" the exercise to fit the time available. The participants may have different expectations from those assumed when the exercise you want to use was developed. There may be something about the exercise that just doesn't feel right in the culture in which you are working. Your participants may have actually raced ahead of you in discovering something that is important to them, and they want to talk about it in more depth. It's important to be flexible, to seize the opportunity of the moment.

### *ENRICH THE CONTENT*

While we have tried to provide enough content materials in Part I of each of the chapters to get you through most workshops, we encourage you to enrich the content with local examples, new concepts or strategies that you might have discovered, or even evidence that refutes what we have written about so eloquently. The world of local government financial management is changing rapidly, and whatever we write today may be out of sync with tomorrow's reality. As you prepare for each workshop, enrich the content with current examples and new ideas that build upon, or even refute, the concepts, principles, and strategies we have provided.

There is another content enrichment opportunity that is available in every experiential learning experience that yearns to be tapped at any given moment. That's the experience, wisdom, and ideas of the participants. While we have included a number of different approaches to collecting and evoking information and ideas from your participants in the various chapters, we encourage you to invent your own. One of the most successful techniques we have found to get a lot of ideas out quickly and organize them into some logical framework is to use large index cards. Have the participants respond on these cards with their ideas, ask them to attach them to a blank wall with paper tape and then rearrange them into logical categories for processing.

There are, of course, many ways to tap the experience of participants to add to the content of each workshop. These include developing instant case studies or critical incidents based on their experience rather than using ones that have been included in the chapters; asking participants to take various positions in a role play that reflects a situation they might be struggling with in their own communities; or creating an instant simulation based on the needs of the participants. For example,



the simulation might involve a budget hearing where citizens have, for the first time, been given the opportunity to participate in the deliberations.

#### *PROVIDING BALANCE AND RHYTHM*

Designing workshops is a bit like writing a musical score. You need to take into consideration things like sequencing events, balancing your instruments and their impact on the overall production, and assuring that the rhythm doesn't bore either the audience or the conductor(s). For example, the arrangement of exercises and presentation should proceed naturally from the more known to the less known, from the less complex to the more complex, from the less interactive to the more interactive. Every component of the workshop should contribute to the attainment of workshop goals. Even the refreshment breaks, meals, and free times should be placed strategically.

And don't forget those ice-breakers, energisers, and openers that are so important to group growth and on-going maintenance. They serve the needs of those who join together to learn and implement what they are learning. Since some of us get these tools confused with each other, it might be useful to describe them and how they differ.

Icebreakers and openers have a lot in common, but also some differences. Icebreakers are relatively subject-free activities whereas openers are often related to the content of the workshop. Icebreakers are typically used when workshop participants don't know each other. They are designed to help members get acquainted and become more comfortable as learning partners. Openers, on the other hand, are tools to help participants ease into the subject matter. They tend to set the stage for interactive learning; help the group, including the facilitator, avoid abrupt starts; and generally help the participants get comfortable with the content material. An opener may be as simple as asking the participants to share in pairs what they think is meant by "asset management" when that particular topic is introduced.

The other type of climate-building and group-maintenance exercise is the energiser. Typically, it's a fun event to get the group's collective energy level up when the group seems to have hit a slump. Don't hesitate to use these group "environmental tools" to open your workshops, to help everyone get acquainted, and to infuse a bit of adrenalin into the learning community when it's fuel tank seems to be on empty. If you want to learn more about these tools, check with your training colleagues or get on the internet and surf for ideas. If these two options fail, just ask your participants to lend a hand. Our experience it that most groups have individuals who are skilled in running these types of exercises and enjoy the opportunity to become involved.

#### *PROCESS THE WHAT, WHY, AND HOW OF LEARNING*

Polly Berends, in writing about how we learn, said, "Everything that happens to you is your teacher. The secret is to learn to sit at the feet of your own life and be taught by it." To paraphrase Polly's metaphor about self-learning, everything that happens in a workshop is important. The secret is to keep on top of the *what*, the *why* and the *how* of your learning design and process them. Processing is simply an activity that is designed to encourage your participants to plan, reflect, analyse, describe, and com-



municate throughout the learning experience. These are the events that encourage the transfer of learning from the workshop environment to the real-world working life of your participants. Here are some processing techniques to consider:

- Use observers to report on the process or outcome of an exercise.
- Ask participants to serve as consultants to one another to stimulate thinking and problem solving.
- Divide participants into several smaller groups for rapid processing of new ideas and information and provide for reports and summary discussions.
- Leave time for participants to reflect on what they have been learning and doing.
- Encourage back-home application by having participants develop written plans about what they plan to do to apply what they have learned to their roles and responsibilities as elected officials.

#### *ENCOURAGE PARTICIPATION BUT DON'T OVERDO IT*

While an important trainer role is to stimulate participants to exercise more freedom in thought and action, it is important not to force any activity that might cause them to feel threatened or intimidated. This is particularly true if people are attending a workshop involuntarily or with strong reservations. Be sensitive to the feelings and needs of all participants. Don't expect your participants to involve themselves with equal enthusiasm in every single activity.

#### *CELEBRATE OPPORTUNITIES TO LEARN*

Every significant learning experience is a cause for celebration. While you will need to determine what is "significant" based on your experience and the norms of your situation, we tend to think that a week or more of training deserves some kind of celebratory event. It may be a closing luncheon, the handing out of certificates of participation, a group photograph, or something more significant depending on the time and personal commitment of your participants. If you have a large number of officials participating in the full series of workshops, you might consider holding one large celebration or reunion once a year. This could provide publicity for your program and also an opportunity to make it more elaborate.

#### *HAVE FUN!*

We came across a French proverb while writing this part of the Trainer's Guide that sums up one of the most important qualities of a learning experience. The most wasted of all days is the day when we have not laughed. Think about your own experiences as a trainer or participant and the ones you have treasured and remembered. So, have fun knowing that laughter in the midst of learning is a no-cost, value-added commodity.

## LEARNING APPLICATION

While training is the accepted strategy throughout the world for workforce development, it's expensive. A good return on your training investment is assured when (1) the training addresses real performance discrepancies and skill needs; (2) the training is competently designed and delivered by experienced trainers; and (3) those who have attended the training apply their new knowledge and skills to improve work performance. All of these factors must be present for training to meet the expectations of those who invest in it. But it is the third that is the most problematic. Unless those who are trained make the effort to use what is learned to correct discrepancies or to modify or change their behaviour, the investment is lost. Here are some thoughts on what you might do to help participants apply what they learned when they return home from your workshop.

**Sharing experiences.** The opening session of any skill based workshop is not too soon to raise the importance of how the participants will apply their new-found knowledge and skills when they return home. If this is one of a series of open enrolment workshops on the various roles and competencies, you might ask if any participants have attended earlier workshops on the series. If so, invite them to share their experiences in applying what they learned. This sharing technique can provide continuity and remind other participants that it is important to think about how they will apply what they will be learning to challenges in their local leadership role.

**Learning objectives.** It is important to include near the start of any organised learning experience a discussion of the objectives you hope to achieve as a group. However, it's not so common to ask participants to develop their own set of learning objectives based on the workshop content and design. We suggest you do. Have them write their own learning objectives and remind them that they will be asked to return to them at the end of the workshop when they prepare an action plan based on what they plan to do when they return home.

**Action Planning.** In each of the chapters we have included a Learning Application Plan worksheet. We encourage you to have each participant complete this form, or one of your choice as a trainer, before the workshop closes. It's an important way to help participants reflect on what they have learned and how they plan to use what they have learned for their own continuing professional development and the development of their organisation.

## BASIC TRAINING TOOLS

While the chapters offer enough training materials to help you design and deliver a full-scale local government financial management training programme, we decided to supplement these with a few basic tools of the trade. Think of these learning components as parts from which you can design and build an experiential learning event. They are largely interchangeable although their success depends on a number of environmental variables. For example, the number of participants you are working with, the time you have available, the mix of participants, and most importantly, what you hope to achieve. Start with your learning objectives and your learning audience and

then decide which of these might be helpful in constructing a winning workshop design.

## PRESENTATIONS

Trainers who believe in andragogy, a fancy term for adult education, and experiential learning, which translates roughly into learning-by-doing, are usually horrified to even mention the word lecture in the company of other trainers. Instead we use such terms as *lecturette*, *guided discussion*, and yes, *presentations*. However, there are lots of opportunities when it is both appropriate and essential to present ideas, concepts, strategies, data, and other cognitive stuff to achieve your learning objectives even in the most interactive training experience. Following are a few ideas to help you make presentations that will keep your participants from snoring.

Presentations are useful for explaining new concepts and subject-matter details and to stimulate critical thinking. Used in conjunction with other learning methods, presentations help workshop participants become better informed, involved, and comfortable with learning new things.

Presentations are more than just a way of delivering information. You can use them at the start of a workshop to establish a proper learning climate, promote interest in learning, and reduce participant anxiety. You may present information spontaneously at any point in the workshop to stimulate thought, introduce exercises, clarify or interpret a new concept, or test for comprehension. Finally, you can take advantage of presentations at the conclusion of a workshop to summarize important lessons learned and encourage learning transfer.

Many trainers see the presentation only as a form of information delivery. Viewed from a broader perspective, the presentation is an opportunity for the trainer to get a group of participants involved in their own learning. This is more likely to happen when a presentation includes planned or spontaneous participant-involvement techniques sometimes referred to in the chapters as *guided discussions*. Here are a few clues on how to engage your participants in your presentation:

1. Ask participants to think about and discuss situations in their own work experiences that illustrate a concept you have just introduced to them as a way of helping them see its practical application to their own work.
2. Ask participants to answer questions about material just covered or restate in their own words what they just heard you say as a comprehension check before going on to new material.
3. Give participants a handout that covers some aspect of the material being presented orally and include some blank spaces in the handout for their use in writing down their own interpretations or possible job applications of the material being discussed.
4. Most important, use visual materials to supplement your oral presentations, i.e., flipcharts, chalkboards, overheads, and, if available, computer-assisted materials. These help to keep participants awake, lengthen their attention span, increase the retention of new information, and lessen the chance of your being misunderstood.

In summary, successful presentations are planned with four considerations in mind.

- They are brief, focused on a few key ideas and packaged to deliver information in “bite-sized” chunks.
- They are designed to include provocative beginnings, convincing middles, and strong endings.
- They give participants ample opportunity through question and answer techniques to demonstrate their comprehension, and to compare viewpoints and experiences with the trainer and other participants.
- They respond to the needs of participants to experience multiple ways of accessing information and ideas.

## *DISCUSSIONS*

Discussion is any interaction between two or more people on a topic of mutual interest. The types of discussion used in this series are of two kinds depending on the trainer’s role. In those that are trainer-guided, the trainer takes an active and direct part in guiding and directing the discussion. In what is sometimes called a structured discussion, you will be letting participants manage their own deliberations.

In the trainer-guided discussion, the objective is to encourage participants to think about, relate to, and internalize new ideas related to a particular topic. While usually planned as a way of processing case-study data, role-playing experiences, or other exercises, such discussions may occur spontaneously during a presentation or near the close of a workshop. How productive they are will depend on how experienced you are with the question-and-answer method and your knowledge of the subject.

In a structured discussion, the objective is to engage participants in idea generation or problem solving relative to an assigned topic and to demonstrate the value of teamwork — interdependence. You need little subject-matter expertise to initiate a structured discussion. Normally, you will divide the participant group into several small groups of about equal size and assign the same or different tasks to each group. After tasks are assigned, a period of time is allowed for the small groups to discuss the task. You might want to give instructions to the small groups about appointing a leader, a reporter, and a timekeeper. At the end of the discussion phase, small groups are asked to come back together and to report their findings, sometimes written on flipchart paper which can be taped to a wall of the training room.

Sometimes, the focus of small group discussions is on the process of working together as well as the product of the group effort. There is much learning value in exploring relationships or patterns of interaction among participants as they work together to solve a problem, decide on a course of action, or carry out some other task. You might decide to select one or two participants to be observers. Ask them to monitor the process of interaction among participants as they work together on tasks. Assure that this is being done with the knowledge and consent of other group

members. Their final task is to feed back their observations and conclusions to the group when it has finished work on its assigned task.

In summary, the discussion method can stimulate participant involvement in the learning process. Trainer-guided discussions are of value principally in stimulating logical thinking. However, subject-matter expertise is required if you plan to lead such a discussion. Structured discussions, on the other hand, help participants to become self-reliant, to develop team thinking and approaches, and to be less dependent on the trainer. Your role in discussions of this kind shifts to coach and interpreter. Through mutual exploration, struggle, and discovery, participants in small groups gain insight and the satisfaction that comes from having attained these insights.

## ***CASE STUDIES AND CRITICAL INCIDENTS***

Under this heading we will discuss two types of exercises that are used in this series: (a) the longer traditional *case study* used in many professional schools and (b) an abbreviated version of the case study called the *critical incident*.

### **TRADITIONAL CASE STUDIES**

The case study is an actual or contrived situation, the facts from which may lead to conclusions or decisions that can be generalised to circumstances experienced by those taking part in the exercise. Put another way, a case study is a story with a lesson. Cases used in training can take many forms. They may be quite long, complex, and detailed. Or they may be short and fairly straightforward similar to the one-to-three page variety found in the series.

The case method assumes group discussion. The well constructed case stimulates participants to analyse and offer opinions about (a) who was to blame, (b) what caused a person to behave as he or she did, and (c) what should have been done to prevent or remedy the situation. The more important contributions of the case method to training include:

- Discouraging participants from making snap judgements about people and behaviour.
- Discouraging a search for the one “best answer.”
- Illustrating how the same set of events can be perceived differently by people with similar backgrounds.
- Encouraging workshop participants to discuss things with each other and to experience the broadening value of interaction.
- Emphasising the value of practical thinking.

### **CRITICAL INCIDENTS**

Closely related to case studies, critical incidents are brief, written descriptions of situations that are familiar to the workshop participants. They can come from several sources: (a) the workshop participants themselves; (b) participants in earlier workshops; (c) anecdotal information collected by the trainer through interviews and

surveys; (d) secondary source material such as journals, books, and manuals on the topic; and (e) the trainer's fertile imagination. When preparing a critical incident for use in a workshop, there are several design ideas to keep in mind:

- Keep them short—several sentences are usually enough—and simple so they be read and understood quickly by workshop participants.
- Because incidents are short, they need to be tied directly to the workshop objectives.
- Include enough detail about the problem to emphasise the point of the incident.

When asked to write a critical incident, participants are instructed to think of a difficult situation related to the training topic. They should describe the situation briefly, state who was involved in it, and the role they played. Depending on how the incident is to be used, participants might be asked later to explain what was done about the situation and the resulting consequences.

A critical incident can be as simple as a participant saying,

*The mayor has been turning in travel, lodging and meal expenses that are far in excess of those allowed in the city's regulations. In fact, it looks like he is using these otherwise legitimate expenses to run his private business on the side. As the city's newly appointed finance director I'm concerned about the consequences of this for the city, the mayor, and, of course, my job. I raised the issue with him a month or so ago and he vehemently denied any wrong doing and told me to mind my own business. When I mentioned this to my assistant who had been with the city for several years, he told me that the previous finance director had been fired for confronting the mayor about his expenses and that I needed to be careful. I've only been in the job for about six months and can't afford to get fired. What should I do?*

## ROLE PLAYING

Role playing involves asking workshop participants to assume parts of real or imaginary persons, to carry out conversations, and to behave as if they were these individuals. The intent is to give participants the chance to practice new behaviours believed appropriate for their work roles and to experience the effect of behaving this way on themselves and on others who are playing related roles. It is generally believed that on-the-job application of new behaviours increases to the extent that people are willing to try out and evaluate the new behaviours under supervised training conditions. Few training methods offer more effective ways to encourage experimentation with new behaviours than role playing.

To provide the context in which role playing can achieve significant participant learning, couple it with the case study or critical incident method. After reading and discussing a case study or critical incident, invite participants to step into the roles of the individuals featured in the situation. Realism is enhanced when detailed role descriptions are developed for each of the role players.

If an individual is resisting the opportunity to become involved in a role play, it is better not to push them into participating. It is up to the trainer to establish the tone for role playing. Provide firm direction when moving a group into role playing by establishing ground rules and the boundaries of good taste. Bring the role play to a close when it begins to lose its realism and learning value.

Here are some useful steps to take in setting up and directing a role play.

- Introduce the setting for the role play and the people who will be represented in the various roles. If names are not given, encourage role players to use their own names or provide them with suitable names for the roles they will be playing.
- Identify participants to play the various parts. Coach them until you are satisfied they understand the “point of view” represented by each part. Participants may be asked to volunteer for roles, or you may attempt to volunteer them for roles in a good-natured way.
- Ask participants who play roles to comment on what they have learned from the experience.
- Ask other participants to give critical feedback to the role players.

In summary, role playing is a highly interactive, participant-centred activity that, combined with the case-study method, can yield the benefits of both. When case situations, critical incidents, and role descriptions closely represent real-life conditions, role playing can have a significant impact on the participants’ ability to learn new behaviour.

## SIMULATIONS

Simulations are like role plays, but bigger. They are often simplified models of a process that is to be learned. Through simulation, workshop participants can experience what it is like to take part in the process and can experience their own behaviours relative to it in a safe environment. They help the participants learn while avoiding many of the risks associated with real-life experimentation.

Simulations are sometimes used to involve participants in organising physical objects to study how they make decisions. One example is to create small teams that are asked to compete against each other on the construction of a tower within designated time and resource constraints. The intent is to examine questions of planning, organisation, and the assumption of leadership within newly-formed teams. Another example of simulation is something called an in-basket exercise. Individual participants are asked to make quick decisions as a newly-appointed manager on how to delegate or otherwise dispose of a stack of correspondence left behind by a previous manager. The intent of this kind of simulation is to investigate how an individual sets priorities, delegates authority, and generally manages time.

As with role plays and case studies, simulations garner their learning value from the authenticity of the situations and the degree of realism provided by participants taking part. What has been said earlier in the guide about setting up the situation and being sure everyone knows what he or she is supposed to be doing applies equally to your trainer role in producing successful simulations.



In summary, simulations are workshop representations of situations participants are likely to be confronted with in their real-life roles. They allow participants to practice new ways of doing things and learn more about their own behaviour in role-relevant situations with a minimum of personal or professional risk.

## INSTRUMENTS

An instrument is any device that contains questions or statements relative to an area of interest to which participants respond. Instruments are versatile. They can include questionnaires, checklists, inventories, and other non-clinical measuring devices. Normally, instruments focus on a particular subject about which workshop participants have an interest in learning. They produce a set of data for participants to study, either individually or in small groups or both. Often these instruments are designed to help participants discover more about their own beliefs, values, and behaviours and provide data on the norms of a larger population. Most participants, when confronted with their own data, are inclined to alter aspects of their future behaviour so they can be more effective.

There is a major distinction between just having participants complete an instrument and using it properly. The value of these learning aids is increased measurably when you apply the following steps.

### *STEP 1: ADMINISTRATION*

Distribute the instrument, read the instructions to participants, ask for questions of clarification only, and instruct them to complete the instrument. Monitor the time carefully and encourage participants to help others if they are having problems in completing it. Expect some individuals to take longer than others.

### *STEP 2: THEORY INPUT*

When participants have completed the instrument, discuss the theory underlying the instrument and what it measures.

### *STEP 3: SCORING*

Based on the way the instrument is designed, ask participants to score their responses. Sometimes instruments have a built-in scoring mechanism. At other times, it may be necessary to read out the answers and to give other instructions, e.g., how to combine scores. Since some scoring instructions can be difficult, we suggest you take the instrument yourself and become familiar with all aspects of it before trying it out on others. This is even more important if you devised the instrument yourself.

### *STEP 4: INTERPRETATION*

It is generally effective to have participants post their scores on chart paper for others to see. Small groups are often formed to discuss their scores. Special attention should be given to the meaning of low and high scores and discrepancies between



actual and estimated scores, if estimating is done. Participants may be asked if they were surprised by their scores or other participant's scores.

In summary, instruments are used to derive information directly from the experience of workshop participants themselves. Owing to the personal nature of the feedback, instruments can be an effective method for helping participants learn more about specific behaviours and the impact these behaviours have on others. While we have included a number of instruments in the series, we encourage you to develop your own based on the needs of your participants and your own interests in expanding your training design knowledge and skills.

## ***LEARNING APPLICATION***

Speaking of *Learning applications* don't forget that each of the chapters includes a number of these efforts to encourage the reader to stop and reflect on what they have just read. These interludes in the Part One text of each chapter have the potential to be very effective training design and learning tools. Don't overlook their potential as you design workshops and learning experiences for your clients. Now, back to this specific opportunity to apply what you have just learned about the design of training programmes and experiences.

In an effort to better understand the many ideas that we have presented on developing effective training programmes for your constituents, we suggest you jot down five to ten of the most important lessons you have learned from this Guide that will help you become better prepared to offer this LGFM series.

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Now, take the best of these ideas and describe how you plan to put it into operation in planning and designing your next financial management workshop.

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## IN CONCLUSION

The secret of being a competent and successful training manager or trainer is not measured by how many guides like this you may have read. It's measured by what others do with what they have learned from you and the learning experiences you have made available to them.

For example, about twelve years ago one of the authors conducted a three-week programme on the topic of managing change in Hungary. There were twenty-seven participants in that workshop but only one responded immediately to the potential of trying to manage changes back home. It was the early 1990s and Ana Vasilache was from Romania, a country that was undergoing significant political, social and economic changes. With new ideas on how to change things and a whole lot of tenacity and courage, Ana began to develop a regional training and capacity building programme to serve local governments and non-governmental organisations in her country and others in the region.

In the twelve years since that workshop on Managing Change, she and her Romanian colleagues established an organisation that has trained over 10,000 participants from 35 countries on four continents. Moreover, their training has included twenty-one national training of trainer (TOT) programmes involving 230 trainers. By the most conservative multiplier the number of officials consequently trained by the graduates of these TOT programmes far exceeded 100,000 at the time this was being written. She attributes the genesis of her success in large part to what she learned in that initial workshop, i.e. concepts, strategies and skills in experiential learning and change management.

As the author recalls the initial workshop that sparked this flurry of training opportunities in Romania and beyond, he admits that he has no verifiable data on the success of the other twenty-six graduates. If we assume that twenty-six of the twenty-seven participants in that change management workshop did very little to apply what they had learned, can we make the outrageous assumption that the workshop was successful? Or, was it a dismal failure? You decide.

We believe there is a lesson or two or more in this short parable. First, never underestimate the influence you can have as a trainer using chapters like the one you are reading. Second, don't expect every training programme you conduct to be 100% successful. You can't control nor dictate the impact that others will have from what they have learned in workshops that you conduct. Training of Trainer (TOT) workshops are notorious for the dropout rate among those who attend. Very few participants in a Training of Trainers programme will become accomplished and dedicated trainers. Not to worry. It only takes one trainer in a TOT who is dedicated to cloning herself to keep the propagation going.

Finally, be encouraged by the success that Ana and her colleagues have experienced and don't be discouraged by short term workshop results. Most external

evaluators would consider a programme like the one in Hungary a dismal failure. After all, the percentage of participants who went forth and actually “managed change” in their organisations and communities appeared to be miniscule. It probably was a dismal failure and waste of funds from conventional measures of success. Unless, you consider the consequences of the one participant who went home and turned her learning into a phenomenal success story that has spanned four continents. Social, political and economic revolutions often start not from the masses but from a few individuals who recognize the power of an idea whose time has come.

In closing this guide we want to go from *inspiration* to *perspiration*. In other words, we want to put you to work. The following worksheet is to help you and your colleagues begin to plan the application of these learning materials in your own country, region or community. Good luck and think outside the box. Ana Vasilache did and was one of seven persons world-wide honoured in 2000 by UN-HABITAT for their contributions to good governance.

*Never doubt that a small group of thoughtful, committed citizens can change the world. Indeed, it's the only thing that ever has.*

Anthropologist Margaret Mead

## PLANNING FOR SUCCESS

The following questions are designed to help you think through how you will put this series of Local Government Financial Management (LGFM) opportunities into action. We suggest that this is a task best accomplished by a few dedicated stakeholders involving not only those who will take the primary responsibility for providing the training but also those who will benefit from the training. Thus the first set of queries to consider. By the way, these questions may not follow your own sense of what the planning logic should be. Given this, don't hesitate to alter the sequence, add your own, or drop some of the tasks we are suggesting. Also to conserve space we have not left enough room after some of the questions to provide adequate answers. Given this, we suggest you plan to use a flip chart to record your answers, preferably working through the questions with one or two other colleagues who will make up the core of your planning team.

### *THE PLANNING TEAM*

1. About how many persons will be on your planning team? \_\_\_\_
2. What expertise and points of view will they represent? For example: potential trainers? If so, who? \_\_\_\_\_; Finance officers? \_\_\_\_\_; Representatives of other potential client groups? \_\_\_\_\_; Potential sponsors of training: \_\_\_\_\_; Potential funding sources? \_\_\_\_\_; Language specialists, if necessary? \_\_\_\_\_; Others? \_\_\_\_\_.

## ***THE POTENTIAL CLIENTELE OF THE TRAINING:***

In each of the following client possibilities, not only think about whether you want to target them, but try to estimate the potential numbers of training participants in each of the categories mentioned. Just check those you want to target and provide a guess-timate of the numbers. This part of the planning will provide a sense of the potential there might be for the training given out-of-the-box thinking and marketing.

1. Senior local government finance officers? \_\_\_\_; #s? \_\_\_\_
2. Staff members of finance departments? \_\_\_\_; #s? \_\_\_\_
3. Operating department heads, i.e. public works, fire protection, library?  
\_\_\_\_ #s? \_\_\_\_
4. Local elected officials? \_\_\_\_ #s? \_\_\_\_ Members of specific committees of  
the governing body, i.e. finance or oversight committees? \_\_\_\_#s? \_\_\_\_
5. State government officials with local government oversight responsibili-  
ties? \_\_\_\_#s? \_\_\_\_
6. Pre-public service students who want to work with local governments?  
\_\_\_\_ #s? \_\_\_\_
7. Citizens, i.e. those who might serve on citizen boards or committees to  
help plan and manage the budget? \_\_\_\_ #s \_\_\_\_
8. Others? \_\_\_\_#s \_\_\_\_.
9. Speaking of potential clients, do you plan to conduct any training need  
assessments? If so, with whom? \_\_\_\_\_; And how? \_\_\_\_\_
10. Now, go back to each of the potential client groups and think about what  
chapters would be most appropriate for each category of training partici-  
pant. For example, senior finance officers should ultimately be trained in  
all the chapters. Elected officials might need to concentrate on topics like  
operating budgets and their financing, evaluating financial conditions,  
and a few others with an overview on all of the chapters.

## ***MATERIALS AND TRAINER PREPARATION***

1. Will the series have to be translated into a local language? \_\_\_\_ If so, how  
will you undertake this task? \_\_\_\_\_
2. Who will pay for the translation? \_\_\_\_ And, the printing in the local  
language? \_\_\_\_
3. How will you monitor the integrity and accuracy of the translation? \_\_\_\_
4. If translation is not necessary, do you see the need to adapt the materials  
for local use? \_\_\_\_ If so, what does this mean? \_\_\_\_ How do you plan to  
carry out these adaptations? \_\_\_\_\_
5. Who do you plan to work with to accomplish these adaptations? \_\_\_\_ How  
will you compensate those who do the adaptations? \_\_\_\_
6. What other questions do you need answers to regarding the preparation  
of the materials for local or national use? \_\_\_\_
7. Who do you plan to use to conduct the LGFM training? \_\_\_\_

8. How will you prepare them as trainers who both understand the content of the materials and the experiential learning process? \_\_\_\_
9. Will you conduct a training of trainers (TOT) to develop a small cadre of trainers who can undertake the initial series of training events? \_\_\_\_ If so, how do you plan to organise and staff such a programme? \_\_\_\_
10. How will you recruit the participants for the TOT? \_\_\_\_ What will be your criteria for selection of these participants? \_\_\_\_
11. How will you finance the cost of the TOT? \_\_\_\_

## ***PARTNERSHIPS, FUNDING, AND OTHER NECESSITIES***

1. Do you plan to partner with other organisations or individuals to plan and conduct the training? \_\_\_\_ If so, who are they, and what will they contribute to the endeavour? \_\_\_\_
2. How do you plan to fund the training of LGFM participants? \_\_\_\_ How will you organise these potential funding possibilities? \_\_\_\_ What are the possibilities of sustaining each of these funding options? \_\_\_\_ What is your strategy for sustaining the LGFM training over time? \_\_\_\_
3. How do you plan to market the training? \_\_\_\_
4. What kinds of evaluations do you plan to use to assess the quality of the training experiences associated with LGFM training? \_\_\_\_ How do you plan to assess the impact of the training within the participant's work setting? \_\_\_\_
5. What is the first thing you plan to do to put this plan into action? \_\_\_\_

There are no doubt many more questions to be asked and answered before you begin to spend time and money on launching a new programme of local government financial management training. We hope this volley of queries has helped to begin the dialogue toward action. We encourage you to add to this list of questions as you go down the road toward training implementation. The more you can define the *what*, *who*, *why*, *where*, *when*, and *how* dimensions of this new venture before you even



# Accounting

## PART ONE: CONCEPTS, PRINCIPLES, AND STRATEGIES

### SUMMARY

This chapter is divided into basic and advanced sections. The basic section includes background information on basic concepts and definitions of accounting, the importance of accounting and good governance, accounting standards, the accounting cycle, and types of accounting. It also includes policies, obstacles and benefits to accounting. There is a section on management accounting and various costing techniques. The advanced section includes information on computer technology, modernizing the accounting system, accounting manuals, fund accounting, utility funds, depreciation, and advanced financial and budgetary reporting.

### RELATIONSHIPS BETWEEN CHAPTERS OF THE SERIES

The following matrix shows the interrelationships between *Accounting* and other chapters in the series.

	Accounting
<i>Introduction</i>	The <i>Introduction</i> provides the framework for using the entire series.
<i>Trainer's Guide</i>	Provides guidelines for using the chapters to provide training.
<i>Financial Policy Making</i>	Financial policy making provides the framework for the accounting system.
<i>Financial Planning</i>	Financial planning identifies the direction the LG wants to go in terms of revenues and expenditures. Accounting records how the revenues and expenditures are actually used.
<i>Citizen Participation</i>	LG transparency and accountability are essential concepts for citizens. Accounting is the primary tangible method that citizens have for holding LG officials and policy makers accountable for their decisions.
<i>Evaluating Financial Condition</i>	Accounting records provide a large portion of the data used to evaluate the financial condition of the LG.

<i>Operating Budget</i>	The operating budget is a plan. The accounting records reflect how the monies were actually spent.
<i>Financing the Operating Budget</i>	The operating budget is a plan. The accounting records reflect how the revenues were actually received.
<i>Capital investment plan (CIP)</i>	The capital investment plan is a plan. The accounting records reflect how the monies were actually spent.
<i>Financing the Capital investment plan</i>	The capital investment plan is a plan. The accounting records reflect how the revenues, loans or bonds were actually received.
<i>Performance Measures</i>	Performance measures help the LG ensure that the accounting system and process is effective and efficient and documenting how monies are spent in accomplishing the priorities, goals and objectives of the LG.
<i>Asset Management</i>	Accounting maintains the asset records that enable the LG to determine that assets are being best utilized financially to accomplish the priorities of the LG.
<i>Procurement</i>	Procurement is the process for spending budgeted monies to acquire goods, services and capital investments. Accounting is the financial documentation for how and with whom the monies have been spent.

## INTRODUCTION

We recognize that basic or introductory concepts are relative—depending upon your background and frame of reference for both finance and local government. Users of this material will range from those who have no knowledge of accounting principles or concepts to those who have a very sophisticated understanding. The following are our ideas of what represents the most fundamental principles and concepts needed to understand accounting at a beginning level.

We recognize that “one” accounting chapter cannot be written that will be applicable in all countries world-wide. Therefore, we have focused on the basics of accounting – those elements that are usually a part of any LG accounting system in the first part of the chapter. There are a number of examples throughout the book, they are based on double-entry accounting unless the text specifies differently.

Government accounting is often considered a routine activity because of its basic nature as a process of recording data on financial transactions of government operations. Its role is viewed as essentially limited to taxation and revenue control and to the recording of commitments and disbursements. However, when government officials and finance managers relate accounting to the development of financial policies and decision-making, the rules and routines, the plans, the forms and structure of accounts and the associated documents take on a new meaning and interest and have a more critical role to perform. It is important to understand the role that accounting plays in developing policies, assisting decision making and improving the effectiveness and efficiency of LG programs and services.

The term, *Finance manager* is the generic term used throughout this chapter to refer to the LG official responsible for overall financial management activities in a LG, and specifically for recording accounting transactions, maintaining the account-



ing system and preparing financial reports. Titles and responsibilities vary from LG to LG. Some use titles such as economic director, finance director, chief accountant, etc., so to simplify matters, a single title is used to cover all others in this chapter.

## BASIC CONCEPTS OF ACCOUNTING FRAMEWORK

### WHAT IS ACCOUNTING?

**Accounting** is the process of recording, classifying, summarizing and reporting the economic activities and understanding the financial position of an organization. The purpose of accounting is to provide financial information that is accurate, complete, timely, and in a form that is understandable to users. The primary focus of LG accounting is on the cash flows into and out of the LG and increasing the transparency and accountability to the local constituency rather than on profit or loss reporting.

#### Where Did Accounting Come From?

Accounting was invented in the late 1400s by a Franciscan monk from Italy. He was a mathematician that believed that a successful merchant needed three things to be successful: sufficient cash or credit, an accounting system that could tell him how the business was doing, and a good person to operate it. His accounting system consisted of journals and ledgers. It was based on the invention of double-entry bookkeeping. Debits were on the left side because that is what the term “debit” meant, “the left.” The numbers on the right were named “credits.”

If everything were done correctly, the bookkeeper could do a trial balance which means to add up all the debits and then add up all the credits, and the two sums should be equal. If not equal, then there was a mistake somewhere in the ledgers. The idea was so simple and met the needs of business so well that it caught on immediately.

### GOOD GOVERNANCE, CITIZENS AND ACCOUNTING

The concept of good governance incorporates how decisions are made, how power is balanced between institutions, individuals and the community, and the ways politicians and managers are held accountable by the citizens of the LG. It refers to the setting within which public policy is decided and executed. Accounting and performance reports provide citizens with a way to hold decision makers accountable.

There are several principles on which good governance is built:

- Transparency – open processes and systematic reports on results toward meeting goals and objectives,
- Accountability – actions, decisions and decision-making processes open to scrutiny by citizens, public agencies, the governing body and civil society,

- Responsiveness – the capacity and flexibility to respond to changing regional, national and international circumstances,
- Future Orientation – the ability to anticipate future priorities and develop policies that take into account costs and anticipated changes,
- Rule of Law and Integrity – equitable enforcement of transparent laws, regulations and codes, so that they become a part of the culture in the LG in supporting ethical behaviour and in a vigorous action to fight corruption.

Financial reporting is one tangible method that citizens can use to encourage and evaluate good governance. The elements of good governance combine to generate a LG's credibility, which in turn gives it legitimacy internally and respect externally.

## WHY IS ACCOUNTING IMPORTANT?

Accounting is the combination of people, equipment, forms, methods and procedures organized to record financial activities and display that activity in financial reports. Accurate LG accounting systems provide the tools and techniques necessary to assemble, analyze, and report financial data so that it may be used by managers and the governing body for planning, decision making, and cost and budget control.

At the heart of good governance is the need for a transparent or open fiscal process. From simple embezzlement to poorly constructed or ill-timed financial reports, the problems from a closed and confusing accounting system can affect the public's confidence in the LG. Fiscal transparency requires the full disclosure of all relevant fiscal information — including budget information — in a timely and systematic manner.

## WHY IS GOVERNMENTAL ACCOUNTING DIFFERENT FROM PRIVATE SECTOR ACCOUNTING?

The primary focus of the private sector is making a profit; the primary focus of governments is to demonstrate compliance. So, the accounting and reporting used for LGs should demonstrate compliance. In most countries, all facets of a local government's (LG's) operations may be affected by legal requirements. These legal requirements may be imposed externally by the central government or provinces, or imposed internally through laws, ordinances, trust agreements, or donor stipulation. Operational and administrative controls are usually more stringent than in private enterprise because of the need to assure compliance with these legal and other requirements. The following are samples of a LG's operations that may be regulated or controlled:

- Organizational structure – method of election, composition, number and duties of the governing body, duties of the chief administrative officer, which officials or employees are to be elected, appointed or hired from among applicants. Certain functions may be required to be provided, such as public health, education, and transportation.

- Personnel policies and procedures – who will appoint or hire personnel; tenure of personnel, policies and procedures upon termination, extent of minority group representation on the staff, levels of compensation, promotion policies, and types and amounts of compensation increments permissible.
- Sources of resources: the types and maximum amounts of taxes, licenses, fines or fees a LG may levy, and the manner in which user charges are set: tuition rates, debt limits, and the purposes for which debt may be incurred.
- Uses of resources: the purpose for which resources can be used, including “earmarking” of certain resources for use for specific purposes, purchasing procedures to be followed, budgeting methods, and forms or procedures to be used.
- Accounting: any or all phases of the accounting system, e.g., chart of account, bases of accounting, and forms and procedures.
- Reporting: type and frequency of reports, report format, and content, to whom reports are to be furnished.
- Auditing: frequency of audit, who is to perform the audit, the scope and type of audit to be performed, the time and place for filing the audit report, who is to receive or have access to the audit report, and the wording of the auditor’s report.

The managers of LGs may have limited discretion compared to managers in the private sector. For example, it may be difficult to:

- Modify a LG’s structure, no matter how archaic, awkward, or ineffective,
- Attract qualified employees at prescribed pay rates, discharge or demote incompetent employees, or reward outstanding employees,
- Acquire sufficient resources or use available resources as management deems most appropriate, or
- Improve the existing budgeting, accounting, reporting, or auditing arrangements.

So governmental accounting must operate in a different environment than the private sector, and its accounting reflects some of these differences. Probably the most significant difference between LGs and private businesses is that expenditures can only be made within the authority of *appropriations*, which are authorizations to make expenditures for specified purposes. The governing body adopted budget is the appropriation or authority to spend resources for specific programs. It also limits the amount of resources that can be spent.

## WHAT ARE THE OBJECTIVES OF ACCOUNTING?

Private sector businesses are said to have two primary objectives: to earn a profit and to stay in business or remain solvent. Being solvent means the business is able to pay its bills and its debt. Following are some examples of accounting objectives:

- Maintain accurate record of business transactions,
- Provide information for planning and decision making, setting priorities, and budgeting organized in various ways for various users,
- Control the use of resources,
- Report financial condition of the business.

## **PRIVATE SECTOR ACCOUNTING OBJECTIVES VERSUS PUBLIC SECTOR ACCOUNTING OBJECTIVES**

The objectives of LG accounting include those given above, but have others with a different focus. Here the results of revenues over expenses or “profit” or “loss” are of secondary importance because when people read LG financial statements, they are looking more for compliance:

- Restricted monies—Some of the monies may be legally restricted for certain use and the accounting system must be able to demonstrate compliance.
- Legal budgetary requirements—Report actual use of resources compared to legally adopted budgets.

The accounting system needs to keep track of these additional objectives because the financial statements need to show them.

### **LEARNING APPLICATION**

*In the first Learning Application in each of the chapters in this series we will be reminding the reader about how to get the most from each of these exercises. First, there is a box identifying the four key LG roles that most readers represent. These are Policy Makers (elected officials), CEOs (Chief Executive Officers such as mayors, city managers, etc.), Finance Managers (the chief finance official in the LG), and Department Heads (those individuals who are responsible for the management of specific LG departments such as public works, planning, and human resources). Second, we will indicate in the box those readers we believe will benefit most from completing the learning application task. Finally, when more than one official is listed, we see this as an opportunity for these individuals to get together and compare their responses. These Learning Application opportunities can also be modified to become training exercises for group learning. So, our advice is to make the most of these reflective interludes in the text.*

POLICY MAKER  CEO  FINANCE MANAGER  DEPARTMENT HEAD

From your unique role consider the rationale behind the purpose and objectives of governmental accounting and determine if any additional factors should be considered. Jot these down and then describe your greatest concern about the way the accounting process is managed in your LG.

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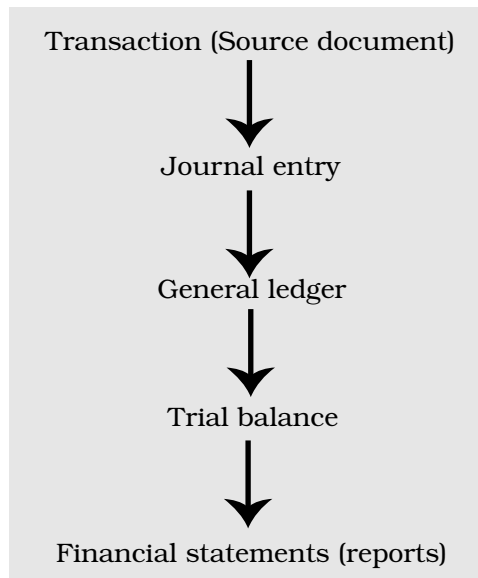
## OVERVIEW OF ACCOUNTING STANDARDS

In order that financial statements report financial performance fairly and consistently, they are prepared according to widely accepted accounting standards. These standards are referred to as Generally Accepted Accounting Principles (GAAP). These principles are “generally accepted” because an authoritative body has set them or the accounting profession widely accepts them as appropriate. Authoritative bodies may be governmental entities like Ministries of Finance or other bodies given this responsibility by law. GAAP may differ from country to country.

Accounting standards are needed so that financial statements will fairly and consistently describe financial performance. Without standards, users of financial statements would need to learn the accounting of each LG and comparisons between LGs would be difficult.

## OVERVIEW OF THE ACCOUNTING CYCLE

Once a business transaction occurs, a sequence of activities begins to identify and analyze the transaction, make the journal entries, etc. Because this process repeats itself over transactions and accounting periods, it is referred to as the accounting cycle. Procedures for implementing the accounting cycle include the forms and instructions for classifying, recording, and reporting financial transactions in source documents, journals, and ledgers.



**Transaction:** every accounting entry is based on a business transaction, which is evidenced by a source document, such as a check or voucher for disbursing cash, receipt of cash, purchase order, etc.

**Journal entry:** a journal is a place to record the transactions of a LG. The typical journals used to record the chronological, day-to-day transactions are the cash receipts journal and cash disbursements journal. A general journal is used to record special entries at the end of an accounting period.

**General ledger:** While a journal records transactions as they happen, a ledger groups transactions according to their type, based on the accounts that they affect. The general ledger is a collection of all balance sheet, revenue, expenditure, and budgetary accounts used to keep a LG's accounting records. At the end of an accounting period, all journal entries (i.e., from cash receipts and cash disbursement journals) are summarized and transferred to general ledger accounts. This procedure is called "posting."

**Trial balance:** A trial balance is prepared at the end of an accounting period by adding up the account balances in the general ledger. The sum of the debit balance must be equal to the sum of the credit balance. If total debits do not equal credits, you must track down the errors.

**Financial Statements:** After the trial balance is balanced, financial statements are prepared. This includes the Statement of Financial Position (Balance Sheet), which is a listing of all assets, liabilities and equity of the LG, and the Statement of Revenues and Expenditures, which is a special LG report that is similar to a Profit and Loss or Income Statement for the private sector. It is a detailed listing of all revenues received and expenditures disbursed during the accounting period. LGs also have a budget report, which is a comparison of budgeted revenues and expenditures as compared to actual revenues received and expenditures disbursed.

# WHO USES LG ACCOUNTING INFORMATION

LGs provide financial and management accounting data to many users. Preparing reports that address these diverse needs can be a complex communications task. Ultimately, the measure of success is not the reporting process itself but the relevance of the information provided.

## LG ADMINISTRATORS AND OTHER EMPLOYEES

These are members of the LG staff who are responsible for the planning, organizing, operating and evaluating of specific programs and activities of the LG. Specifically, this means the managers and supervisors engaged in day-to-day operations of LG services and programs. They need a variety of financial and management accounting information reports to evaluate past performance, prepare forecasts and budgets, control expenditures and apply decision making process techniques to their programs, (such as cost benefit analysis), and to inform the general public.

## GOVERNING BODIES AND OTHER GOVERNING UNITS

These users include those not directly involved in the day-to-day operations but who have an important oversight role over LG activities. These include the governing body, grant organizations, and regional or provincial governmental agencies.

Governing bodies and other governing units have both a responsibility and an interest in the operation of the LG. The governing body is responsible for establishing policies and for overseeing and appraising the CEO as he or she carries out these policies. The governing body needs timely warning in case situations develop that require corrective action. The council also needs information to judge the efficiency of the administration and its effectiveness in complying with policies and restrictions. Comparable information obtained from other LGs is also needed as a basis for comparison.

Other governing units and other organizations such as grantors may provide resources to LG to carry out local services and programs, and therefore require compliance reports, usually financial accounting reports, to show that the funds were properly spent. The governmental unit may even specify the type of reports it requires. These reports are used as a basis for deciding whether to commit additional resources, and how much. In addition, other governing units need cumulative information (in a comparable format) about the operations of groups of LGs in order to formulate funding policies. Of particular importance is the comparability and timeliness of data.

## THE GENERAL PUBLIC

This includes citizens, specific interest groups, and political parties. As the ultimate provider of resources through taxation and fees, citizens and citizen groups have a financial interest in LG activities; through elections, they play an important oversight role in LG. LGs should provide periodic reports on how their taxes and fees are spent and on the quality of services provided by LG. These reports blend financial accounting and managerial accounting information together to meet their citizens' informa-

tion needs and are designed to educate and maintain public support for the activities of LG. For example, some LGs publish annual performance reports and budget in brief documents to address citizens' need for this type of information.

## CREDITORS AND POTENTIAL CREDITORS

These include individuals, businesses, and interest groups who need information about the LG because they have a financial interest in the activities of LG. Specifically, this might include interested citizens, creditors (banks and lenders), investors, suppliers or vendors, contractors and others doing business with LG or its agencies. However, because they function outside of government, they have little ability to direct the timing, content or extent of financial information provided by the LG. Typically, they are interested in:

- The financial position of the LG,
- Its operating performance, and
- Its likely sources and uses of resources as indications of the probability that the bonds, loans or other provisions of services will be paid in full and on time.

They must rely upon the disclosure of information provided in annual financial reports prepared by LGs. These users value these financial reports prepared for the LG as a whole because economic events are recorded with similar accounting treatment to provide a common understanding and basis of comparison to other LGs and other agencies and to provide an indication of the financial strength of the LG with whom they do business.

## PERFORMANCE MEASURES AND THE ACCOUNTING PROCESS

Accounting is one of the essential elements of a performance measurement system. It provides the raw data used to calculate actual financial performance and evaluate costs. It provides the basic information for budgetary analysis, planning, and decision-making. Without accounting data, it would be impossible to evaluate financial performance by departments and the LG as a whole. It provides the means for holding decision makers accountable for use of financial resources.

As well as providing the information for evaluating all other departments, accounting also must have purpose, goals, objectives, and measures for its own evaluative purposes.

Following are some sample "purpose" statements or descriptions of the accounting function in LG.

- The Accounting and Budget Division of the Finance Department institutes and operates a governmental accounting and budgeting system that provides financial information to both external users and internal management. This information is used to monitor the expenditure of public



funds and to ensure that the financial transactions of the LG are conducted in accordance with statutory and contractual requirements and LG policy. Accounting is responsible for functions such as accounts payable, accounts receivable, capital budget reporting and financial reporting which includes preparations of the Comprehensive Annual Financial Report (CAFR).

- The Accounting Division of the Finance Department maintains the general ledger, payroll, accounts payable, grant accounting, Fixed Assets Inventory Tracking System (FATS), and certain accounts receivable for the LG in an accounting system conforming to LG Charter requirements and to established municipal accounting principles. The Accounting staff prepares and issues the *Comprehensive Annual Financial Report*, better known as the CAFR. This report is issued no later than six months after the close of the fiscal year.
- The accounting and auditing functions pertain to the performance of day-to-day payables and receivables activities for the LG and the determination that financial transactions are made in accordance with generally accepted accounting principles.

Following is a sample mission statement for an accounting division or department.

- To provide relevant and accurate information necessary to facilitate quality decisions and sound financial planning for the LG, and ensure compliance with national/federal, province/state, and local laws, and professional standards in the areas of accounting, taxation and fee collections.

Following is a sample goal for accounting:

- To operate a governmental accounting, bookkeeping, reporting, and records maintenance system that accurately provides financial information to both external users and internal management.

Following are sample objectives for accounting:

- Monitor budgets and develop financial reports to submit to the CEO to facilitate timely reporting to the governing body.
- Process vendor payments within three days of receipt of all documents from departments.
- Enhance the quality of financial related operations LG-wide through internal control analysis/assistance and implementation of audit recommendations
- Provide timely, relevant, and comprehensive reporting of the LG's operation through reports, speeches, and press releases.
- Provide basic services of processing and paying invoices on a weekly basis within 30 days of invoice.

- Increase level/efficiency of invoice paying, journal entries prepared, and timeliness of monthly reconciliations and annual report preparation.

## OVERVIEW OF TYPES OF ACCOUNTING

There are two types of accounting: financial and managerial. Elements of financial accounting are covered in the Definitions and basic concepts section of the chapter. Aspects of managerial accounting, including cost accounting, are covered in the Advanced Accounting Topics portion of the chapter.

**Financial accounting** specializes in the accurate and objective recording, classifying, summarizing, interpreting, and communicating financial data and events for decision-making purposes. Its purpose is to produce financial statements for the entire LG organization based on historical data. The primary users of these reports are external. External users include: the central government ministries, audit agencies, banks and creditors, LG bondholders and other LGs. These reports must be issued in compliance with your country's generally accepted accounting principles.

**Management accounting**, on the other hand, specializes in identifying, capturing, measuring, retaining, analyzing, summarizing, interpreting and communicating financial information to meet the needs of internal users to plan, control and evaluate LG programs and services. Its purpose is to produce information reports attuned to the specific needs of line and staff at the top, middle, and lower levels of management in their area of responsibility, and to assure appropriate use of and accountability for its resources. Management accounting helps develop financial estimates of future program costs and performance and aids in the subsequent program control and evaluation. Determining and estimating costs associated with various programs, services, activities or work units is central to a well-designed management accounting system. Such costs can then be compared to those of prior periods. The reports do not have to follow any rules issued by standards-setting bodies. In this chapter, we use the term managerial accounting interchangeably with management accounting.

### LEARNING APPLICATION

POLICY MAKER\_X\_ CEO\_X\_ FINANCE MANAGER\_X\_ DEPARTMENT HEAD\_X\_

From the brief descriptions of the two types of accounting, which is most useful from your role perspective in the LG, and why?

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**Assets** – things of value held by the LG. Assets are balance sheet accounts. Examples of assets are: cash, accounts receivable, furniture, and fixtures and land.

**Auditing** – study of accounting systems and specific accounts to verify accuracy and completeness, and to render an opinion on the fairness of the financial reports. This is usually done by an independent person.

**Balance sheet** – also called a statement of financial position. It is a financial “snapshot” of your business at a given date in time. It lists your LG assets, liabilities, and the difference between the two, which is your LG equity, or net worth.

**Chart of accounts** – the list of account titles used in the LG accounting records.

**Closing entries** – journal entries used to transfer the balances of these temporary accounts to permanent accounts.

**Closing the books** – refers to procedures that take place at the end of an accounting period. Adjusting entries are made, and then the income and expense accounts are “closed” or “zeroed out.” The excess that results from the closing of the income and expense accounts is transferred to an equity account such as retained earnings or fund balance.

**Cost accounting** – the continuous and routine process of collecting, analyzing, classifying, recording, and summarizing all the elements of costs incurred to provide a service, program, activity, product, project, or unit of work regardless of the funding source.

**Cost analysis** – the extensive evaluation of the cost information produced by cost accounting or cost finding.

**Cost centre** – a specific organizational unit, program, or activity under the control of a manager who has authority to incur and control costs. Examples of cost centres are parks department, street cleaning, purchasing, building inspection, custodial service and vehicle repair.

**Cost finding** – a less formal and expensive technique of determining costs on an irregular basis.

**Credit** – at least one component of every accounting transaction (journal entry) is a credit. Credits are in the right column of the journal entry. Credits increase liabilities and equity and decrease assets.

**Current assets** – assets that are in the form of cash or will generally be converted to cash or used up within one year. Examples are accounts receivable and inventory.

**Current liabilities** – liabilities payable within one year. Examples are accounts payable and payroll taxes payable.

**Debit** – at least one component of every accounting transaction (journal entry) is a debit. Debits are in the left column of the journal entry. Debits increase assets, and decrease liabilities and equity.

**Depreciation** – an annual write-off of a portion of the cost of fixed assets, such as vehicles and equipment. Depreciation is listed among the expenses on the income statement. It allows assets that have a long-term benefit to be capitalized over time (the length of the benefit) rather than a one-time expense.

**Double-entry accounting** – in double entry accounting, every transaction has two journal entries: a debit and a credit. Debits must always equal credits. Double-entry accounting is the basis of a true accounting system.

**Equity** – the residual interest in the assets of a LG after deducting all of its liabilities. Equity accounts are balance sheet accounts.

**Expenditures** – the cost of goods delivered or services rendered, whether paid or unpaid, including current expenses, provision for debt retirement and capital outlays.

**Expenditure/expense accounts** – these are the accounts you use to keep track of the costs of providing services by the LG; where the LG money goes. Examples are salaries, materials, and vehicles.

**Financial accounting** – the accurate and objective recording, classifying, summarizing, interpreting, and communicating financial data and events for decision-making purposes.

**Financial statement analysis** – a set of tools that allow interested parties such as investors, creditors, and management to evaluate the past, current, and projected financial condition and performance of the LG.

**Fixed assets** – assets that are generally not converted into cash within one year. Examples are equipment and vehicles.

**Foot** – to total the amounts in a column, such as a column in a journal or ledger.

**General ledger** – a general ledger is the collection of all balance sheet, income, and expense accounts used to keep the accounting records of the LG.

**Income accounts** – these are the accounts you use to keep track of your sources of income. Examples are taxes, user fees, and interest income.

**Income statement** – in the private sector this is called a profit and loss statement. It lists the income, expenses, and net income (excess of revenues over expenses) or net loss (excess of expenses over revenues) for the accounting period.

**Inventory** – goods that you hold for use in providing services to the public. Examples of inventory items are street sign materials, pothole patching materials, traffic signal materials, and streetlights and poles.

**Journal** – the chronological, day-to-day transactions of a LG are recorded in some type of cash receipts and cash disbursement journals. A general journal is used to enter accounting period end adjusting and closing entries and other special transactions not entered into other journals. In a traditional, manual (non-computerized) accounting system, each of these journals is a collection of multi-column spreadsheets usually contained in a hardcover binder.

**Liabilities** – what your LG owes creditors. Liabilities are balance sheet accounts. Creditors may be a vendor who has sold goods or services to the LG or it may be a bank or bondholders who have loaned money to the LG for the purposes of constructing infrastructure such as roads, bridges, or water treatment facilities. Examples of liabilities are accounts payable, bonds payable and loans payable.

**Long-term liabilities** – liabilities that are not due within one year. An example would be a loan or mortgage payable for the purchase of a building that is paid out over five years.

**Management accounting** – the process of identifying, capturing, measuring, retaining, analyzing, summarizing, interpreting and communicating financial information to meet the needs of internal users to plan, control and evaluate LG programs and services.

**Post** – to summarize all journal entries and transfer them to the general ledger accounts. This is done at the end of the accounting period.

**Prepaid expenses** – amounts you have paid in advance to a vendor or creditor for goods and services. A prepaid expense is actually an asset of your LG because your vendor or supplier owes you the goods or services. An example would be the unexpired portion of an annual insurance premium. These types of expenses are used with accrual accounting.

**Reports** – a collection of information, which is prepared by a person, unit, or organization for the use of some other person, unit or organization.

**Trial balance** – a trial balance is prepared at the end of an accounting period by adding up all the account balances in your LG general ledger. The debit balances should equal the credit balances.

## OVERVIEW OF FINANCIAL STATEMENTS

LGs report information in the form of financial statements issued on a periodic basis. Your country’s generally accepted accounting principles (GAAP) will identify the financial statements that LGs must prepare. The following are the most common types of required financial statements.

### STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

The balance sheet is based on the fundamental *accounting equation*:

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

Assets can be classed as either current or fixed assets. Current assets are assets that quickly and easily can be converted into cash. Current assets include: cash, accounts receivable, investment (marketable) securities, notes receivable, inventory, and prepaid assets such as prepaid insurance. Fixed assets include land, buildings, and equipment.

Liabilities represent the portion of a LG’s assets that are owed to creditors. Liabilities can be classed as short-term liabilities (current) and long-term (non-current) liabilities. Current liabilities include accounts payable, vouchers payable, notes payable, interest payable, and wages payable. Long-term liabilities include notes payable and bonds payable. (Notice that notes payable may be long or short-term.) The portion of a long-term note payable that is due within the next 12 months is classed as a current liability and usually is referred to as the current portion of long-term debt. Examples of creditors for a LG are: vendors, suppliers, consulting firms, banks or other institutions that hold notes payable, and bond holders. Following is a sample:

#### Statement of Financial Position (Balance Sheet)

Assets	Liabilities
Current Assets	Current Liabilities
Cash	50    Accounts Payable
	40

Investments	250	Notes Payable	100
Accounts Receivable, net	350	Contracts Payable	560
Inventory	<u>85</u>	Accrued Payroll Payable	<u>25</u>
Total Current Assets	735	Total Current Liabilities	725
Fixed Assets		Long-term Liabilities	
Land	470	Bonds payable	<u>1,980</u>
Buildings, net	1,250	Total Liabilities	2,705
Machinery & Equipment, net	1,840	Equity	
Other Improvements	<u>2,650</u>	Reserved	185
Total Fixed Assets	<u>5,210</u>	Unreserved	<u>3,055</u>
Total Assets	<u>5,945</u>	Total Equity	<u>3,240</u>
		Total Liabilities & Equity	<u>5,945</u>

## STATEMENT OF REVENUES AND EXPENDITURES

The Statement of Revenues and Expenditures presents the results of the LG's operations during a period of time, such as one year. Revenue refers to inflows of monies, and expenditures refer to the cost to the LG to provide services.

### Statement of Revenues and Expenditures

Revenues	
Taxes	1,981,000
Intergovernmental transfers	1,542,000
User fees	<u>915,000</u>
Total Revenues	4,438,000
Expenditures	
CEO	202,000
Governing body	387,000
Public Health	950,000
Education	945,000
Finance	256,000
Public Works	875,000
Transportation	<u>775,000</u>
Total Expenditures	<u>4,390,000</u>
Excess of Revenues over Expenditures	<u>48,000</u>

## STATEMENT OF BUDGETED TO ACTUAL REVENUES AND EXPENDITURES

The Statement of Budgeted to Actual Revenues and Expenditures is a compliance report. It demonstrates how well the LG complied with the adopted budget for both revenues and departmental expenditures.

## Statement of Budgeted to Actual Revenues & Expenditures

	Adopted Budget	Actual	Variance
Revenues:			
Taxes	1,000	995	5
Intergovernmental transfers	3,000	3000	0
Own Source	<u>1,000</u>	<u>1155</u>	<u>155</u>
Total Revenues	5,000	5,150	150
Expenditures:			
CEO	200	190	10
Governing body	250	240	10
Public Health	950	940	10
Public Works	1,000	985	15
Finance	100	95	5
Transportation	750	740	10
Education	<u>1,750</u>	<u>1,660</u>	<u>90</u>
Total Expenditures	<u>5,000</u>	<u>4,850</u>	<u>150</u>
Excess of Revenues over Expenditures	<u>0</u>	<u>300</u>	<u>300</u>

### LEARNING APPLICATION

POLICY MAKER   X      CEO   X      FINANCE MANAGER   X      DEPARTMENT HEAD   X  

After reviewing samples of the financial statements, which are most useful from your role perspective in the LG, and why?

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## ACCOUNTING STANDARDS AND AUTHORITY

Internationally, accounting and financial reporting standards often are established by independent standards-setting authorities or boards. In the United States, for



example, the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB) establish the accounting and financial reporting standards for the private and public sectors, respectively. The GASB specifically establishes standards for state and local governments, analogous to the LGs of other countries. Internationally, the International Accounts Standards (IAS) reflect professionally accepted, accounting, and financial reported practices. In addition, there are international auditing standards for the audit industry.

In Europe, there is greater reliance on laws to establish accounting and reporting standards. The European Directives, for example, mandate the use of certain accounting and financial reporting principles. Countries that have been admitted to the European Union must then incorporate these principles into law. The standards themselves reflect guidance from professional associations.

European Directives do not establish any mandatory accounting or financial reporting standards for governments. They apply only to the private sector and to enterprises. Each national government is free to draw upon the accounting principles as it sees fit in establishing local government accounting and reporting standards.

You will need to identify whether your country has an independent standards setting body or if the standards are promulgated through law. In many countries, the Ministry of Finance establishes the legal requirements. Following are some organizations that Ministries of Finance may look to when setting accounting standards.

International Federation of Accountants (IFAC) — The International Federation of Accountants (IFAC) is the worldwide organization for the accounting profession. Founded in 1977, its mission is to develop and enhance the profession with harmonized standards to enable it to provide services of consistently high quality in the public interest.

IFAC is comprised of more than 150 member bodies from every part of the globe, representing more than 2.4 million accountants in public practices, education, the public sector, industry, and commerce. Its Public Sector Committee is developing a comprehensive body of International Public Sector Accounting Standards (IPSASs). The committee recognizes the right of governments and national standards setters to establish guidelines and accounting standards for financial reporting within each country. The committee encourages voluntary adoption of the IPSASs. The IPSASs represent international best practice in financial reporting by public sector entities. In many countries, the application of the requirements of IPSASs will enhance the accountability and transparency of the financial reports prepared by the governments and their agencies. The IPSAS are contained in the 2003 IFAC Chapter of International Public Sector Accounting Pronouncements, and are also available from the IFAC website at <http://www.ifac.org>.

Support for Improvement in Governance and Management in Central and Eastern Europe Countries (SIGMA)—This is a joint initiative of the Organisation for Economic Co-operation and Development (OECD) and the European Union. Created in 1992 and governed by the Conventions between the EU and the OECD, the Sigma Programme provides support to partner countries in their efforts to modernise public governance systems. The initiative supports public administration reform in 13 countries in transition. <http://www.sigmaweb.org>.

European Systems of Accounts (1995) — This is promulgated by the European Statistics Office (EUROSTAT).

[http://epp.eurostat.cec.eu.int/portal/page?\\_pageid=1996,39139751&dad=portal&schema=PORTAL&screen=welcomeref&open=/&product=EU\\_MAS-TER\\_financial&depth=2](http://epp.eurostat.cec.eu.int/portal/page?_pageid=1996,39139751&dad=portal&schema=PORTAL&screen=welcomeref&open=/&product=EU_MAS-TER_financial&depth=2).

Government Finance Statistics (GFS) — This reporting framework has been developed by the International Monetary Fund (IMF) specifically for government reporting, and is similar to GAAP. It is usually used for country analysis and comparisons by international organizations like the IMF or OECD. Some countries use this as the basis for the account codes that they require their LGs to use to report financial information. <http://www.imf.org/external/pubs/ft/gfs/manual/synopsis.htm>

System of National Accounts (SNA) —The System of National Accounts consists of an integrated set of macroeconomic accounts, balance sheets and tables based on internationally agreed concepts, definitions, classifications, and accounting rules. Together these principles provide a comprehensive accounting framework within which economic data can be compiled and presented in a format that is designed for purposes of economic analysis, decision-making, and policy making. <http://unstats.un.org/unsd/sna1993/introduction.asp>

## BASIC ACCOUNTING CONCEPTS

The following are summaries of basic financial accounting concepts. Your country may or may not use all of these assumptions, or it may use other assumptions in establishing your country’s generally accepted accounting principles (GAAP):

Concept	Definition
Going concern	The entity is going to be in operation for the near future.
Fixed time period assumption	Information will be prepared and reported periodically (quarterly, annually).
Materiality	Strict compliance with GAAP would not necessarily apply when the amounts involved are not material to a true and fair presentation of the financial results and position.
Consistency	Accounting policies will be consistently applied, both within and between each accounting period. Policies will only be changed because the new policy gives a fairer presentation of the transactions and of the financial position.
Prudence	Proper allowance will be made for all known and foreseeable losses and liabilities; revenue will only be included when there is a reasonable certainty of it being received.
Historical cost	Assets are reported and presented at their original cost and no adjustment is made for changes in market value. One never writes up (increases) the cost of an asset. Accountants are very conservative in this sense. Sometimes costs are written down (decreased), for example, for some short-term investments and marketable securities, but costs are never written up.
Matching	Matching of revenues and expenses in the period earned and incurred.
Revenue recognition principle	Revenue is realized (reported on the books as earned) when everything that is necessary to earn the revenue has been completed.

Full disclosure principle	All of the information about the entity that is needed by users is disclosed in understandable form.
Compliance with legal regulations	Accounting records may be required to be kept in certain, specific ways with a specified chart of accounts and mandated reports.
Budgetary control	There may be a legal requirement to budget all anticipated revenues and expenditures. The details of the classifications within each of the functional expenditure categories may be established by law. The budget may have to be presented in a certain format, such as requiring that information from the two previous years be included when submitted to the governing body.
Separate fund accountability	A fund is an independent accounting entity with its own assets, liabilities, and equity. Regulations may require that certain monies be accounted for in a separate unique fund so that compliance for the use of the monies can be proved.
Centralized accounting	Regulations may require that all accounting records be maintained and reported under a designated position.

## Debits and credits

In double entry accounting, rather than using a single column for each account and entering some numbers as positive and others as negative, we use two columns for each account and enter only positive numbers. Whether the entry increases or decreases, the account is determined by the choice of the column in which it is entered. Entries in the left column are called **debits**, and entries in the right column are called **credits**.

Two accounts are always affected by each transaction, and one of those entries must be a debit and the other must be a credit of equal amount. Actually, more than two accounts can be used, just as long as the sum of debits for the transaction equals the sum of the credits.

The double entry accounting system provides a system of checks and balances. By summing up all of the debits and summing up all the credits and comparing the two totals, one can detect and have the opportunity to correct many common types of bookkeeping errors.

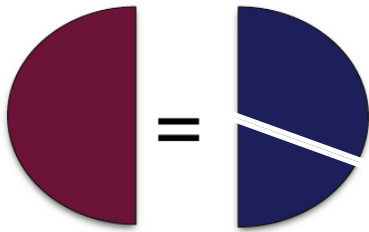
In every day language, these terms may mean something very specific. If you use a bank account, then you may think of “crediting” my account as increasing the balance to your bank account. In that specific case, crediting does increase, but that is not always true. So for purposes of understanding accounting, remember the terms “debit” and “credit” have the following meaning:

<b>Debit</b>	<b>Credit</b>
Enter in the left column of	Enter in the right column of

So, to debit the cash account simply means to enter the value in the left column of the cash account. There are no deeper meanings here.

Whether a debit or credit increases or decreases, an account balance depends on the type of account. Asset and expense accounts are increased on the debit side, and liability, equity and revenue accounts are increased on the credit side. The fol-

lowing chart serves as a graphical reference for increasing and decreasing account balances based on the accounting equation.



$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

Assets		Liabilities		Equity	
Debit	Credit	Debit	Credit	Debit	Credit
+	-	-	+	-	+
				Expenditures	
				Debit	Credit
				+	-
				Revenues	
				Debit	Credit
				-	+

### Use of term "credit"

The reason for the apparent inconsistency when comparing everyday language to accounting language is that from your (bank customer's) perspective, a checking or savings account is an asset account. However, from the bank's perspective, your account appears on the balance sheet as a liability account. A liability account is increased by crediting it. In everyday language we use the term "credit" from the bank's perspective and therefore the apparent inconsistency.

## SINGLE VERSUS DOUBLE ENTRY ACCOUNTING

### *SINGLE ENTRY*

For those countries that use a check banking system, a check register in a check book easily illustrates a single-entry accounting system. In that system, a single entry is recorded for each cash receipt or cash disbursement. The cash account is increased or decreased by each transaction. Each transaction is recorded in one column of an account as either a positive or a negative amount in order to represent

the receipt or disbursement of cash. The following example illustrates a single entry system for a LG.

Date	Description	Amount
Jan 1	Beginning balance	1,000.00
Jan 2	Purchased supplies	(150.00)
Jan 4	Received taxes	275.00
Jan 7	Received user fees	125.00
Jan 15	Paid telephone bill	(50.00)
Jan 31	Ending balance	1,200.00

While extremely simple, because the system uses a single column, only the difference between revenues and expenditures is totalled—not the individual values of each. Knowing the individual total amounts of revenues and expenditures is important to a LG, for example, when formulating a budget. The revenues and expenditures are also reported in the income statement. In the above example, the individual revenue and expenditure amounts can be determined only by sorting through the transactions and tabulating the revenue and expenditure totals. This process can be designed into the system by using a separate column for revenues and expenditures.

Date	Description	Revenues	Expenditures
Jan 2	Purchased supplies		150.00
Jan 4	Received taxes	275.00	
Jan 7	Received user fees	125.00	
	January totals	400.00	200.00

While the above system now uses two columns, it still is considered a single-entry system since one line is used to record each transaction in the cash account. This single-entry system often is expanded to provide information that is more useful. For example, additional columns can be added to classify the revenues as taxes, user fees, intergovernmental transfers, etc. Many countries use such a system. However, even with columns to classify the revenues and expenditures, single entry bookkeeping is limited in its ability to provide detailed financial information. Some disadvantages of a single-entry system include:

- Does not track asset and liability accounts such as inventory, accounts receivable and accounts payable. These must be tracked separately.
- Facilitates the calculation of income but not of financial position. There is no direct linkage between revenues and the balance sheet.
- Errors may go undetected and often are identified only through bank statement reconciliation.
- Because of these drawbacks, a single-entry system is not practical for LGs who have thousands of transactions in a reporting period, i.e., significant assets. The more sophisticated double-entry accounting system addresses the more demanding needs of such LGs.

## DOUBLE-ENTRY

A double entry system requires that for every entry made to the debit side of an account an entry for a corresponding amount be made to the credit side of another account. Double entry accounting involves maintaining a balance between assets on the one hand and liabilities and fund equity on the other hand, so that the accounting equation maintained:

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

Single entry example of receiving tax revenues

Date	Description	Amount
Jan 4	Received taxes	275.00

In a double-entry system, the transaction would be recorded as follows:

Double entry example of receiving tax revenues

Date	Description	Debit	Credit
Jan 4	Cash	275.00	
	Revenue		275.00

A notation may be added to this journal entry to indicate that the revenue was from taxes.

Note that the two accounts (revenue and cash) are affected by the transaction. If the customer did not pay cash, but instead was extended credit, the “accounts receivable” would have been used instead of “cash.”

In this system, the double entries take the form of debits and credits, with debits in the left column and credits in the right. For each debit there is an equal and opposite credit and the sum of all debits therefore must equal the sum of all credits. This principle is useful for identifying errors in the transaction recording process.

The double entry system has the following advantages over single entry:

- Accurate calculation of profit and loss in complex organizations,
- Inclusion of assets and liabilities in the bookkeeping accounts,
- Preparation of financial statements directly from the accounts, and
- Easier detection of errors and fraud.

To appreciate the importance of double-entry bookkeeping, it is interesting to note that the industrial revolution might not have been possible without it. At that time, businesses increased in size and complexity. Accurate bookkeeping was required for managers to understand the financial status of their businesses in order to keep them solvent and offer a degree of transparency to investors. While a single-entry system can be adapted by a skilled bookkeeper to meet some of these needs, only a double-entry system provides the required detail systematically and by design.

## LEARNING APPLICATION

POLICY MAKER \_\_\_ CEO X FINANCE MANAGER X DEPARTMENT HEAD X

Before we get too deeply into the steps in the accounting process, take a few moments and describe in a few words the procedures that your LG uses to record revenues and expenditures.

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Do you use the accounting system to support an internal management reporting system? If not, why not?

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What problems are associated with your existing accounting information and reporting systems?

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Excerpt from “Existing Local Government Accounting Standards and Practices in Romania,” USAID report, May, 1997.

*“A checking account is an excellent example of the cash basis of accounting. One would pay bills based on the amount of cash remaining in the checking account which may or may not correspond to the amount of the bill to be paid. If one has 1,000 lei to be paid, and only 400 lei available in cash, a “balanced” check book would record the 400 lei payment and not record the additional 600 lei liability. While a checking account reports the proper cash basis amount, it understates the amount of the liability. Thus, cash basis accounting may significantly distort the financial position and results of operations. This basis can be manipulated because governments can speed up or slow down cash receipts and disbursement near the end of a reporting period.”*

## BASIS OF ACCOUNTING (CASH VERSUS ACCRUAL)

The “basis of accounting” refers to the point in time when revenues, expenditures or expenses, and the related assets and liabilities are recognized in the accounts and reported in the financial statements. In other words, “basis of accounting” determines the timing with which the accounting system recognizes transactions. There are two basic accounting methods available to LGs: cash or accrual.

Cash basis (method). If your LG uses the cash method of accounting, you record income only when you actually receive cash from your customers or from another governmental entity. You will record expenses only when you write a check, transfer funds, or pay out cash to a vendor or contractor. Many LGs in developing economies use the cash method because it is simpler and less time-consuming. However, this method can distort your LG’s income and expenses, especially if you allow citizens to pay their taxes over time, or if you buy on credit from suppliers.

The cash basis of accounting is not usually recommended by generally accepted accounting principles because it usually gives a misleading picture of LG accounts. For example, cash received as a loan would be illustrated as revenue on the operating statement but not as a liability on the balance sheet. To correct for this kind of transaction, most cash accounting systems recognize not only cash, but also other assets and liabilities arising through prior cash transactions. The accounting correction however, does not alter the fact that at any point in time, outstanding obligations, in the form of contracts or purchase orders issued, are not reflected in the accounting records. Consequently, the available balance is overstated. This can lead to unwise LG expenditures and potential budget overspending.

One of the greatest weaknesses of the cash basis of accounting is that it **does not recognize** accounts receivable, accounts payable and other accrued items. It therefore does not match resources used to resources provided. This situation may falsely lead financial statement readers to believe that the statements present the LG’s complete financial position and results of operations. Using the cash basis, a LG may fall into a deficit position. It is difficult to eliminate a current year deficit if the LG is not aware of the circumstances until the close of the fiscal year. With cash-basis statements, the statement reader (such as the governing body) may not be able to determine if the LG is operating beyond its means.

Accrual basis (method). With the accrual method, you record income when the event or sale occurs, whether it is the delivery of a product or the rendering of a service, regardless of when you are paid. The best example of this is in a water utility. In this case, the revenue is recorded when the water has been provided and the bill or invoice is mailed to the customer, rather than when the customer actually pays the water bill. The accrual method gives you a more accurate picture of the LG’s financial situation than the cash method. This is because you record income on the LG books when it is truly earned, and you record expenses when they are incurred. Income earned in one period is accurately matched against the expenses that correspond to that period, so you get a better picture of how your revenues are covering your expenses for each period. Many users of LG financial reports look for internationally accepted accrual reporting as more revealing to the financial condition. Accrual reporting recognizes expenses incurred during the year, even if the expenses were not



paid, for and links the annual financial statement directly with changes in assets and liabilities in the LG's financial position.

Some of the advantages of accrual basis accounting include:

- Providing a comprehensive measurement of financial position and results of operation,
- Providing accountability for individual assets within the accounting system at the earliest appropriate date,
- Providing the potential for cost accounting analyses and comparison,
- Promoting comparability from period to period, and
- Reducing management's ability to control cash flow in such a way as to produce financial statements that will seem to present financial position and results of operations in either a more optimistic or more pessimistic context, depending upon management's particular preference at the end of any given fiscal year.

## CHART OF ACCOUNTS

The chart of accounts must contain the accounts needed for the balance sheet, revenues and expenditures, and budgets. Following is a sample chart of accounts with limited examples to illustrate how the chart of accounts works. This particular chart of account includes a category for a fund, though your country may not use separate funds, but keep all of the accounting records in one fund. This example is based on a school accounting system.

### General Ledger Accounts – Selected Examples

	Fund	General Ledger	Revenue Class	Program	Function	Objective	Project / Reporting
	XX	XXX	XXXX	XXX	XXXX	XXX	XX
Sample Accounts							
Current assets		100					
Fixed assets		200					
Budget accounts & other debits		300					
Current liabilities		400					
Long-term liabilities		500					
Budget accounts & other credits		600					
Reserves & fund balance accounts		700					

### Revenues – Selected Examples

	Fund	General Ledger	Revenue Class	Program	Function	Objective	Project / Reporting
	XX	XXX	XXXX	XXX	XXXX	XXX	XX
Sample Accounts							
From local sources			1000				
From other LGs			2000				
From provinces/state			3000				

From central government	4000
From other sources	5000

### Expenditures – Selected Examples

	Expenditures						
	Fund	General Ledger	Revenue Class	Program	Function	Object	Project / Reporting
	XX	XXX	XXXX	XXX	XXXX	XXX	XX
Sample Accounts							
Regular programs				100			
Special programs				200			
Support services					2000		
Schools					3000		
Salaries						100	
Benefits						200	
Contractual services						300	
Supplies & materials						500	
Property						800	
Local special projects							30
Central government projects							50

### Putting it All Together – Examples of Expenditures and Revenue Accounts as Coded for the Budget.

	Fund	General Ledger	Revenue Class	Program	Function	Object	Project / Reporting
	XX	XXX	XXXX	XXX	XXXX	XXX	XX
Salaries		300	0000	100	2000	100	30
Local property taxes		600	1000	000	0000	000	30

## STEPS IN THE ACCOUNTING CYCLE

The sequence of activities beginning with the occurrence of a transaction is known as the accounting cycle. The process is shown in the following diagram.

### STEP 1: IDENTIFY THE TRANSACTION

Identify the event as a transaction and generate the source document. To record transactions, one must:

- Identify an event that affects the LG financially.
- Measure the event in monetary terms.
- Determine which accounts the transaction affects.
- Determine whether the transaction increases or decreases the balances in those accounts.
- Record the transaction in the journal or ledger.

The source document captures the key data of the transaction. It describes the basic facts of the transaction such as its date, purpose, and amount. It is objective evidence of the transaction, serving as part of the audit trail should the LG need to prove that the transaction occurred.

Some examples of source documents:

- Cash receipt
- Cancelled check
- Invoice sent or received
- Employee time sheet
- Purchase order issued

To facilitate referencing, each source document should have a unique identifier, usually a number or alphanumeric code. Pre-numbering commonly used forms helps to enforce numbering to classify transactions, and to identify and locate missing source documents. A well-designed source document form can minimize errors and improve the efficiency of transaction recording.

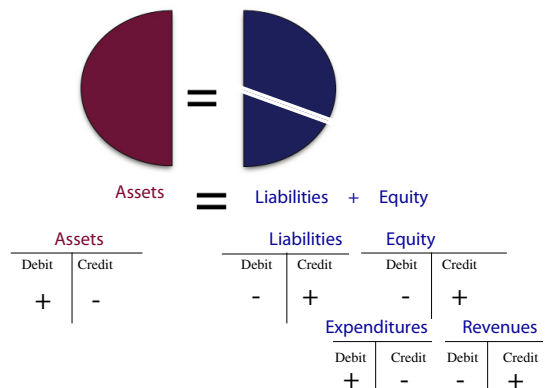
The source document may be created in either paper or electronic format. For example, automated accounting systems may generate source documents electronically or allow paper source documents to be scanned and converted into electronic images. Accounting software often provides on-screen entry forms for different types of transactions to capture the data and generate the source document.

## STEP 2: ANALYZE THE TRANSACTION

Determine the transaction amount, which accounts are affected and in which direction (increases or decreases).

## STEP 3: PREPARE THE JOURNAL ENTRIES

The transaction is recorded in the journal as a debit and a credit – debits must equal credits. Each (journal entry) is a real life example of the accounting equation (assets = liabilities + equity). The graphic on the right illustrates the accounting equation. As you look at the following journal



entries, look at the graphic to see each of the accounts. The type of account is in parentheses following the account name. These examples are using “cash basis,” NOT accrual basis accounting.

Following are several basic journal entries used by LGs.

On the first day of the new accounting year, you should record the budget adopted by the governing body in the accounting records.

#### Journal entry for recording a balanced budget

Date	Description	Debit	Credit
Mm/dd	Estimated Revenues	xxx.xx	
	Appropriations		xxx.xx

The following entry records estimated revenues, appropriations, and the expected fund equity increase to result during the budget year.

#### Journal entry for recording a budget

Date	Description	Debit	Credit
Mm/dd	Estimated Revenues	5,000	
	Appropriations		4,800
	Fund Equity		200

Receipt of taxes (revenues). The LG receives cash from a citizen who is paying their taxes. Since cash is received, the “Cash” account is increased (debit) and the Revenues from taxes account is also increased (credit).

#### Journal entry for receiving taxes

Date	Description	Debit	Credit
Mm/dd	Cash (asset)	xxx.xx	
	Revenues from taxes (revenue)		xxx.xx

Receipt of user fees. The LG receives cash from a citizen paying a user fee. The “Cash” account is increased or debited since cash is actually received and the Revenues from user fees account is also increased (credited).

#### Journal entry for receiving user fees

Date	Description	Debit	Credit
Mm/dd	Cash (asset)	xxx.xx	
	Revenues from user fees (revenue)		xxx.xx

Payment for office supplies. The LG pays a supplier for office supplies. The “office supplies” expenditure account is increased (debit) and the “cash” account is decreased (credit) since cash is actually paid out.

### Journal entry for paying for office supplies

Date	Description	Debit	Credit
Mm/dd	Office Supplies (expenditure)	xxx.xx	
	Cash (asset)		xxx.xx

Payment for street repair materials. The LG pays for street repair materials that it has received. The expenditure account “Street repair materials expense” is increased (debit) and cash is decreased (credit).

### Journal entry for paying for street repair material

Date	Description	Debit	Credit
Mm/dd	Street repair materials (expenditure)	xxx.xx	
	Cash (asset)		xxx.xx

## STEP 4: POST TO THE LEDGER (JOURNAL)

The journal entries are transferred to the appropriate ledger or journal. Small LG's usually have a cash receipts and cash disbursements journal where daily entries are made. Then the net balances for each journal are posted to the appropriate general journal accounts.

The general journal is usually a two-column journal used for unusual and annual accounting entries that aren't recorded in the cash receipts and cash disbursement journals. Adjusting entries and closing entries, at the end of an accounting period, are the most common entries made in the general journal. The general journal is also used to record special transactions that aren't recorded in one of the regular journals. General journal entries are posted to the respective general ledger accounts.

**REPEAT STEPS 1 THROUGH 4 ON A DAILY BASIS UNTIL THE END OF THE ACCOUNTING PERIOD.**

## STEP 5: PREPARE A TRIAL BALANCE

A trial balance is calculated to verify that the sum of the debits is equal to the sum of the credits.

A basic rule of double entry accounting is that for every credit there must be an equal debit, and vice versa. From this concept, you can say the sum of all debits must equal the sum of all credits in the accounting system. If debits do not equal credits, then an error has been made. The trial balance is a tool for detecting such errors. To make a trial balance is a major step in closing the accounting books for a period.

The trial balance is created by summing the balances of the ledger accounts. The balances are used because the balance summarizes the net effect of all of the

debits and credits of an account. The trial balance is put together in the following format:

**Trial Balance Calculation**

Account	Debits	Credits
Account 1	XXXXX.XX	
Account 2	XXXXX.XX	
Account 3	XXXXX.XX	
Account 4		XXXXX.XX
Account 5		XXXXX.XX
Account 6		XXXXX.XX
Totals	XXXXX.XX	XXXXX.XX

In this example, the balances of Accounts 1, 2 and 3 are net debits, and the balances of Accounts 4, 5, and 6 are net credits. The totals of the debits and credits must equal; if they do not equal then an error has been made somewhere in the accounting process. Some of the most common errors are:

- Error in totalling the columns – make sure that the trial balance columns were summed properly
- Error in transferring account balances to proper trial balance columns; make sure that the debit and credit account balances are in the appropriate debit and credit columns of the trial balance calculation. Check for reversed digits and misplaced decimal points.
- Omission of an account – an account may be missing in the trial balance calculation.
- Error in account balance – an error may have been made in the calculation of a ledger account balance.
- Error in posting a journal entry – a journal entry may not have been posted properly in the general ledger.
- Error in recording a transaction in the journal – for example, making an error in a debit or credit, or failing to enter a debit or credit.

In general, the most effective way to isolate an error is to work backward from the trial balance itself to the initial journal entry, as outlined in the list above.

Note that a balanced trial balance does not guarantee that there are not errors. An error of omission could have been made in which a transaction was not recorded, a journal entry could have been posted to the wrong ledger account, or a debit and credit could have been transposed. Such errors are not caught by the trial balance.

## STEP 6: PREPARE ADJUSTING ENTRIES

Adjusting entries are made for accrued and deferred items. The entries are journalized and posted to the general ledger.

In the accounting process, there may be economic events that do not immediately trigger the recording of the transaction. These are addressed via adjusting entries, which serve to match expenses to revenues in the accounting period in which they occur. There are two general classes of adjustments:

**Accruals** – revenues or expenses that have accrued but have not been recorded. An example of an accrual is interest revenue that has been earned in one period even though the actual cash payment will not be received until early in the next period. An adjusting entry is made to recognize the revenue in the period in which it was earned.

**Deferrals** – revenues or expenses that have been recorded but need to be deferred to a later date. An example of a deferral is an insurance premium that was paid at the end of one accounting period for insurance coverage in the next period. A deferred entry is made to show the insurance expense in the period in which the insurance coverage is in effect.

**How to make adjusting entries**—Like regular transactions, adjusting entries are recorded as journal entries. The following illustrates adjustments for accrued and deferred items.

**Accrued items**—As an example of an accrued item, consider the accrual of interest revenue. The journal entry would be similar to the following:

#### Adjusting Entry for Interest Accrual

Date	Description	Debit	Credit
Mm/dd	Interest receivable	xxx.xx	
	Interest Revenue		xxx.xx

The date of the above entry would be at the end of the period in which the interest was earned. The adjusting entry is added because the interest was accrued during that period but is not payable until sometime in the next period. The adjusting entry is posted to the general ledger in the same manner as other journal entries.

In the next period when the cash is actually received, one makes the following journal entry:

#### Journal Entry for Interest Received

Date	Description	Debit	Credit
Mm/dd	Cash	xxx.xx	
	Interest Receivable		xxx.xx

**Deferred Items**—For deferrals, a journal entry already has been made in asset or liability accounts and an adjusting entry is needed to move the balances to expenditure or revenue accounts in the next accounting period. Consider the case in which the LG prepays insurance premiums in one period for insurance coverage in the next period. The journal entry made at the time of payment would be similar to the following:

### Journal Entry for Prepaid Insurance

Date	Description	Debit	Credit
Mm/dd	Prepaid insurance	xxx.xx	
	Cash		xxx.xx

In the next period when the insurance coverage is in effect, one makes the following adjusting entry:

### Adjusting Entry for Prepaid Insurance

Date	Description	Debit	Credit
Mm/dd	Insurance expenditure	xxx.xx	
	Prepaid insurance		xxx.xx

For a single deferred item, there may be several adjusting entries over subsequent accounting periods as the expenditure or revenue for the item is recognized over time.

## STEP 7: PREPARE AN ADJUSTED TRIAL BALANCE

A new trial balance is calculated after making the adjusting entries.

### Trial Balance

Accounts (type of account)	Debit	Credit
Cash (asset)	100	
Investments (asset)	200	
Accounts receivable, net (asset)	150	
Accounts payable (liability)		300
Equity or Fund Balance (equity)		100
Estimated revenues (budget)	5,000	
Revenues (budget)		4,900
Appropriations (budget)		<u>5,000</u>
Expenditures (budget)	<u>4,850</u>	
Totals	10,300	10,300

## STEP 8: PREPARE FINANCIAL STATEMENTS

The following financial statements are prepared from the Trial Balance given above. These are summary level financial statements based on the control accounts in the general ledger. For example, only the account Revenues is shown in this illustration. In reality, there are a number of sub-accounts such as Own Source Revenues, Property Taxes, etc., which show the individual types of accounts that are summarized in the control account for Revenues. This control account has been used just to illustrate how information moves from the Trial Balance into the financial statements.

Using the information from the Trial Balance above, the following is the Balance Sheet.



### Statement of Financial Position (Balance Sheet)

Cash (asset)	100	
Investments (asset)	200	
Accounts receivable, net (asset)	150	
Total assets		450
Accounts payable (liability)	300	
Equity or Fund Equity (equity)	150	
Total Liabilities and Fund Equity		450

The following is the Statement of actual Revenues and actual Expenditures  
**Statement of Revenues and Expenditures (Income Statement)**

Revenues	4,900
Expenditures	<u>4,850</u>
Excess of Revenues over Expenditures	50

Following is a comparison of actual expenditures to the adopted budget. Again, this is a summary level statement just to show the concept.

### Statement of Budgeted to Actual Expenditures

Appropriations		5,000
Expenditures		<u>4,850</u>
Total		150

In reality, the actual summary statement for budgeted to actual expenditures will look more like the following:

### Statement of Budgeted to Actual Expenditures

	Adopted Budget	Actual Expenditures	Variance
CEO	200	190	10
Governing body	250	240	10
Public Health	950	940	10
Public Works	1,000	985	15
Finance	100	95	5
Transportation	750	740	10
Education	<u>1,750</u>	<u>1,660</u>	<u>90</u>
Totals	5,000	4,850	150

## STEP 9: PREPARE CLOSING ENTRIES

Transfer the balances of the temporary accounts (e.g., revenues and expenses to the equity account.)

Revenue, expenditure, and budget accounts are temporary accounts that are reset at the end of the accounting period so that they will have zero balances at the start of the next period. Closing entries are the journal entries used to transfer the

balances of these temporary accounts to permanent accounts. After the closing entries have been made, the temporary account balances will be reflected in the Fund Equity account.

The sequence of the closing process is as follows:

- Close the Revenue accounts
- Close the Expenditure accounts

The closing journal entries associated with these steps are demonstrated below. The closing entries may be in the form of a compound journal entry if there are several accounts to close. For example, there may be dozens or more of expenditure accounts to close.

**Sub-Step 1: Close the Revenue accounts**

The balance of the revenue account is the total revenue for the accounting period. This entry closes the Estimated Revenues and (actual) Revenues accounts, compares the totals of those accounts, and adds the difference to Fund Equity—to adjust for the variance between planned and actual revenues. In this case, revenues exceed the estimate; if the converse had been true, the Fund Equity would have been debited.

**Closing entry: Revenue to Income Summary**

Date	Accounts	Debit	Credit
MM/DD	Revenue	xxx.xx	
	Estimated Revenues		xxx.xx
	Fund Equity		xxx.xx

Once this closing entry is made, the revenue account balance will be zero and the account will be ready to accumulate revenue at the beginning of the next accounting period.

**Sub-Step 2: Close the Expenditure accounts**

This entry compares the Appropriations (from the adopted budget) with actual Expenditures. It compares the two balances and adjusts Fund Equity for the variance between planned and actual expenditures. In most countries expenditures cannot be legally made without an authorizing appropriation and therefore cannot legally exceed appropriations, so, in theory, the balancing element in the entry should never be a debit to Fund Equity. However, in actuality, an excess of expenditures over appropriations may occur and the excess charged to Fund Equity. In this case, a supplemental appropriation should be secured from the governing body to cover the excess.

**Closing Entry: Expenses to Income Summary**

Date	Accounts	Debit	Credit
MM/DD	Appropriations	xxx.xx	
	Expenditures		xxx.xx
	Fund Equity		xxx.xx

After closing, the balance of Expenditures will be zero and the account will be ready for the expenses of the next accounting period.

Posting of the closing entries—As with other journal entries, the closing entries are posted to the appropriate general ledger accounts. After the closing entries have been posted, only the permanent accounts in the ledger will have non-zero balances.

## STEP 10: PREPARE AN “AFTER CLOSING” TRIAL BALANCE

Once the closing entries have been posted the Trial Balance calculation is performed to help detect errors that may have occurred in the closing process.

## POLICIES

The chapter on *Financial Policy Making* defines policies as “the principles and goals that guide the financial management practices of LG.” It continues by saying, “these policies influence financial decision making. They lead to the development of strategies to achieve goals. And they provide standards for evaluating and monitoring the performance of a LG’s financial management system.” Accounting policies are an important part of the financial management system.

### WHY ESTABLISH LG ACCOUNTING POLICIES?

Since in many countries, the central government and Ministry of Finance play a significant role in establishing the laws and regulations on accounting, why should a LG want to establish its own accounting policies? The simple answer is: local policies clarify how national laws and regulations are implemented and supplement them as needed to promote high standards of LG financial management. Local officials should adopt formal written policies to provide general direction in planning and implementing financial management programs. Written accounting policies are important to:

- Set parameters for financial/ management accounting and reporting within the LG,
- Provide a basis for evaluating the financial condition of the LG and programs within it,
- Communicate to the business community, investors, and citizens the importance the LG places upon accounting, reporting and overall financial management, and
- Provide the consistency and continuity in applying accounting procedures and practices to achieve financial goals.

## ACCOUNTING POLICIES

While LGs cannot deviate from the central government accounting policies, here are some typical accounting policies used by LGs from a variety of countries that can serve as a basic framework for, or supplement to, existing accounting policies.

- The LG will establish and maintain accounting practices in accordance with generally accepted accounting principles and standards.
- The LG will have an annual audit performed by an independent public accounting firm or government agency that will issue an official opinion on the annual financial statement and a management letter detailing areas that need improvement.
- The LG will establish a system of internal controls, which is reviewed periodically by an independent auditor or government agency.
- The LG will issue an audited annual financial statement that provides for full disclosure.
- Within 60 days after the distribution of the audited financial statement to the governing body and the citizens, the LG will prepare an analysis of the annual financial statement and report its findings to the governing body with a discussion of any problems identified and possible solutions.

The central government does not regulate management accounting policies and practices like financial accounting because the nature and the objectives of the work are different. Management accounting's objective is to help management operate the LG successfully. Every LG and its community are different with potentially a different mix of politics, services, and community needs. What works for one does not necessarily work for another. Therefore, management accounting needs flexibility to meet differing needs of each LG.

Here are samples of management oriented accounting policies. While the authors do not recommend that you adopt them verbatim, we do encourage you to use them as a guide in developing your own management accounting policies:

- Enterprises will maintain revenues and expenditures that support the full (direct and indirect) cost of the utility.
- The LG will conduct an annual review of selected fees and charges to determine the extent to which the full cost of associated services are being recovered by revenues. All fees and charges will be reviewed at least once every four years.
- The LG will maintain modern financial systems to monitor expenditures, revenues, and performance of all LG programs on an ongoing basis.
- LG will adopt financial management performance criteria to guide its financial operations. Criteria will include operating programs; capital and debt management; accounting, auditing, and financial planning; and grants and trusts.
- LG will prepare a report reflecting end of fiscal year status of performance against these criteria within 60 days after official presentation of the annual audit of the LG financial records to the governing body. A pro

forma report reflecting proposed budget status will be submitted with the annual budget each year.

- The LG will conduct a cost analysis of all services on a regular basis.
- The LG will aggressively pursue reimbursement of all eligible costs from government grants or international development agencies.

From a regulatory standpoint, fewer restrictions limit your ability to develop management accounting policies, procedures, and systems than in financial accounting. You should take advantage of this opportunity.

### LEARNING APPLICATION

POLICY MAKER \_\_\_ CEO X FINANCE MANAGER X DEPARTMENT HEAD X

Think about how you currently use accounting to aid management reporting and decision-making. List three accounting oriented policies you have adopted that support management reporting and decision-making.

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What additional policies would you adopt to improve the effectiveness of your organization?

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### LEARNING APPLICATION

POLICY MAKER X CEO X FINANCE MANAGER X DEPARTMENT HEAD X

Take a few minutes now to think about the policy basis for accounting in your LG and use the space below to write down some ideas. From your unique role perspective, are the accounting practices of your LG guided by written statements of policy?

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To what extent is the LG governing body involved in making accounting policy?

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In which accounting areas could your LG benefit most by policy guidance from the governing body?

## BENEFITS

LG officials and managers must optimize the use of LG resources to efficiently and effectively deliver programs and services to the community. They rely upon the finance manager to employ various accounting tools, techniques and reports to focus attention upon utilization of resources, costs, controls and evaluation of programs. Two of the accounting tools that we discuss in this essay are financial statement analysis and management accounting. They are important because they are effective in reviewing and controlling costs and improving productivity. Here are specific ways that these accounting tools can benefit a LG:

**Aids understanding financial events**—Financial statement analysis evaluates the past, current, projected financial condition, and monitors the performance of LG. It helps LG officials understand the cause and effect relationship of a financial event. It encourages LGs not to react to isolated events but to examine related changes and determine the basic causes of an event. An event cannot be judged positive or negative until it has been properly related to other factors that may have a bearing on it.

**Financial statement analysis done on a regular basis also prevents management from being submerged in a maze of data.** It organizes the data and relates it to a pattern of prior experience and external standards.

**Establishes an early warning system**—By monitoring of the performance LG, financial statement analysis alerts management to potentially adverse situations and

prompts management to act earlier rather than later after a financial debacle has occurred.

**Improves planning and budgeting**—Without proper planning, goals are achieved only by accident. Accounting, and especially management accounting, is an integral part of the planning process because it provides information for decision-making. It supports the entire budgeting process with accounting related reports. For example, if one of the LG's financial goals is to annually adopt a balanced budget, it must determine what level of revenues it will receive and what expenditures it will approve. Applying managerial accounting techniques to government programs helps managers identify which services and programs are less efficient and in need of improvement. It can also determine the need to raise fees and charges or reduce costs to improve the effectiveness and efficiency of the service. Implementing such changes in each program can help achieve the larger goal of a balanced budget.

**Assists decision-making**—Managerial accounting assists decision-making in a variety of ways. It not only provides accounting information critical to the planning process but also employs analytical techniques to help understand decisions. It is useful in making different types of decisions such as setting the level of user fees and charges, comparing the cost/ benefits of privatizing a LG service, comparing program or activity results to plans, comparing costs of alternative service proposals in the budget, and determining the full cost of a program or service eligible for reimbursement from a grant.

Management accounting helps you make daily operating decisions. For example, you must make daily or weekly decisions on how much of a commodity to buy (fuel, chemicals, foodstuffs, etc.) or how many units of supplies to purchase (paper, pencils, office supplies, etc.). Often, you must also determine what price to set for these products or services to recover their full costs. You might also use management accounting to make long-term decisions. Although these decisions are made less frequently, they are no less important. These might include a decision to either build a new LG building or lease an existing building, or to increase the level of a service and implement fees and charges to recover the cost of a service. Elected officials make the final decision in the annual budget, but the finance manager undertakes the analysis many months in advance to provide alternative cost scenarios.

**Makes cost data meaningful**—Often, a finance manager uses cost information by itself. However, the manager can make the cost data more meaningful by relating it to output or workload. For example, knowing that the LG communal waste collection cost 762.6 thousand Euros last year is useful information but that gives a limited view of what the citizens are paying. By applying a performance measure, the statement that communal waste collection cost 92.44 Euros per housing unit last year gives new meaning to the performance of the service provided. Furthermore, when program costs are stated on a per unit basis it allows for comparison.

Comparison might include neighbouring jurisdictions, national norms, prior years, and the cost of privatizing the service.

**Improves program cost controls**—Applying analytical and management accounting techniques to programs or services makes the cost components more understandable to managers and improves their ability to control costs. It identifies the components of cost that are fixed or variable, direct or indirect, and controllable or uncontrollable. With this information, a manager who has a better understand-

ing which costs are causing program costs to increase, will be in a better position to explain the reason for the increase and take corrective action.

Enhances service and program evaluation—Evaluating and controlling are very closely related. Managers are usually evaluated based on how well they control their operations. They may be responsible to provide a specified level of service, collect a certain level of budgeted revenues or stay within budgeted expenditures, or implement a reduction in cost by a certain percentage or amount. In all these cases, the top managers must rely upon management accounting reports to keep them abreast of changes in their operation and the performance of LG programs.

Significant benefits will accrue to LGs that employ these accounting tools in everyday operations.

### LEARNING APPLICATION

POLICY MAKER \_\_\_ CEO \_X\_ FINANCE MANAGER \_X\_ DEPARTMENT HEAD \_X\_

Now that we have reviewed the benefits of using accounting, its time for you to see if you can apply it to your LG. Think about two or three ways that your LG uses accounting for management purposes. How has it been beneficial?

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Did you derive benefits other than those discussed?

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Can you identify any other ways that accounting information could be utilized and the benefits it would provide?

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## OBSTACLES, LIMITATIONS, RISKS, AND OTHER CONSIDERATIONS

You will find that making changes to the way LG conducts its business is not an easy task. There will be obstacles and barriers, such as political and staff resistance, time required, lack of performance information, lack of knowledge of the practices and standards, and the existing financial accounting system that impede your progress. Furthermore, the techniques that we have suggested here also have two limitations of which you should be aware.

**Resistance to change**—In today's complex and ever changing society, most managers would agree with the statement "change is the only certainty." But that doesn't mean that everyone accepts change equally well. You can expect that in developing new analytical techniques and accounting reports for management there will be resistance from politicians and staff. Many elected officials who are wedded to past techniques, reports and formats will not see the value of producing new information and reports. They will argue that the current practice meets all the requirements and any others mean more work without producing any significant benefits. To this group of officials, additional data, information, and analysis undermines their existing information power base and the way that they have been making decisions in the past. They are unwilling to learn new methods and techniques.

Some staff members may also resist developing new techniques and management reporting systems because of the additional work that is required. They may say they are too busy with other duties to take on additional projects. They may also resist your initiatives because it exposes inefficient and ineffective service programs and attempts to improve accountability for results, creating responsibility cost centres in which a person is solely responsible for the centres performance. In some cases, staff members may enjoy not being held accountable for results and your efforts change that situation.

**Time required**—Developing a management reporting system is a complex, time-consuming process. The traditional accounting system is usually inadequate to meet the management reporting needs so alternative systems must be developed. It is not unusual for a LG that has an accounting system with limited management reporting to consider replacing its entire system with a new integrated database system. However, for LGs in which the central government dictates the accounting system, throwing out the existing system is not an acceptable alternative. Therefore, developing a separate system for each process is the only alternative.

If you are considering implementing the tools and techniques described in this essay, you should not try to implement all of them at one time. Be selective. Spread out the implementation over a period of years. Using an incremental approach has important benefits. It:

- Allows you to focus on the highest priority first and to get some immediate benefit from it,

- Eliminates the need for a comprehensive system design,
- Also gives the LG more flexibility to respond to changes that could not be anticipated earlier, and
- Is more affordable because it breaks cost into smaller parts and avoids large multi-year expenditures for development.

Lack of necessary financial and performance data—Another barrier or obstacle to using accounting information for management is that LG's generally lack the necessary financial and performance data. For most LGs, "the data does not exist" will be a common complaint. The techniques described earlier in the essay, i.e., financial statement analysis and management accounting and reporting techniques assume that the required data is available in annual financial statements, audit reports and footnotes, the accounting system or from departments responsible for delivering LG services. If the data is not available, you will need to establish systems to collect and compile the needed data annually. Compiling the data over 5-10 years will provide an historical database from which to analyze historical trends and predict future years for forecasts. Without the basic financial and reporting information, it is impossible to do the analysis and evaluation that management reporting requires.

Lack of knowledge of concepts and practices—Another obstacle exists when elected officials are not familiar with the terminology, techniques, processes, and practices of using financial statement analysis and management accounting. Education of elected officials on financial and management reporting concepts using workshops and briefings is a staff responsibility. The education process should include financial statement analysis, descriptions and exercises using management accounting techniques and a review of management reporting tools. Information provided to elected officials should be presented in simple, non-technical terminology that can be easily understood. Elected officials must be well informed about the LG current management practices and efforts to improve the process and products. Their support is essential to achieving that goal.

Few standards and benchmarks—Management reports may be hampered by the lack of standards and benchmarks. This will be a particular problem for LGs who are new to self-government. Simply, there has been little time to develop the standards because the nature of self-government has been ever changing. Nevertheless, you should establish standards and benchmarks for the operation of LG services and overall financial operation of LG. One easy way to start that process is to gather data from other LGs who you believe have established a strong financial condition and established superior management and public services. Use that as a starting point to develop a benchmark to measure the performance of your LG. Also, gather sufficient comparative LG data and individual service data to accumulate historical data to project trends.

Inadequate accounting system—Another barrier to developing management reports for LG is an inadequate accounting system. Accounting systems traditionally meet the need to control and report to the central government on the sources and uses of the LG funds. Systems were never designed to support the detailed management needs described in the above essay. You will need to establish separate data gathering and management reporting systems to overcome this barrier until you have an opportunity to replace the traditional accounting system with one that has an in-

tegrated database and can capture most of the information automatically to support varied management reporting requirements.

**Defining performance measures**—Creating effective management reports with suitable measures of performance is difficult, and can be a considerable barrier to overcome. For example, if service managers are evaluated based on whether or not they meet budget levels of cost, they might be tempted to ignore the quality of the product or service provided and postpone preventative maintenance or take other actions that could harm the LG in the long run, but meet budget in the short term. Training personnel in how to prepare and use performance measures is necessary and is an important first step to developing management information systems.

**Limitations**—There are limitations in using financial statement analysis and management accounting and reporting. The tools and techniques in the essay are not panaceas for all the ills of LG and they will not make the decision for you. They are only tools to give you insight to LG problems so that you can make better, more informed decisions.

- *Financial statement analysis and management accounting are not panaceas*—While financial and managerial accounting and reporting systems play an important role in LG, they are after all only systems that collect, compile and report information that we program them to do. They are limited by their inherent design and by the data that you put into them. The old adage “garbage in, garbage out” applies to computers and their output. There are no guarantees that all the problems of LGs will melt away if these tools and techniques are adopted or that the public will automatically gain a new respect for LGs. Treat these as just another tool in a comprehensive tool kit that you use to fine-tune LG programs and services. Respect their fallibility and limitations.
- *Financial statement analysis and management accounting will not tell you what action to take*—Financial and management accounting systems provide data and information for management to help make decisions. The systems are unparalleled in their ability to process large amounts of data in short periods of time, and modern financial accounting systems can massage the data and produce reports in most any format desired. However, you should be cautious and recognize that in order to make a decision, you must analyze and interpret the data and then choose whether or not you need to take an action and then what action to take. Only you can gauge the significance of the information produced and what action it requires. Management reports provide information that needs interpretation to be converted into useful action.

## LEARNING APPLICATION

POLICY MAKER \_\_\_ CEO X FINANCE MANAGER X DEPARTMENT HEAD X

We have identified some but not all obstacles and limitations to the use and development of accounting information for management purposes. What other barriers can you think of or have you experienced?

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How would you go about overcoming these obstacles and limitations?

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## MANAGEMENT ACCOUNTING / COSTING TECHNIQUES

Management accounting focuses on the financial information needs of internal users. In LG, this includes elected officials and LG staff—from department directors to middle and lower levels of management. In this section, we will define and discuss five management accounting techniques: cost accounting, cost finding, cost analysis, activity based costing capital investment project accounting, and life cycle costing also called total cost purchasing. We will include in the discussion the uses of the techniques, the elements, and the steps needed to implement them.

### COST ACCOUNTING

**Cost accounting** is the continuous and routine process of collecting, analyzing, classifying, recording and summarizing all the elements of costs incurred to provide a service, program, activity, product, project or unit of work regardless of the funding source. A cost accounting system links financial and managerial accounting and encompasses concepts and techniques used in both. Formal cost accounting systems are complex, costly and require special expertise. Cost accounting systems may be integrated with the general ledger or stand-alone. Fully integrated systems kept on an accrual basis are more accurate and reliable because they capture financial transactions on a more systematic basis. Stand-alone systems receive cost data from budget accounts and other historical sources.

Cost accounting systems record costs by job or process. **Job costing** identifies costs for specific jobs or pieces of work that are unique such as vehicle or building repairs. Costs vary from job to job. **Process costing** records costs by continuous, routine type of work such as garbage collection, water treatment, and policing. In

cost accounting, data prepared for financial reporting purposes on an expenditure basis are converted to expense or cost data. Expenditures represent the purchase of goods or services. Expenses represent the use of goods or services. Emphasis is on the use of resources and when they are used. Expenditure data does not adequately measure full costs because the cost of fixed assets such as equipment is treated as a current period expense instead of being depreciated and other period expenses paid in the current period are charged to the current period. An example is supply inventories that will not be used until some time in the future. Moreover, current period expenses such as insurance paid in another period will not be reflected.

## USE OF COST ACCOUNTING INFORMATION

Information produced by a cost accounting system has many uses:

Managerial planning and control – Cost information is valuable in strategic and operational planning, program evaluation, performance auditing, cost/ benefit analysis and cost control.

Analysis of service delivery alternatives – Accurate full cost data facilitates the analysis of alternative service delivery methods and service termination, modification, or reduction.

Budget preparation and control – Unit cost information is an integral component of performance and program budgeting and budget control.

Use fees and charges – Full cost data is essential to the development of user fees and charges based on the recovery of full or partial costs. Appropriate pricing is impossible without full cost information.

Contracting and privatization – The identification and analysis of costs are critical to making contracting and/ or privatization decisions. Accurate cost data is necessary to compare in-house, contract, and privatization proposals and to monitor contracts.

Performance and productivity measurement – Unit costs, outcome, quality and satisfaction measures are key elements of a performance and productivity measurement system that measures the efficiency and effectiveness of services. Financial and non-financial information can be combined to produce performance reports for the public and other users.

Capital programming and asset management – Cost information is used in prioritizing capital investment projects and monitoring construction projects, making lease-buy decisions and identifying life cycle costs (acquisition, maintenance, and operating costs) of capital projects.

Cost reimbursement – Full cost information is used to obtain maximum reimbursement under terms of a grant or contractual agreement.

## DETERMINING COST ACCOUNTING FEASIBILITY

Implementation of a formal cost accounting system is not a simple task. Trained personnel are needed who understand cost concepts, terminology, behaviour, and techniques. Well-defined procedures of capturing, recording, allocating, and reporting costs must be developed. Those installing the cost accounting system need to know how to integrate it with the general accounting, payroll, inventory, fixed asset, work

order, and other information systems. Be aware that the process is time consuming and costly. Poorly designed systems can produce inaccurate, untimely, and unreliable information. Moreover, there is always a danger that the cost of implementing the system will exceed its benefits.

Before deciding to install a cost accounting system, you should spend time learning about the basics of cost accounting including its strengths and weaknesses. Speak to local officials who have set up and are using cost accounting systems. Ask them what lessons they have learned and what pitfalls to avoid. Obtain information on effective software. Read some introductory material. Talk to the users who use the system to determine their level of satisfaction and solicit their advice on factors to consider in the installation of a system.

Next, clarify why the system is being installed and who will use the information. Why is it needed? How will it be used? Who will use it? Are there less sophisticated methods of obtaining the information? One approach is to establish a task force of finance and user staffs to conduct a feasibility study. Questions to be addressed by the task force would include:

- Are trained and knowledgeable staff available?
- What are the advantages and disadvantages of cost accounting?
- How long will it take to set up the system? What resources are needed?
- Are the accounting and other financial systems capable of accommodating the cost accounting system?
- Is adequate computer hardware and software available?
- What barriers must be overcome?
- Will an integrated or stand-alone system be established?

The task force should prepare recommendations including cost estimates, time schedule, and an implementation plan.

## STEPS IN SETTING UP A COST ACCOUNTING SYSTEM

There are five basic steps in setting up a cost accounting system.

### *STEP 1: SELECTING COST CENTRES*

The first step is to select the service program or activity for which costs will be accumulated. A **cost or responsibility centre** is a specific organizational unit, program, or activity under the control of a manager who has authority to incur and control costs. Examples of cost centres are parks department, street cleaning, purchasing, building inspection, custodial service and vehicle repair. In identifying cost centres, an inventory should be made of activities performed and descriptions prepared of each. One approach is to concentrate initially on measurable services provided directly to the public such as streets, recreation, and public safety. Professional and human services (finance, planning, CEO office, legal, and human resources) do not lend themselves well to cost accounting. A clear understanding of how the cost data will be used is critical to selecting cost centres. Typically, cost centres are established

within the departmental structure in places such as parks and recreation within a parks department.

Cost centres may also be revenue centres that track revenues used to finance a service, program, or activity. Cost/revenue centre managers are responsible for generating specific amounts of revenue. The recreation revenue centre would be expected to support a percentage of its operations through fees and charges.

#### STEP 2: IDENTIFYING COST COMPONENTS

The next step is to define and classify the costs to be reported. **Direct costs** are those that can be charged directly to the work performed and include labour, materials, and equipment. **Indirect or overhead costs** are costs which are associated with more than one service or activity such as pensions, insurance, supervision, rent, utility charges and government-wide support services including personnel, accounting, legal and computer services. Costs are classified as direct or indirect depending on the extent to which they benefit a single or multiple cost centres. The distinction is complicated. For example, depreciation and fringe benefits may be direct or indirect costs depending on the circumstances. There are many types of costs:

- **Fixed costs** do not change regardless of the volume of work performed. Examples are rent and depreciation.
- **Variable costs** fluctuate in direct proportion to the total volume of work performed. Examples are labour and materials.
- **Controllable costs** are the costs subject to the control of the cost centre manager.
- **Uncontrollable costs** such as rent or support service costs are outside the manager's control.
- **Full costs** include all direct costs and a share of the indirect costs.
- **Avoidable costs** are those that would be eliminated or reduced if a decision is made to select one alternative over another such as contracting out.
- **Marginal costs** are involved in changing the level of service such as adding recycling to solid waste disposal or keeping the library open an extra hour each evening.
- **Life cycle costs** are incurred over the useful life of a capital asset and include capital, maintenance, and operating costs.

Managers must understand the different types of costs in order to select those that are most useful in a particular situation.

#### STEP 3: ALLOCATING COSTS

Cost analysis almost always include the allocation of indirect/overhead costs to cost centres. This requires careful analysis because these costs apply to more than one cost centre. Several methods are available to allocate department or government wide indirect costs including equations, step down method, direct method, consolidated method, and internal service funds.

The use of equations is mathematically complex and requires computer applications, which are costly and difficult to maintain. A commonly used method is the step down method where the costs of support centres (personnel, finance, legal) are allocated to remaining support centres and all service cost centres (police, parks, streets). Unfortunately, this ignores some of the relationships that exist among support centres. For example, the costs of personnel would be allocated proportionately to finance and the various service cost centres. With this method, finance costs would not be allocated to personnel.

The direct method charges all support centre costs directly to the service cost centres. No allocations of cost are made to support centres. The consolidated method pools all support centre costs and allocates them on a ratio basis using direct labour hours, total direct costs, square footage or number of transactions. For example, the ratio of individual cost centre direct costs to total direct costs of all cost centres could be used. Another method is to establish internal service departments such as vehicle maintenance or data processing to account for the costs of all services provided to cost centres and to charge the cost centres based on their usage.

In selecting allocation methods, particular attention must be focused on their complexity, accuracy, and reasonableness of the results. The method should reflect as accurately as possible the actual benefits received by the cost centre from the support service.

#### *STEP 4: ESTABLISHING PROCEDURES TO CAPTURE, ACCUMULATE, AND REPORT COSTS*

Well defined written procedures are required to define the terminology and describe the methodology so that the users understand the system. Report formats and frequency should reflect user needs. User involvement in the design of the system is critical to its success.

Step 5: Integrating cost and performance data – Cost information is more useful if the cost accounting system is integrated with a performance measurement system which produces output, outcome and quality data. Output measures are used to compute unit costs that can be compared over time or with standard costs developed using industrial engineering methods. Outcome and quality data assist managers in determining if the desired results have been achieved for the costs incurred. Reliable and consistent cost and performance data enable policy makers and managers to assess the efficiency and effectiveness of LG operations.

Following is a checklist of the characteristics of an effective system to help you evaluate a cost accounting system:



## Elements of an effective cost accounting system

- \_\_\_\_\_ Provides timely, accurate, complete, relevant and useful cost information,
- \_\_\_\_\_ Simple to administer and easy to understand,
- \_\_\_\_\_ Cost of the system doesn't exceed the benefits,
- \_\_\_\_\_ Provides unit cost data
- \_\_\_\_\_ Identifies full costs,
- \_\_\_\_\_ Provides written procedures,
- \_\_\_\_\_ Facilitates comparison with forecasted and standard costs and other LGs,
- \_\_\_\_\_ Identifies inefficiencies and problem areas,
- \_\_\_\_\_ Interfaces with other financial and management information systems,
- \_\_\_\_\_ Conducive for use in cost estimating, and
- \_\_\_\_\_ Reflects high-user involvement and satisfaction.

## COST FINDING

A formal, sophisticated cost accounting system is not always required in order to obtain useful cost information. Your LG may not have the resources or a need for a system. An alternative method of obtaining cost data is **cost finding**. Cost finding is a less formal and expensive technique of determining costs on an irregular basis. There are no formal accounting entries to identify and record costs for specific cost centres. Instead, cost finding uses available expenditure information and adjusts it to derive the cost data. Expenditures are converted to expenses by assigning them to the period in which the resources were used.

The cost finding process is simpler and less rigorous than cost accounting. Special skills and computer capability are not necessary. Cost finding is not a continuous process. It is employed on an as needed basis. More extensive use is made of estimates and sampling which make it less precise than cost accounting. Greater emphasis is placed on direct costs. Short cut formulas are used in allocating overhead costs.

## USE OF COST FINDING

Although cost finding is less precise than cost accounting, it is an excellent tool for obtaining useful cost information to:

- Set fees and charges,
- Evaluate contracting and privatization proposals,
- Compute the unit costs of specific services such as street sweeping, snow removal, pothole repair, residential garbage collection, vehicle repair, tree trimming, building inspections, etc.,
- Evaluate the effect of terminating, reducing or expanding services,
- Obtain cost reimbursement from grants,
- Measure performance and productivity,
- Prepare and control budgets,

- Evaluate life cycle costs and lease-buy options,
- Compare service costs with other public and private organizations, and
- Determine the costs of different service delivery methods and the application of technology, i.e., automated refuse trucks, recycling, voting machines, de-icing chemicals, TV sewer inspection, computer aided dispatching, etc.

## IMPLEMENTING COST FINDING

Successful cost finding depends on the careful development of a methodology consisting of the following elements:

**Definition of purpose** – It is important to define the purpose of the cost finding study and the proposed uses of the cost information. This will assist in identifying the type and scope of the cost data to be collected such as full, direct, fixed, variable, marginal, avoidable, life cycle or unit costs. An understanding of the kind of cost information needed and how it will be used helps to focus the cost finding effort.

**Identify sources of cost information** – Since cost finding depends on the use of existing information, it is necessary to determine the extent, form, and adequacy of the information. Are there separate budgetary, financial, payroll, inventory, and fixed asset accounting systems? To what extent are they computerized? What is the basis of accounting (cash, accrual)? What kind of financial reports are prepared? Are funds in use?

Examples of useful records for cost finding include: financial and budget reports, payroll registers and timesheets, work orders, labour reports, equipment use reports, purchase orders, invoices, stores requisitions and fixed asset inventories. A budgetary accounting system with detailed object accounts (personnel, services, supplies, equipment) is a good source of relevant expenditure information.

**Establish an overhead policy** – You will need to decide the extent to which overhead costs will be determined and the allocation method. Some LGs focus only on direct costs. Others allocate the cost of depreciation, rent, fringe benefits, utilities, and the costs of support services such as personnel, finance, and data processing but do not allocate the costs of general functions such as the CEO, governing body, or LG clerk. Some LGs strive to allocate all overhead costs. The extent to which overhead cost is allocated depends on how the cost information will be used, the level of accuracy desired, the availability of information and the cost of collecting it. If the purpose of the cost information is cost recovery then full costs including overhead should be calculated.

After deciding the type of overhead costs to be collected, you will have to select an allocation method. The most practical and least complicated method is to establish an overhead rate for general and departmental overhead based on the ratio of the overhead units' expenditures to total government or department expenditures. The direct costs of the service being measured are multiplied by the overhead rate to obtain the applicable overhead costs. Overhead rates may be based on total expenditure, labour expenditures, number of employees, square footage, or number of transactions. A single rate based on total expenditures is more practical than multiple rates but less accurate. Use the allocation method that best meets your objective

for gathering cost information. Recognize the limitations of the method or methods used and point them out in your cost finding report.

Overhead allocation accuracy and reliability can be improved by establishing internal service departments (vehicle and building maintenance, data processing, etc.) and equipment replacement fund/account which charge departmental budgets for services. Another method is to design a budget system that allocates expenditures for fringe benefits, insurance, building and vehicle usage, computer service, etc.. to the departmental budget units. This will simplify and improve the accuracy of cost finding.

Create cost finding worksheets – Worksheets should be designed to collect the information. Categories of expenditures (salaries and wages, benefits, services and supplies, overhead [department, general], depreciation, etc.) should be pre-printed on the worksheets. Following is an example of the worksheet headings for converting expenditures to expenses:

	Deductions		Additions			
Total Expenditures	Capital Outlay	Other period expenses paid in current period	Depreciation	Current period expenses in other periods	Expenses financed in other funds	Total Expenses

The worksheet format should fit your specific needs and simplify data gathering.

Cost finding steps – Here is a description of the steps involved in converting expenditures to expenses—one approach to cost finding:

- Identify the current total operating expenditures for the service (tree trimming) for which costs are being collected.
- Deduct equipment expenditures and other expenditures such as supplies, prepaid insurance, and pay raises benefiting another fiscal period.
- Add expenditures of other fiscal periods benefiting the current period such as supplies purchased in other years but consumed in the current period.
- Add depreciation of the fixed assets used in the delivery of services. Depreciation recognizes the cost of plant or equipment as an operating expense during the accounting period in which the assets are expected to provide benefit. The straight-line method of calculating depreciation (value or original cost of asset minus salvage value= book value; book value divided by years of useful life = depreciation to charge for each year of use) is the simplest and most commonly estimated useful life used.
- Add expenditures of other funds/departments/accounts benefiting the service such as pensions, insurance, vehicle, and building charges, etc.
- Total the expenses.
- Add the overhead costs (General, Departmental).
- Total full costs.
- Convert full costs to unit costs (per tree trimmed).

The cost finding approach described above is an example of only one method. You will have to fine-tune the process depending on the availability and use of the information and the level of preciseness desired. For example, you may decide not to adjust the expenditures for other periods because personnel costs represent the major portion of costs and generally reflect the current period. Material and other costs related to other periods may not be significant to meet your needs. If your budget accounts reflect benefits, insurance, building and equipment charges or you make use of internal service departments you may not have to add depreciation or spend considerable time allocating expenditures since the charges will be represented in the departmental budget accounts.

Although cost finding has limitations and is not as accurate or reliable as cost accounting it offers a method of obtaining more complete cost information than what is available from many budget systems. These may not include general and department overhead, depreciation, insurance, fringe benefits, building and vehicle use costs and other costs within the budget appropriations for specific services. Knowledge of these costs is essential to making policy and management decisions about fees, contracting and service levels which require full cost information.

## COST ANALYSIS

In some literature, the terms cost finding and *cost analysis* are used interchangeably. However, in this chapter cost analysis is defined as the extensive evaluation of the cost information produced by cost accounting or cost finding.

Unfortunately, there are many instances where voluminous cost data has been produced without being systematically analyzed and effectively applied. This may be due to the information being inaccurate, incomplete, untimely, or irrelevant. But it may also indicate that the users do not know how to interpret and evaluate the information.

### IMPORTANCE OF ANALYSIS

Careful analysis of cost information is crucial to determining the extent to which it is accurate, complete, timely, and relevant. Intensive analysis ensures that the magnitude, nature, and causes of high, low or unreasonably fast rising costs are understood. Analysis facilitates the identification of controllable and uncontrollable costs. Cost trends can be charted and areas warranting attention recognized.

Stringent analysis enables the manager to calculate variances from historical, planned or standard costs and to assess their underlying causes, near-term significance and probable long-term implications. Standard costing may reveal certain types of inefficiencies related to the purchase and use of resources. Through analysis, the manager focuses attention on all aspects of service performance including outcome, quality, cost, and customer satisfaction. A determination can be made if the service level is higher or lower than expected and if the anticipated results have been obtained for the costs incurred.

Analysis enables managers to identify and evaluate the full range of options for controlling, reducing or avoiding costs. Cost analysis provides the opportunity to

examine alternative service delivery options and levels of service. A detailed analysis of costs ensures that future costs are considered. It also provides a mechanism for estimating or modelling future costs.

Comprehensive analysis provides for matching costs, revenues, and examining imbalances. It encourages managers to explore ways of generating more revenue to offset costs including setting fees to recover full costs. Finally, overhead analysis can produce considerable savings in areas typically ignored. Savings of over forty percent are not unusual.

In summary cost analysis enables managers to:

- Measure service results,
- Increase accountability,
- Uncover inefficiencies,
- Fine tune services,
- Increase productivity and contain costs,
- Justify budget requests, and
- Prepare citizen performance reports.

## ANALYZING COSTS

Many techniques are available for analyzing costs including variance analysis, cost benefit analysis, program analysis, and cost/revenue analysis. You should become familiar with the various techniques and their advantages and disadvantages. Following are questions to assist you in your analysis:

- Is the cost data accurate, complete, timely, and relevant to the purpose for which it was collected?
- Is the cost data received in time to diagnose problems and initiate corrective action?
- Have the reasons for cost changes been identified including inflation, labour contracts, salary and benefit increases, overhead, mandates, changes in service levels, unnecessary work, inefficient procedures, improper work schedules, etc.?
- Have comparisons been made with historical, planned, or standard costs and variances identified and explained?
- Have improvement plans been prepared to correct variances?
- Has the cost data been integrated with other performance data including output, outcome, quality, and customer satisfaction measures?
- Have unit costs been calculated?
- Have alternative cost control methods been considered including service reduction or elimination, contracting out, productivity improvements, application of technology, etc.?
- Is the cost data useful in measuring future costs?
- Have the factors influencing future costs been considered including the scope and quality of service, levels of service, methods, organizational structure and type and quality of labour, materials, and equipment?
- Have costs been compared with other LGs for comparable services?

- Do the costs of contracting out and privatization include proposal preparation and review, contract negotiations, conversion costs, gains or losses related to the transfer of assets, monitoring costs, contingency costs and the cost of future capital investments?
- Have costs and revenues been matched and new or improved sources of revenue identified?
- Have controllable and uncontrollable costs been identified?
- Have opportunities for waste, fraud, and abuse been identified?
- How is the cost data deficient?
- How could the cost data be improved?
- How satisfied are you with the usefulness of the cost information?

## ACTIVITY BASED COSTING

Pressure to cut costs and stabilize taxes has caused LGs to seek better cost and performance information. As a result, there is considerable interest in **activity based costing** (ABC), which is a business technique, used in determining the costs of products and services.

Activity based costing breaks down overhead support functions such as personnel, finance, purchasing and general administration into specific discrete activities or tasks and assigns costs based on the activities use of resources that generate the costs such as labour, materials and equipment. Activity costs are then assigned to products or services based on the amount of the activity outputs consumed. For example, the purchasing function is broken into acquisition, inspection, and warehousing activities. The cost of each activity is determined and allocated to services such as street maintenance or police patrol based on the number of activity outputs such as purchase orders used by the service and multiplied by the cost of preparing the order. An example of personnel activities would include recruiting and hiring, training, managing performance, recognition, and labour relations. The cost of training would be allocated to tree trimming or park maintenance based on training hours.

The objective of activity-based accounting is to distribute overhead costs as much as possible to the services benefiting from the overhead activities. Activity based costing measures the cost and performance of the activities and services. It is integrated so that the system provides information on the factors that determine the workload and effort required to perform an activity, the cost of the activity and the work done or results achieved.

Activity based costing brings greater sophistication to traditional cost accounting by focusing on discrete overhead activities. It is an internal cost reporting system aimed at identifying the root cause of overhead and eliminating or reducing it. The ultimate goal of ABC is to identify the total and true cost of services including downtime, non-productive time, material obsolescence, stock shortages, etc. Its emphasis on overhead costs is significant because these costs are an increasing percentage of total service costs and offers an excellent opportunity for reduction. Litigation, risk management, labour relations, and information processing costs are in many instances growing at a faster rate than direct labour costs.

## USES OF ACTIVITY BASED COSTING

Information provided by activity-based accounting has many uses including:

- Management improvement,
- Evaluation of service performance,
- Reduction of service costs,
- Elimination or reduction of unneeded overhead activities and costs,
- Waste identification and reduction,
- Evaluation of contracting, privatization, and other service delivery options, and
- Fee setting.

## ABC AND TRADITIONAL COSTING SYSTEMS

Activity based accounting is not a completely new system. It is a repackaging and expansion of traditional costing techniques. ABC does not replace standard cost accounting. Instead, it enhances its treatment of overhead costs and supplements the financial accounting information with performance and other management information. ABC focuses on the management of support activities as a means to continuously improve performance.

Activity based accounting differs from traditional costing systems in several respects:

- ABC places greater emphasis on overhead costs—Traditional cost accounting usually allocates overhead costs to a service by an arbitrary predetermined formula. This results in incomplete or distorted costs. For example, the purchase price of materials may not include the costs of processing the purchase order, inspection or warehousing. ABC allocates overhead costs more equitably based on the number of specific support activities directly used by the service.
- ABC uses activities and processes rather than cost centres as the focus of the costing system.
- ABC integrates cost and performance data such as output, outcome, and quality measures which assists in identifying tasks that can be eliminated or improved.
- ABC evaluates overhead activities that do not add value to services and seeks to reduce or eliminate them. For example in accounts payable, it would aim to reduce invoicing errors and check processing costs. In the case of legal services, it would strive to reduce settlement costs.
- ABC's objective is to allocate all relevant overhead costs directly to the services. The direct tracing of overhead costs to services reduces the significance of unallocated overhead.
- ABC collects more detailed cost data including the cost of downtime, non-productive time, pilferage, and obsolete inventory.
- ABC bases the general ledger structure on programs and activities instead of organizational units.



## ELEMENTS OF ABC

There are four elements of activity based costing:

Identification of discrete activities—ABC reduces overhead functions to specific activities or tasks that: represent substantial costs, are easily linked to services, and are useful to policy makers and managers. General management might be broken down into activities such as measuring organizational performance, improving process, conducting quality assurance, and implementing total quality management. Finance might be broken down into processing accounting transactions, reporting information, and conducting internal audits. One rule of thumb is to ignore activities that use less than 5% of a person's time or other resources.

Identification of resource cost drivers—A resource cost driver is the basis used to assign cost to the activities. Resources used by the activity consist of salary, benefits, materials, equipment, and building space. Resource drivers include percentage of time spent on an activity, percentage of materials used, square footage, headcounters and direct measurement of utilities and computer machine time.

Identification of services or products—Services or products using overhead activities are identified. LGs are recognizing the advantage of activity budgeting and accounting which shifts the focus from organizational units to programs or activities for which unit costs can be determined. Examples of such activities are street resurfacing, sidewalk and curb repair, residential garbage collection, commercial collection, residential street sweeping, building custodial service, park mowing, building inspection, police patrol and fire suppression. ABC allocates the appropriate overhead costs to each of the specific services.

Select activity cost drivers—An activity cost driver is a quantitative basis for assigning overhead activity costs to services or products. Transaction drivers count how often an activity is performed such as the number of purchase orders or accounting transactions. Duration drivers measure the amount of time required to perform an activity such as inspection or training hours. Intensity drivers charge activity costs directly to the service based on work orders.

## ABC LIMITATIONS

Critics of activity based costing point to its complexity and expense. It does not consider future or life cycle costs and is only a snapshot of the current situation. ABC requires computer capability to integrate the various information systems.

Critics contend that ABC is subjective, arbitrary and value laden. Many professional accountants do not support ABC because of the tough choices that must be made in allocating the costs. There are questions raised about legal restrictions, conformity with accounting standards and auditor and credit rating agency acceptance. Extensive time and effort is required to adapt ABC to a LG setting including redesigning the general ledger, chart of accounts and budgeting system.

## LESSONS LEARNED FROM ABC

Although there are many obstacles to implementing activity based costing for LG services, much can be learned from an understanding of its concepts and practices.



Meaningful benefits can be achieved without fully installing an ABC system. Here are some tips on what can be learned from activity-based accounting:

- Pay particular attention to overhead costs. They are significant at the operational level and offer an opportunity for substantial cost savings by eliminating or reducing overhead cost.
- Consider a pilot project that selects overhead activities that add time or cost to a process without any value, offer an opportunity for improvement and are relevant to the cost of a specific service. For example, overhead activities providing support to vehicle maintenance such as computer service and parts acquisition and inventory could be examined to identify costs related to waste from unnecessary computer reports and parts overstocking and obsolescence.
- Profit from the experience of LGs experimenting with ABC. Some of these LGs are: Victoria, Australia; Pell, Ontario and in the United States, Indianapolis, Indiana; Phoenix, Arizona; San Diego, California; Cape Coral, Florida; Charlotte, North Carolina; Houston, Texas and Milwaukee, Wisconsin.
- Develop performance measures including unit cost, output, outcome, quality and customer satisfaction measures.
- Evaluate the feasibility of establishing activity accounting and budgeting systems on a gradual basis.
- Be alert to hidden costs. For example, when adding personnel consider orientation, training, and equipment costs. When opening new facilities consider personnel, insurance, and maintenance costs.
- Maximize benefits from current costs. Unnecessary costs result from poorly trained employees, missed deadlines, rework, errors, and facilities and equipment that are not fully utilized.
- Identify cost benchmarks. Benchmarks may be established by comparing current costs with historical or planned costs or the costs of other jurisdictions that provide comparable service.
- Focus on process analysis and continuous improvement. Use teams to examine overhead and other processes with the objective of eliminating or correcting ineffective methods.

## LIFE CYCLE COSTING (TOTAL COST PURCHASING)

Another specific technique to help LG officials reduce the cost of providing services is life cycle costing. It is a purchasing technique used to determine the total lifetime cost of purchasing and operating an item. It gives local managers information for making better purchasing decisions, and helps provide information for future budgeting, since the total lifetime costs are established at the outset. Specifically, life cycle costing examines and incorporates hidden costs of an item, such as energy consumption. It is especially useful in evaluating bids for procurement where the acquisition cost of one specific option may be lower, but other not so obvious costs of that option may involve higher lifetime costs.

Thus, to implement a life cycle costing analysis, the purchasing manager must be prepared to evaluate the bids based on a full range of costs in addition to acquisition costs, such as:

- Operating costs - especially the energy costs of operation,
- Maintenance costs - both routine and preventative,
- Failure costs - downtime, rental costs, and production losses,
- Training costs - training personnel,
- Supply costs - consumable items required,
- Storage costs - including replacement parts and supplies,
- Labour costs - for operation, and
- Secondary costs - to dispose of by-products.

There also may be offsetting benefits that should be included in a life cycle cost analysis. These include buybacks, where the vendor guarantees a price at which the product will be bought back at the end of its useful life.

Structuring the bid analysis will allow managers to justify purchasing a more expensive item by indicating its lifetime cost savings and the time it takes to recapture the additional initial expense - the payback period. To use life cycle costing successfully in a bid, the purchasing manager must ask for bid specifications that provide the necessary information for analysis and decision-making. This includes stating in the bid documents that selection will be based on life cycle costs.

Examples of LG products that have been bid through life cycle costing include fleet vehicles, air conditioners, heat pumps, refrigerators/freezers, traffic signal lamps, transformers, photocopy machines, hot water heaters, motors, shop equipment, and heavy machinery.

As with all analytic approaches that attempt to establish improved cost information for decision-making, there are drawbacks to life cycle costing. These include the additional staff time and expertise required to develop a bid document, analyze the bid information, and maintain the data on the product to ensure compliance with bid promises. Another potential drawback is the loss of bids from vendors who do not have the staff capabilities to prepare proposals in the detailed manner required. Local officials may want to limit life cycle costing only to large ticket items or items purchased in such volume that the potential cost savings justify the analysis.

## SUMMARY OF OTHER COST CONCEPTS

There are a number of cost concepts that you may hear from time to time. Following are short summaries of a selected group. Most of these summaries are from a private sector perspective focusing on profit.

Average cost	The average cost is the total cost divided by the number of units produced.
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Cost-Volume-Profit analysis	As volume increases costs usually increase; more volume means more materials, more labour, more expenses. More volume can also mean more working capital, more resources to be managed, more profits. This analysis is most useful for examining what-if situations that commonly occur when preparing budgets and plans.
Fixed cost and variable costs	Variable costs are costs that can be varied flexibly as conditions change. Labour costs are examples of variable costs. Fixed costs are the costs of the investments made and reflect a long-term commitment that can be recovered only by wearing them out in the production of goods and services. Examples are buildings, equipment, and machinery. Labour is a more flexible resource than capital investments. People can change from one task to another flexibly while machinery tends to be designed for a very specific purpose.
Implicit and explicit cost	Implicit costs are intangible costs that are not easily accounted for. For example, the time and effort that an owner puts into the maintenance of a company rather than working on the expansion of the company. Explicit costs are tangible costs that can be easily accounted for: wages, rent, and materials.
Incremental costs	The overall change that a company experiences by producing one additional unit. It is also referred to as marginal cost.
Marginal cost	The marginal cost of an additional unit of output is the cost of the additional inputs needed to produce that output. Marginal cost and average cost can differ greatly. For example, suppose it costs \$1,000 to produce 100 units and \$1020 to produce 101 units. The average cost per unit is \$10, but the marginal cost of the 101 <sup>st</sup> unit is \$20.
Opportunity cost	Scarcity of resources is one of the more basic concepts of economics. Scarcity necessitates trade-offs, and trade-offs result in opportunity cost. While the cost of a good or service often is thought of in monetary terms, the opportunity cost of a decision is based on what must be given up (the next best alternative) because of the decision. Any decision that involves a choice between two or more options has an opportunity cost. Opportunity cost is useful when evaluating the cost and benefit of choices. It often is expressed in non-monetary terms. Opportunity cost is expressed in relative price that is the price of one choice relative to the price of another.
Sunk cost	A cost that you have already incurred and that you cannot recover. People often have an irrational desire to use products for which they have paid a lot of money, or to continue following a plan that has required a great investment. They think that if they abandon the product or change their approach they will be throwing money or time away. That's not true! The money and time have ALREADY been thrown away. Continuing to use a bad product or follow a bad plan is only increasing the amount being thrown away.

# CAPITAL INVESTMENT PROJECT ACCOUNTING

Up to this point, the discussion has centred on accounting for the costs of services. Just as important is the need to identify and track the costs of capital investment projects that have an extended life and significant value. *Capital investment projects (called “projects” for this section)* include buildings, streets, parks, street lighting, and water and sewer systems. They also include major equipment such as fire trucks, garbage trucks and construction equipment, as well as, major repair and rehabilitation projects.

Capital projects are expensive and often require multi-year expenditures because they may take more than one year to design and build. Moreover, capital projects typically involve multiple financing sources such as current funds, reserves, debt, grants, shared revenues, revenue transfers, and public-private partnerships. In some countries, these sources must be accounted for and reported separately. Capital projects have future budgetary impacts which mandate careful planning. Finally, financial resources are limited and must be allocated in a systematic manner. For all of these reasons it is critical that LGs maintain an accounting system that identifies and controls all project costs.

## USES OF CAPITAL PROJECT ACCOUNTING DATA

Information from a capital project accounting system has many uses, including:

- Permits comparison of estimated and actual project costs which ensures management accountability.
- Ensures project cost control during the planning, design and construction stages. Abuse of change orders and contingencies can substantially increase costs.
- Facilitates life cycle costing that determines the total lifetime costs of acquiring and operating a building or equipment. Such costing assists in evaluating energy efficient building design and materials that reduce operating costs. High initial cost may be offset by lower operating and maintenance costs over the life of the building or equipment.
- Aids the application of value engineering which reviews project costs to determine if costs can be reduced by the elimination of anything that adds to cost without adding to the project's functional capabilities. Value engineering analyzes the use of design that is more efficient, materials, construction methods, and technology during the design and construction phases.
- Assists in project cash flow analysis that maximizes the investment of project funds until they are needed and ensures that payments do not exceed the level of completed work.
- Facilitates a comparison of the costs of public vs. private construction and ownership.
- Enables an evaluation of the costs and benefits of alternative repair, rehabilitation, and replacement strategies.

- Assists in prioritizing capital projects. Information on operating costs and repair costs and frequency is useful in determining the need to replace facilities.
- Facilitates an analysis of lease-buy options.

## ELEMENTS OF PROJECT ACCOUNTING

If a cost accounting system is in place, it can be used to identify and track project costs. In the absence of cost accounting, it is necessary to:

- Implement accounting system procedures and coding to capture and accumulate the cost data. Work orders can be used to gather engineering labour hours and labour, materials, and equipment costs for projects involving LG personnel.
- Identify the types of costs to be collected. Examples of project costs include land and right-of-way acquisition, feasibility studies, planning, engineering, architectural, contracting, demolition, construction, construction monitoring, furniture and equipment, contingencies and overhead. A decision will have to be made concerning the allocation of overhead to projects. Overhead can be allocated using the methods previously described. One example of relevant overhead is the cost of engineering. Very often internal engineering services are not distributed to projects. Another example is the cost of advertising and bidding, accounts payable, contract preparation, insurance and internal service charges. A strong case can be made for charging all support costs applicable to a project. Tracking of costs due to change orders and delays caused by construction and labour problems is necessary to obtain full project costs and to identify the reasons for cost overruns.
- Collect the relevant cost data on a project basis.
- Report the costs in a timely manner. Monthly reports comparing estimated and actual costs by project phase such as design and construction help to identify problems and initiate corrective action. Narrative explanations of cost variances should be provided along with proposed corrective action.

The following checklist should be used to evaluate your current capital project accounting system.

### Checklist for Project Accounting

#### **Segregation of duties**

1. Segregation of responsibilities for initiating, evaluating and approving capital expenditures, leases, and maintenance of repair projects from those for project accounting, property records and general ledger functions.
2. Segregation of responsibilities for initiating capital asset transactions from those for final approvals that commit government resources.
3. Segregation of responsibilities for the project accounting and property records functions from the general ledger function.
4. Segregation of responsibilities for the project accounting and property records functions from the custodial function.

5. Assigning the responsibilities for the periodic physical inventories of capital assets to responsible officials who have no custodial or recordkeeping responsibilities.
6. If electronic data processing is used, maintaining the principle of segregation of duties within processing activities.

#### **Procedural Controls**

7. Identification of those individuals authorized to initiate capital asset transactions and clear definition of the limits of their authority.
8. Establishing guidelines with respect to key considerations such as prices to be paid, acceptable vendors and terms, asset quality standards, and the provisions of grants or bonds that may finance the expenditures.
9. Preparation of a separate capital projects budget.

#### **Executive or Legislative Approval**

10. Requiring written executive or legislative approval for all significant capital asset projects or acquisitions.
11. Procedures for authorizing, approving and documenting sales or other dispositions of capital assets.
12. Procedures for approving decisions regarding financing alternatives and accounting principles, practices and methods.
13. Procedures providing for obtaining grantor (federal/state or central government/province) approval, if required, for the use of grant funds for capital asset acquisitions.
14. Subjecting grant-funded acquisitions to the same controls as internally funded acquisitions.
15. Requiring supplemental authorizations, including, if appropriate, those of the grantor agency, for expenditures in excess of originally approved amounts.

#### **Project Accounting**

16. Engaging a qualified employee or independent firm to inspect and monitor technically complex projects.
17. Establishing and maintaining project cost records for capital expenditure and repair projects.
18. Reporting procedures for in-progress and completed projects.
19. Procedures to identify completed projects so that timely transfers to the appropriate accounts can be made.
20. Review of the accounting distribution to ensure proper allocation of charges to capital asset and expenditure projects.
21. If construction work is performed by contractors, procedures to provide for and maintain control over construction projects and progress billings.
22. The LG has the right to audit contractors' records.
23. Exercising the right to audit contractor records during project performance.
24. Audits of contractor compliance with regulations and contract terms, in addition to costs.

#### **Asset Accountability**

25. Maintaining detailed property records for all significant self-constructed, donated, purchased or leased assets.
26. Establishing the accountability for each asset.

27. Procedures for periodic inventory of documents evidencing property rights (for example, deeds, leases and the like).
28. Physical safeguards over assets.
29. Procedures ensuring that purchased materials and services for capital expenditure and repair projects are subjected to the same levels of controls as exist for all other procurements (for example, receiving, approval, checking).
30. Periodically comparing detailed property records with existing assets.
31. Investigating differences between records and physical counts and adjusting the records to reflect shortages.
32. Procedures ensuring that capital assets are adequately insured.
33. Subjecting lease transactions to control procedures similar to those required for other capital expenditures.
34. Properly identifying equipment by metal numbered tags or other means of positive identification.
35. Carrying fully depreciated assets in the accounting records as a means of providing accounting control.
36. Procedures for monitoring the appropriate disposition of property acquired with grant funds.

#### **General Ledger**

37. Periodic reconciliation of the detailed property records with the general ledger control accounts.
38. Procedures and policies to:
  - Distinguish between capital projects fund expenditures and operating budget expenditures.
  - Identify operating budget expenditures to be capitalized.
  - Distinguish between capital and operating leases.
  - Govern depreciation methods and practices.
39. If costs are to be charged against central government grants, depreciation policies or methods of computing allowances are in accord with the required regulations.
40. The accounting records should be adjusted promptly for both the asset and related allowance for depreciation when items of plant and equipment are retired, sold or transferred.

### **LEARNING APPLICATION**

POLICY MAKER \_\_\_ CEO X FINANCE MANAGER X DEPARTMENT HEAD X

From your unique role perspective, consider the management accounting techniques discussed in the preceding section—cost accounting, cost finding, cost analysis, activity based costing and capital project accounting. Then think about setting up a management accounting system for your LG. What kind of a management accounting system would you develop for your organization?

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Why?

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## ADVANCED ACCOUNTING TOPICS

### COMPUTER TECHNOLOGY

Computer technology has revolutionized accounting and financial reporting in many developing countries. However, because of the control that the central government maintains over LG accounting policy and systems, other countries have not been able to take advantage of the technological advances. Nevertheless, because computer technology is a complex and rapidly changing aspect of LG, it will soon find its way to most LGs—regardless of the country. LG elected and appointed officials need to familiarize themselves with the choices that are involved in applying the technology.

While this is not the major thrust of this chapter, we thought it important to briefly discuss some issues that you might face in making decisions about technology applications. This is important because increasing complex technology applications are needed to collect, calculate, analyze and format financial and performance information needs for management. We will discuss basic data management concepts, data processing modes, degree of centralization, and general system features of LG computer applications on which accounting and financial reporting systems operate.

### DATA MANAGEMENT

Traditionally, LGs store data in separate and largely independent files. Users of the data have exclusive rights to the data and usually do not share it. If the data is needed for multiple purposes, each user must independently create, sort and maintain a separate set of files. Users must replicate common data in different files for different uses. This redundancy creates several problems for data management:



- Significant physical storage is required (i.e., multiple tape and disk files) to maintain all the data. This redundancy represents a severe drain on the resources of the LG.
- When updating data, multiple locations must be accessed and changed. To complicate matters, different users may refer to the same data by different names making it difficult to communicate changes to all potential users. This problem usually creates errors due to outdated data being maintained in some files.
- It is costly to maintain and modify separate application programs. A user and management's needs change over time due to legislative changes, new government programs, and changing regulations. All create pressure for new and timely information. These changes require new data and modified programs, but because these are independent programs, each application must be changed based on the nature of the data change that is difficult and expensive. New files merely complicate the situation and make the redundancy worse.

A more modern approach is to use a data base approach. Here data files are all gathered together in one file for common access. This approach provides the following advantages over the traditional approach:

- Reduces redundancy
- Reduces program maintenance
- Simplifies the updating process
- Provides for both routine and *ad hoc* applications—routine applications handle data requests for the most frequently produced reports and are regularly scheduled on a recurring basis. However, with *ad hoc* applications capability, the user can have reports prepared for “one time” information e.g., special reports that have never been produced before and may never be produced again. Usually, in a traditional accounting system, these requests could not be satisfied because of time and data constraints.
- Responds better to requests for one-time management information. Through a query language built into the data base system, users interface directly with the system to access the entire database and to generate the information they need in whatever report format they desire. This has extraordinary benefit for management to obtain information of a “what if” nature.

Most modern accounting and financial reporting software uses a database approach. You should familiarize yourself with this approach and consider using it in developing a management oriented financial accounting system.

## DATA PROCESSING MODES

Accounting transactions are processed in either batch or real-time mode. Batch processing is the periodic processing of a group of similar transactions that flow as a

single unit through the entire processing cycle. This mode of data processing is efficient and easy to control. It is most common in applications that involve posting to ledger accounts large volumes of transactions.

Real-time systems process a single transaction at a time (often as the event occurs) in an interactive session with the user. Whereas batch programs occupy the computer for only a few minutes when the batch is run, with data stored in off-line locations, real-time programs reside in the computer's main memory the duration of the interface session with the user. In some applications, this approaches permanent residency and requires dedicated computer resources.

The advantages of the real-time mode include:

- Visual screen editing of transactions, which reduces data entry errors,
- Up-to-date files, and
- Direct inquiry capability.

Real-time systems are preferable wherever there is a need to immediately capture the effects of transactions. The primary disadvantage of real-time processing is the cost of dedicated computer resources and expensive secondary storage.

## DEGREE OF CENTRALIZATION

In early data processing systems in many U.S. LGs, all data and data requests were processed by a central computer centre. Output in the form of reports was then distributed to users. Centralization provided the LG with both physical control of the data and economies of scale, but completely centralized systems are giving way to more a decentralized approach. The modern approach, called distributed processing, distributes some or all data processing responsibility and resources throughout the organization or departments. Distributed processing offers many options, each of which has different hardware and software implications. The challenge for management is to identify what type is most appropriate for the LG's needs.

## GENERAL LG APPLICATIONS

LG officials who plan to install a new financial accounting system should familiarize themselves with some of the major options available. The general system features include system architecture, hardware compatibility, modularity, and integration, real-time versus batch processing, distributed versus centralized systems, and databases versus traditional files. Consider these issues in making your decision.

### *SYSTEM ARCHITECTURE*

System architecture (the technical and logical construction of the system) is the primary basis on which suppliers differentiate the products and develop their marketing strategies. Architecture can be viewed as a continuum. At one end are "turnkey systems" designed as a series of integrated, general-purpose modules. These systems are fully tested and documented before delivery and require no additional programming to tailor them to the user's system.

At the other end of the continuum are custom-tailored systems, designed for clients with needs too complex to be served by a turnkey system. Arrangements to acquire custom tailored systems typically result in large-scale engagements and require specialized implementation and support. Suppliers of custom systems may provide a resident support team during the installation and training phases of the project and access to on-site or telephone technical support thereafter.

The system architecture affects flexibility of use, timeliness of information, speed of operation, user friendliness, vendor support, and price. For example, because development costs for general-purpose applications are spread over a large user base, these applications are usually less expensive than custom tailored systems. To determine the approach that makes the most sense for your specific needs, you must familiarize yourself with the range and implication of various architectural alternatives.

#### *HARDWARE COMPATIBILITY*

In a perfect world, you choose software first and then hardware. However, if you have hardware in place, you may be forced to choose compatible software recognizing that you have sunk costs for hardware that must be recovered. Note that to select only from those accounting packages that are compatible with existing hardware may leave some needs substantively unsatisfied. The only relevant consideration is the future benefits of the package versus the current and future costs of acquiring and maintaining it.

#### *MODULARITY AND INTEGRATION*

In modular systems, individual functions such as accounts payable or utility billing are separate from one another instead of being parts of a larger program. The major advantage of modular systems is that they can be expanded and changed as needs dictate; they do not need to be scrapped and redesigned.

Integration refers to how and to what extent individual program modules interface with each other and with their respective data files. Integrated systems usually comprise a series of subtask modules integrated with a core financial module. The core system, for example, contains the accounting rules that are to be applied and perform posting and reporting functions. Thus, transactions can pass directly from modules to the core, which updates all relevant files directly and automatically. In non-integrated systems, each file must be updated separately, which can create redundancy. In addition, any time lag between updates means that the yet unchanged files contain outdated data. In a fully integrated system, these problems would be avoided; changes would be made only once, and the data would be updated in each location automatically, thus immediately providing updated data to all users.

Modern accounting software packages are both integrated and modular. This is an efficient way to design a system because it allows systems to reside in the background and to be involved as needed rather than to be included in the main application module. Also, this approach adds a degree of flexibility to the system. Optional subsystems may be purchased or not as desired. In this way the user is not encumbered with unneeded functions—such as fixed asset accounting or inventory control systems—but has the option of later adding these functions to the core system.

## BATCH PROCESSING VERSUS REAL-TIME PROCESSING

To select an appropriate processing mode, you must determine the need for current data. The primary drawback of batch processing, compared with real time processing, is that it does not fully support the integrated approach. Batch files do not reflect current transactions as they occur. Files contain old data until the batch programs that update them have been run. In some—but not all—applications, this approach imposes severe limitations on the user. For example, payrolls are often processed in batch because the demand for immediate and current payroll information does not justify the more expensive real-time approach.

The major drawback of real time processing is its excessive cost which has three sources: 1) the application software, which is difficult and complex to design; 2) the overhead of the complex operating system; and 3) the amount or complexity of storage devices.

## CENTRALIZED SYSTEMS VERSUS DISTRIBUTED SYSTEMS

The degree of centralization desirable in a computer system depends on the organization structure of the LG. Centrally structured LGs that use large common files may be best served by a shared logic system. Decentralized organizations in which users have private data files but also need to consolidate information centrally for planning or reporting can take advantage of the distributed logic approach. Distributed data processing requires specialized software to download and upload data files. Modern supplier packages support distributed process by providing specific personal computer applications for local processing or by downloading files into formats that can be processed by such general packages as Microsoft Excel, Lotus 1-2-3 and dBase III.

## DATABASES VERSUS TRADITIONAL FILES

Modern software suppliers support both database and traditional files. In large LGs, a database management system is almost essential, but in small jurisdictions or where there is little sharing of common data, this is not the case. Although some organizations need not have a database system to have an effective information system, taking full advantage of the features inherent in an integrated system requires that traditional files be on line and organized for direct access processing.

System design issues such as discussed above are important because they determine the degree of flexibility and responsiveness of the accounting system and ease the burden of the finance manager to meet the information needs of the users.

## LEARNING APPLICATION

POLICY MAKER \_\_\_ CEO X FINANCE MANAGER X DEPARTMENT HEAD X

Consider the current state of computer technology usage in your LG. Think about the use of computer technology to support the accounting function. What are the strengths and weakness of the existing accounting software, computer hardware, and peripheral equipment?

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Is it adequate to support the financial management of your LG now? In five years? Explain.

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What actions do you need to take to address its weaknesses? Draft a short action plan.

## MODERNIZING THE ACCOUNTING SYSTEM

Management accounting functions can be and in most LGs are computerized and include modern financial management information systems designed specifically for LGs. Typically these include: job cost accounting, cost allocation, cost accounting, project accounting, and responsibility reporting. This doesn't necessarily mean that your LG's accounting and financial reporting system is performing to the highest standards available. Given this possibility you may want to consider using the following nine-step approach to modernize your systems.

1. **Identify the objective.** This is the responsibility of management working closely with elected officials. For example, a strategic objective might be "to put into place the tools that would improve the efficiency of financial operations and provide a decision support system that would enable better-informed management decisions." In this objective, management is

driven by clear management goals rather than by technology. Less importance should be placed on system architecture and software components.

2. **Prepare needs assessment.** A needs assessment describes the current situation and problems, defines what you need, why you need it, how these needs relate to the current situation and how well the new system will work in the future. Identify the management's information needs that are not being addressed by the current system. Also, identify the results that are expected in measurable terms. Not only do you want the system up and running by a certain date, but you want it to perform specific functions to certain quality standards and timeframes. These standards and timeframes need to specify, and the supplier of the system held accountable for its performance. This assessment will also help decide whether or not the existing system can be modified or whether a new system is needed.
3. **Embrace the concept of change.** Technology is an agent for change and when introduced, change is inevitable and highly desirable. The needs assessment will identify many things that are done poorly or not at all. Management needs to identify these changes as necessary to produce greater efficiency or greater effectiveness or both.
4. **Prepare a current cost analysis.** The first part of the analysis determines the cost of the current system. This should include *hard costs*, such as hardware and software, personnel, maintenance, and ancillary equipment; *soft costs* such as overtime, excess personnel that occur due to inefficient processes and lost revenues due to activities that are not pursued such as uncollected delinquent accounts, interest on bank balances, etc.

Secondly, using the needs analysis as a starting point, develop a realistic budget for the new system balancing the real and perceived needs, financial constraints and political considerations. What you actually spend will depend on your needs, size, and available funds. Consider the same list of hard costs, soft costs, and revenues as you determined for the current system. Many of the same categories of hard costs will recur and must include start up costs for installation and training, but you can expect reductions in soft costs for improvements in efficiency and recovery of some revenues. What you will have difficulty doing is effectively measuring turnaround times and providing information that was not available previously.

Lastly, you should explore the feasibility and the cost of modifying the existing system. In most cases, this is not feasible due to system architectural differences and technological obsolescence and not cost effective. Nevertheless, make an educated guess because someone will ask the question.

5. **Prepare a request for proposal (RFP).** A request for proposal is a document that outlines the LG's hardware and software system requirements so that potential suppliers can submit realistic proposals. Many of the functional and reporting requirements will come from the needs assessment. The document then is used as a basis to evaluate proposals, and

finally, it is included as part of the contract as a performance and compliance monitoring device.

6. **Evaluate the supplier's proposal.** When the responses from the suppliers come in, the staff or a selection committee begins the formal process of evaluating the proposals. The evaluation compares the proposal to the criteria outlined in the RFP and the supplier that most closely meets the criteria is awarded the contract. Before making the final selection, check supplier references, visit sites where the product has been installed, and see the product demonstrated. The final decision should be based on an objective evaluation of the supplier's hardware, software, references, company size, reputation, longevity, financial condition, and any other factors deemed relevant.
7. **Install the system.** The installation consists of four major parts: project management, training, conversion of existing data (if any) and acceptance testing.

**Good project management** requires that the supplier and LG prepare a detailed task plan to install the system listing tasks to be accomplished by certain persons at certain times. Assigning a project manager with responsibility for the project and to work with the supplier is also an essential first step.

**Training** is vital to ensure that the future users understand how to operate the system and obtain the full utility from it. The supplier is usually responsible for the initial system and user training, but that can be augmented by training LG staff to train other users in certain financial specialties. LG is responsible for ensuring that the users attend the training, organizing the sequence of training, providing a training room and allowing sufficient training time.

**Conversion** is the process of putting your current data on the new system. It's usually more complicated than it sounds. Complicating the issue is the accuracy of the current data, the file format of the new applications, and size of fields. The supplier is responsible for this, but the LG must work with the supplier to analyze the data, plan the conversion, and review the converted data.

**Acceptance testing** is necessary once the product is installed—acceptance testing puts the software through its paces by determining the output of each subsystem then running the system to see it does what it is supposed to do. Ideally, the test is conducted by checking off criteria in the request for proposal.

8. **Evaluate and maintain the system.** After the system has been installed and allowed to operate, evaluate it to see if the anticipated benefits have in fact been achieved. This includes a check on the realization of cost savings or increased revenue, but also on the adequacy of the information for the user and management's needs.
9. **Face the difficult personnel issues.** Changing processes, procedures and technology will affect personnel and some will be able to deal with the changes better than others will. Dealing with less effective managers is a difficult problem but must be addressed. The situation must be recog-

nized and a strategy developed to deal with specific situations and individuals. Retraining is one possibility.

Developing a new financial accounting and management information system is a complex undertaking and can produce behaviour problems associated with system changes. An effective organizational approach is for the CEO to appoint a multi-department steering committee to oversee and coordinate the project with affected departments. If you are the finance officer, your role on the committee is to be the accounting expert, and insure that the committee represents all affected departments and addresses the impact that change has on an organization and its people. Personnel problems can be minimized or avoided altogether with proper planning, good communication, involvement of the users, and following the steps outlined above in the analysis, acquisition, and installation of the system.

## ACCOUNTING MANUAL

An essential document in any LG is an accounting manual, containing the policies, procedures, and sample forms governing the “how to” of the LG’s accounting. The manual can contain a variety of topics, from basic instructions on how to prepare a journal entry to record taxes, to the procedures used to reconcile a bank account, reimburse employees for travel, or prepare a balance sheet. A manual makes it easier to enforce accounting policies and procedures.

If your LG does not have an accounting manual of its own, obtain copies of manuals from several LGs in your area. Because most LGs are subject to the same accounting guidelines, most accounting manuals contain elements copied from another LG. If obtaining a copy of a neighbouring LG is not possible, here are some Internet resources where you can download actual LG accounting manuals. These will need to be adapted to your country’s GAAP and regulations.

- Accounting manuals – Canada  
[www.gov.ns.ca/snsmr/muns/manuals/pdf/manual.pdf](http://www.gov.ns.ca/snsmr/muns/manuals/pdf/manual.pdf)  
[www.municipal.gov.sk.ca/pdf/finstateman2003.pdf](http://www.municipal.gov.sk.ca/pdf/finstateman2003.pdf)
- Accounting manual for small U.S. State of Minnesota cities  
[www.auditor.state.mn.us/other/\\_AccountingDocs/accounting\\_manual.pdf](http://www.auditor.state.mn.us/other/_AccountingDocs/accounting_manual.pdf)
- Accounting – Certificates of Participation – Canada  
[www.cde.ca.gov/fg/ac/sa/documents/proc606.pdf](http://www.cde.ca.gov/fg/ac/sa/documents/proc606.pdf)
- World Bank 900 page “Municipal Accounting for Developing Countries.”  
[www.developmentfunds.org/pubs/Municipal%20Accounting.doc](http://www.developmentfunds.org/pubs/Municipal%20Accounting.doc)
- Guide for accounting in daily transactions – Micronesia  
[www.opsa.fm/files/mmg\\_00-01.pdf](http://www.opsa.fm/files/mmg_00-01.pdf)
- Income statement & Balance Sheet – EU – Finland  
[www.intermin.fi/intermin/home.nsf/wLatestEng/67B8BDF36007DFB3C2256B81003CEA63](http://www.intermin.fi/intermin/home.nsf/wLatestEng/67B8BDF36007DFB3C2256B81003CEA63)
- European ESA 95



<http://forum.europa.eu.int/irc/dsis/acostat/info/data/en/IAS%20and%20ESA95.htm>

- Best practices manual - bank reconciliation procedures and flow – South Africa  
<http://www.imfo.co.za/manual.htm>
- The state Tamil Nada, India, has taken the lead in preparing a revised accounting manual for all local bodies that will support the introduction of computerized double entry accrual based accounting. The Institute of Chartered Accountants of India (ICAI) and the USAID FIRE (D) Project are assisting in this. (1998). Following is the website for ICAI.  
[www.icaai.org](http://www.icaai.org)

## FUND ACCOUNTING

In the early days of fund accounting, “funds” meant “cash funds.” Each “fund” might be kept in a separate cash drawer, and some bills would be paid from one drawer and others from another drawer, in accordance with the designated use of the cash in each drawer. Today, “funds” are separate fiscal and accounting entities and non-cash revenues as well as related liabilities are accounted for in funds.

Simply stated, the concept behind fund accounting is that you must set up separate funds based on regulations, restrictions, and limitations. Fund accounting tracks the receipt and use of resources by the source of the monies. Some countries, including the United States, require that LGs use fund accounting to control earmarked resources to both ensure and demonstrate compliance with legal or administrative requirements.

Each fund must be treated as a separate entity, with its own general ledger and chart of accounts, and must provide individual revenue, expenditure, income, and balance sheet reports specifically for the fund. Funds must also be reported on in total for the entire LG organization. The fund concept involves an accounting segregation, not necessarily the physical separation of resources; however, resources are often physically segregated—for example, through use of separate banking accounts for cash resources of various funds.

Fund accounting is different from multi-company private sector (commercial) accounting. Attempting to use a commercial system for fund accounting is akin to trying to use a wrench to drive nails rather than a hammer. The wrench will work, but it will be a slow, painful process. Fund accounting encompasses most aspects of commercial accounting. However, it goes beyond the requirements of a commercial system in both form and function. Fund accounting reports are designed to measure performance against budgets and revenues against expenditures. Commercial systems are designed to measure revenues versus expenses only.

All local governments, universities and not-for-profits in the United States use fund accounting. If you are interested in seeing what fund accounting looks like then go to the following web site which is a portal that includes most state and local governments that have a web site.

<http://www.statelocalgov.net/index.cfm>

Pick out a local government and then look for the Comprehensive Annual Financial Report (CAFR) or for the adopted annual budget. They may be under the Finance Department, Controller, or Administrative Services Department. U.S. local governments do not have a standardized organizational structure. The CAFR is the annual audited financial report prepared by most local governments. The CAFR is a report based on fund accounting. This will allow you to see the variety of funds along with their descriptions and restrictions and requirements for specific uses for the fund resources. The adopted budget will also give you an overview of the ways various funds are used in LG accounting. If you would like to find out more about fund accounting, we suggest the following resources:

- Fundamentals of Fund Accounting – University of Kansas (U.S.)  
[http://www.comptroller.ku.edu/FIN\\_MANAGEMENT/fundamentals.aspx](http://www.comptroller.ku.edu/FIN_MANAGEMENT/fundamentals.aspx)
- University fund accounting  
[http://oaa.osu.edu/chapter/i\\_fundacct.html](http://oaa.osu.edu/chapter/i_fundacct.html)
- Governmental Finance Officers Association (U.S.)  
[www.gfoa.org](http://www.gfoa.org)  
[www.gfoa.org/services/rp/documents/rpefa040204.pdf](http://www.gfoa.org/services/rp/documents/rpefa040204.pdf)
- PowerPoint presentation “Fund Accounting” from University of Oregon  
<http://baowww.uoregon.edu/FinMgt/FundActg.ppt>
- University of Arizona (U.S.)  
[http://daps.arizona.edu/daps/selected/fund\\_accounting\\_defs.html](http://daps.arizona.edu/daps/selected/fund_accounting_defs.html)
- University of Texas  
[http://www.uth.tmc.edu/ut\\_general/admin\\_fin/planning/pub/hoop/11/11\\_01.html](http://www.uth.tmc.edu/ut_general/admin_fin/planning/pub/hoop/11/11_01.html)

## UTILITY FUNDS

These funds account for the financial transactions of utility services rendered to the public financed by specific user charges. Examples are: water, electric, sewer, and storm water. The accounting for utility funds is normally like accounting for private sector (commercial) businesses. This means that they use the receivables, payables, and prepaid groups of accounts—accrual accounting—in addition to the basic ones. The journal entries for recording utility revenues and expenses and other transactions are similar to those presented earlier.

Following are financial statements from a combined water and sewer utility using fund accounting principles.

### Comprehensive Balance Sheet for a Water and Sewer fund

Assets	
Current Assets:	
Cash and Marketable Securities	170
Accounts Receivable, net	100
Other Current Receivables	50
(Interest Receivable, Special Assessments, etc.)	

Due from Other Funds/State	60	
Inventory	80	
Prepaid Expenses and Other Current Assets	<u>40</u>	
Total Current Assets		500
Restricted Assets:		
Cash and Marketable Securities	250	
Receivables	<u>30</u>	
Total Restricted Assets		280
Fixed Assets:		
Land	190	
Buildings	550	
Improvements Other Than Buildings	2,400	
Machinery & Equipment	250	
Construction in Progress	120	
Less: Accumulated Depreciation	<u>(880)</u>	
Net Fixed Assets		2,630
Other Assets:		
Unamortized Bond Insurance Expense	80	
Other	<u>350</u>	
Total Other Assets		<u>430</u>
Total Assets		<u>3,840</u>

Liabilities		
Current Liabilities Payable from Current Assets:		
Accounts Payable	40	
Accrued Interest Payable	20	
Current Portion of Long-term Debt	<u>100</u>	
Total Current Liabilities Payable from Current Assets		160
Current Liabilities Payable from Restricted Assets:		
Accounts Payable	30	
Accrued Interest Payable	10	
Current Portion of Long-term Debt	<u>180</u>	
Total Current Liabilities Payable from Restricted Assets		220
Non-current Liabilities:		
General Obligation Bonds	560	
Revenue Bonds	1,640	
Leases Payable	60	
Contracts Payable	80	
Special Assessment Bonds Payable	20	
Arbitrage Payable	20	
Construction Payable	70	
Compensated Absences (accrued vacation)	50	
Other Non-current Liabilities	<u>10</u>	
Total Non-current Liabilities		<u>2,510</u>
Total Liabilities		2,690
Fund Equity:		
Contributed Capital:		
Developers	180	

Other Funds	40	
Others	<u>20</u>	
Total Contributed Capital		240
Retained Earnings:		
Reserved	150	
Unreserved	<u>560</u>	
Total Retained Earnings		<u>710</u>
Total Fund Equity		<u>950</u>
Total Liabilities and Equity		<u>3,840</u>

### Comprehensive Income Statement for a Water and Sewer fund

Operating Revenues		
Charges For Services	93,288	
Tax Revenues	28,941	
Other	19,548	
Total Operating Revenues		141,777
Operating expenses		
Personal Services	31,404	
Contractual Services	59,393	
Materials And Supplies	6,258	
Depreciation And Amortization	25,098	
Other	5,911	
Total Operating Expenses		128,064
Operating Income (Loss)		13,713
Non-operating revenues (expenses)		
Interest Revenue	6,729	
Interest Expense	(2,244)	
Dedicated Taxes	17	
Other, net	1,931	
Total Non operating Revenues (Expenses)		6,433
Income (Loss) Before Transfers		20,146
Transfers in (out)		
Transfers In	2,568	
Transfers Out	(22,595)	
Total Transfers In (Out)		(20,027)
Net Income (Loss)		119
Increase (Decrease) In Retained Earnings		
Retained Earnings, Beginning of Year		441
Retained Earnings, Ending of Year		560

## DEPRECIATION

*Depreciation* is the process by which a LG gradually records the loss in value of a fixed asset. The purpose of recording depreciation as an expense over a period is to spread the initial purchase price of the fixed asset over its useful life. Each time a LG prepares its financial statements, it records a depreciation expense to allocate the loss in value of the buildings, water treatment plants, machines, equipment, or cars it has purchased. However, unlike other expenses, depreciation expense is a “non-cash” charge. This simply means that no money is actually paid at the time in which the expense is incurred.”

### WHY DEPRECIATE FIXED ASSETS?

One of the main goals of LG financial statements is to provide information about the cost of government services. Cost of services includes the consumption of all resources used in providing services—capital as well as financial resources. Capital resources include not only buildings and machinery, but also roads and highways. Without these assets, it would be difficult, if not impossible, to provide most government services. Any effort to inform citizens and other users about the cost of government services will fall seriously short unless the cost of using capital assets, including infrastructure, is included in annual computations. The capitalization of all assets, including infrastructure, is necessary because without capitalization asset costs cannot be properly allocated to the periods when the assets are used to provide services. The alternatives to capitalization and depreciation are to expense the entire cost of the assets when they are acquired, when they are paid for, or when they are retired. These approaches distort the cost of services—and, by extension, operating results—in those periods (for example, the period acquired) as well as in each period that the assets are used.

#### Depreciation Example

For example, if a public electric utility buys some transformers, the purchase price of \$1 million would be divided by the 10 years the transformers are expected to last, to arrive at an annual amount of \$100,000. In each of those 10 years, then, the utility’s income statement would include a \$100,000 charge, commonly called “depreciation expense.”

## ADVANCED FINANCIAL AND BUDGETARY REPORTING

An effective accounting system should be capable of providing specific financial reports to meet the information requirements of a variety of users, such as regulatory and governing bodies, grant agencies, internal management, and citizens. Relevant and timely reports are a very important product of an effective accounting system. To ensure an effective system, consider and periodically reassess the needs of the users to ensure that all financial, managerial, and compliance reporting requirements are met. Ideally, these needs would be met by a single accounting system.

In the following sections, we identify specific areas in reporting that you should consider making accounting a more responsive and effective tool for management and citizens.

## COMPLIANCE REPORTING

In compliance reporting, LGs must provide accounting reports to grant agencies, government regulatory bodies, or ministries that require specific reporting of specific functions, activities, or tasks. For most LGs, the basic accounting system should produce the financial reports in the formats required.

However, you should be aware that grant agencies may establish different reimbursement requirements, and these requirements may not always be easily accommodated by the accounting system. For example, some grant agencies allow the LG to request reimbursement based on costs incurred in administering the grant program, but allowable costs require the application of special cost finding techniques. You must determine all the costs associated with the grant and establish a cost accounting system capable of capturing data that conforms to the grant provisions. Ideally, the accounting system would provide some optional cost collection mechanisms so that collecting cost for eventual reimbursement could be automated instead of performed manually. Unfortunately, that is not always the case.

Other grants require a matching contribution from the LG. Items such as cash, supplies, and services are easily recognized and reported in determining the local contribution, other contributions such as in-kind contributions are more difficult to trace, capture, and report. For example, depreciation of equipment used in a program may qualify as a matching contribution. The labour effort expended in a program may also qualify as a matching contribution, even if employees do not devote all the time to the grant program. You need to carefully document accounting records and establish a sound allocation program to help ensure reimbursement of all allowable costs for matching contributions.

The management accounting techniques described in the following section provide a means for predicting, understanding, and controlling costs and operations. Some of these techniques are included in LG accounting systems making it easier when it comes to preparing specialized compliance reports with unique reimbursement data collection requirements. For example, it is normal for a modern accounting system to include: cost accounting, project accounting, cost allocation and other analytical tools within the accounting software.

In developing or selecting an accounting system, carefully explore its design capabilities to ensure that it meets existing reporting requirements and provides the flexibility to meet any future special cost finding techniques or reimbursement requirements such as those described above.

## MANAGEMENT ACCOUNTING REPORTS

In a general way, management accounting reports are those reports designed to meet the specific needs of LG officials and top management in order to monitor the utilization of resources and the performance of programs within the organization. Elected

and appointed officials expect the accounting system finance manager to provide a series of reports that improves their ability to govern and effectively manage the LG.

Effective accounting reports have one primary criterion: provide relevant information in a timely manner to aid the decision maker. These reports must meet the needs of LG officials at all levels of decision making: the top, middle, and bottom. Each level has unique reporting needs. The challenge is to identify those needs, consult with management on priorities, and develop a system of reports that addresses the needs—considering such issues as: the purpose of the report, its frequency, required content, level of detail, an understandable format, and the availability of data—all at a reasonable cost.

Management accounting reports differ from traditional financial accounting reports. Management accounting reports have fewer restrictions, and as a result, the information boundaries are less rigid. You, therefore, need to be careful to avoid the normal tendency in organizations to collect more data than is necessary and relevant to satisfy the reporting needs of management. There is little gained in collecting excess data unless the value to management exceeds costs of data collection.

Management accounting often requires that relevant data and financial information be collected and presented in a different report format than that followed for traditional financial reporting. The reports also are not limited to historical financial data. They include estimates and plans for future programs and activities as well as information about the past. While these reports contain financial data, they also contain a considerable amount of information that is not financial or may not even be derived from LG's accounting system. For example, the number of employees, hours worked, quantities of materials used, etc. They focus on the parts of the organization and their individual performance rather than the organization as a whole.

## RESPONSIBILITY ACCOUNTING AND REPORTING

Responsibility accounting was developed to meet management's need to collect, analyze and interpret data at a more specific level of detail than can be provided by financial accounting procedures. Responsibility accounting attempts to report results in such a way that variances from planned performance can be identified, the reasons for the variances can be determined, responsibility can be fixed and timely corrective action can be taken.

To implement responsibility accounting and reporting, you divide the LG into small units of activity in which a single person has the full responsibility for the operational performance of an activity. An **activity** is defined as an effort that contributes to the accomplishment of a specific, identified objective. It is at this low level that costs are accumulated and responsibility for an activity is fixed. The responsibility centre is the building block for responsibility accounting. Because the responsibility centre is the primary unit to collect costs, it is often called a cost centre. The terms can be used interchangeably.

Using this approach, you can assign pertinent costs and revenues to the various organization units — departments, bureaus, and programs, designated as responsibility centres. For example, a separate cost report would be prepared for the manager responsible for:

- Street cleaning,
- Green space maintenance, and
- Waste disposal or recycling activity

This way, people can be held accountable for their respective area of responsibility. Similar consolidated cost reports would be prepared for the Environmental Protection manager who is responsible for all these activities.

Costs charged to responsibility centres should be separated between direct and indirect costs. Not all direct costs are controllable at the responsibility centre level. Therefore, direct expenses should be further broken down between those that are controllable and those that are not controllable at the responsibility centre. To make this simpler, a distinction is sometimes made between a cost centre, which is fully burdened with indirect cost and a service centre, which may be assigned only the direct costs of the service.

Reporting costs to a manager is one issue; controlling is quite another. A **controllable cost** is defined as any cost that is subject to the influence of a given manager during a specific period of time. Responsibility accounting focuses on a manager taking responsibility for the cost of an activity in a well defined area of responsibility. However, managers often inherit the effects of decisions from prior managers. The long-term impacts of such costs as depreciation, long term leases and service contracts make some activities difficult to control, and the managers' cost report should consider these as non-controllable.

For example, consider the costs of nursing services in a health care facility. These wage and salary costs are not necessarily controllable at the responsibility centre because they may be heavily influenced by government policies regarding patient care, lead time needed to hire additional nurses and availability of part-time help. Nurse managers have little control over such cost influencing factors. You need to consider these factors when establishing responsibility centres and reporting mechanisms.

## PERFORMANCE EVALUATION

Private business measures performance by the profitability of the company. A LG does not have such a measure. LGs measure performance in one of two ways: comparison of actual costs against the budget and/or a comparison of results and achievements to planned goals and objectives.

**Budget/Cost Variance**—When a LG compares actual costs against the budget, it identifies a variance, which is the difference between the amount budgeted for a particular activity and the actual cost of carrying out that activity during a specific period. Variances may be positive (under budget) or negative (over budget).

A LG monitors the cost performance of a responsibility or cost centre (such as street cleaning) by collecting the direct cost of street cleaning such as personal services (wages, fringe benefits, overtime pay and bonus) and operating costs (supplies, services and equipment) and comparing it to the budget. For a more complete cost picture, it adds indirect costs (depreciation, LG staff overhead, etc.) to the cost centre and compares that against a planned full cost of the activity. Specific items may be broken out from operations (equipment maintenance, fuel, supplies, materials) de-



pending upon the nature of the responsibility centre's operation and the information needs of management. As cost information is compiled for each activity, and variances determined from plan identified, managers in the organization can focus their attention on activities that are of the greatest importance or those with the greatest variance from plan or budget. This selective reporting concept is called management by exception.

A LG can measure and report the performance of a responsibility or cost centre differently than budget variance reporting. Use performance costs to justify requests for funding to support start-up of a new service or to increase the level of an existing service. Also, use them as a management control mechanism to assess work progress and costs where activities are routine and repetitive over a period of years. With this approach, identify and measure units of work as a basis for analyzing financial requirements. Then test the impact of various levels of service and assess the changes in the size of the client groups to be served. This approach builds on the assumption that certain fixed costs remain fairly constant regardless of the service level provided and that certain variable costs change with the level of service or the size of the clientele served. Staff determines marginal costs for each additional increment of service provided through such an approach. With the application of appropriate budgetary guidelines, you can convert these costs into total cost estimates.

#### *PERFORMANCE MEASUREMENT*

Another way LGs can monitor and report on the performance of a responsibility or cost centre is to establish measures for that centre. A measure is a means of indicating the extent, dimensions, or capacity of anything. In LGs, a *measure* is a means of determining whether or not an objective (and eventually a goal) is being achieved. A measure indicates in any point in time the progress made toward reaching an objective. A measure is classified as either activity-based or performance based. See Volume 6 Chapter 10 on *Performance Measurement* for additional information on this subject.

#### CITIZEN REPORTS OR POPULAR REPORTING

A recurring criticism of LG financial data and information is that it is too detailed and difficult for non-specialists to understand. Therefore, many LGs have chosen to supplement their regular financial reporting by issuing citizen reports or "popular reports." The objective of popular reporting is to summarize accounting, budgeting and other financial issues, and trends and to communicate the information to the citizen in an easy-to-read and understandable document.

These reports may take different forms:

**Budget in brief**—After the annual budget is adopted, the LG publishes a summary of the budget using charts, tables, and graphs to highlight resource allocations and statistical information. Narrative sections provide abbreviated descriptions of service changes effective for that fiscal year and a description of the budget process. These reports are useful to inform the citizens where the LG's resources come from and where they go, and encourage them to participate in the budget process.

**Consolidated financial statements**—After the annual audit is completed, the LG prepares a summary financial statement on a consolidated basis (i.e., for the government as a whole, rather than by separate fund or agency, with inter-fund transactions eliminated.) In some cases, these reports are prepared in a manner similar to private-sector reports. Such reports are useful tools for giving taxpayers and others a general overview of the government’s financial position and results of operations.

**LG End of Year Budget Report**—After the annual audit is complete, the LG prepares commentary of the budgetary performance for the past fiscal year. The report provides a high level analysis of revenue and expenditure results and explains significant variances from the adopted annual budget. It also provides a detailed breakdown of the budget results by particular budgetary sections. This type of report is useful for informing LG elected officials and taxpayers on the results of the annual budget performance.

**Annual LG performance report**—Others prepare a report on the LG’s performance in achieving its major operational and financial goals. In addition to an LG operations review, they include an audited consolidated financial statement and footnotes reporting the LG’s financial condition. The report format is very similar to a private sector annual report presented to shareholders complete with pictures, charts, and graphs in an easy-to-read newspaper columnar format. Designed to market the LG to a variety of audiences, it is useful for taxpayers, businesses, investors and others to highlight the LG’s significant achievements the past fiscal year.

In summary, the LG should prepare a variety of reports for many different purposes and users. You depend upon the accounting system to collect, compile, consolidate, and report financial data and information to meet these needs. However, do not be limited by the traditional accounting system. Use it as a starting place and add to it. We have suggested some additional ways that accounting information can be modified, reformatted, and combined with other non-financial information to meet the needs of two groups that have traditionally not been included in the reporting process— internal management and the citizens.

## LEARNING APPLICATION

POLICY MAKER  CEO  FINANCE MANAGER  DEPARTMENT HEAD

We have been discussing the various kinds of reporting opportunities for your LG accounting system. On some of these reports, the finance manager might take the lead, while others would be the primary responsibility of either the CEO or individual department heads. From your own role perspective as the CEO, finance manager, or a department head of your LG, list the kinds of financial reports that you would like to make available to your various clients or constituents. For example, one client/constituent of the finance manager may be all the other managers in LG. For the CEO, clients might be leaders of the business community. For the manager of the water department it might be customers. In other words, think expansively about the opportunities to use accounting information to carry out your role.

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For each of these examples, what would you hope to achieve?

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What are the challenges to generating these reports?

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### LEARNING APPLICATION

POLICY MAKER   X      CEO   X      FINANCE MANAGER   X      DEPARTMENT HEAD   X  

From your unique role perspective, consider how you use information produced by the accounting system. List the types of information that the accounting system produces and what decisions you make using the information.

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Are the predominant users of the accounting information external, internal or both?

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What groups of users in your LG do not have access to or utilize this information?

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What actions would you take to improve the accounting and reporting for these groups of users?

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The CEO may want to convene a work session to review the different role perspectives and determine how information from the accounting system can be generated to meet each of the role's needs.

# PART 2: MANAGEMENT TOOLS

## PURPOSE

This workshop is designed to increase the ability of finance managers to recognize and interpret the management implications of accounting data and use this enhanced understanding to make better-informed decisions. While the following exercises are designed largely around the learning needs of finance officers, don't hesitate to expand your audience by altering these designs or adding new ones to work with elected officials, CEOs and other LG department heads.

*Don't forget to look back at the Learning Applications! Many of them can be easily adapted for group exercises and may be more appropriate for persons who are just being introduced to the concepts of accounting.*

## CONTENTS

A brief description of each learning activity is shown below with an approximation of the amount of time required. If you wish to change the order, to omit something, or to add training material of your own, feel free to do so.

### 9.1 WARM-UP EXERCISE: THE BEST GAS PERFORMANCE

Participants use a familiar example of comparative gas mileage performance to understand the importance of interpretation in financial analysis. (30 minutes)

### 9.2 EXERCISE: TRAINER PRESENTATION

The trainer prepares and delivers a brief concept presentation based on the preceding essay that provides participants with an understanding of management accounting policies, practices and methods of analysis. (30 minutes)

### 9.3 EXERCISE: THE POLICY FRAMEWORK

Participants identify management accounting policies and express preferences for their adoption by their own LGs. (45 minutes)

### 9.4 EXERCISE: TWO CONTRACTING OUT DECISIONS

Participants compare the costs of two proposals for contracting out a service with the cost to perform the service in-house. (60 minutes)

## 9.5 EXERCISE: WE MAY HAVE A PROBLEM

Participants evaluate financial conditions or trends in four hypothetical situations and present their conclusions and recommendations to one another in a simulated finance committee setting. (120 minutes)

## 9.6 CLOSING EXERCISE: LEARNING TRANSFER

Participants reflect individually on what they have learned and make commitments to put it to use back home after the workshop. (30-45 minutes)

## 9.1 WARM-UP EXERCISE: THE BEST GAS PERFORMANCE

### TIME REQUIRED

30 minutes

### PURPOSE

Use a familiar example to help participants understand the importance of interpretation in financial analysis.

### PROCESS

Before the workshop begins, write the following information on a flip chart pad: Josef and Hanna drive identical automobiles. Josef fills the tank of his car with petrol (60 litres) and fills the tank again (same number of litres) after driving 600 miles. Hanna fills the tank of her car with petrol (60 litres) and fills the tank again (same number of litres) after driving only 525 miles. Josef brags that his car gets superior fuel mileage to Hanna's.

If you were the judge in this situation, what else would you want to know before concluding whose fuel performance is better?

After participants are seated, tell participants that the value of financial data is wholly dependent on their interpretation. To illustrate this, tell participants to read the information on the chart pad. When they have read it, ask volunteers for an answer to a concluding question like, "to properly interpret which car has performed the best, one would want to know such things as?"

- Weight of the two cars and loads being carried or pulled (e.g., trailer),
- Type of terrain over which each car was driven (e.g., flat surface versus mountainous),
- Urban or highway driving,
- Octane rating of the petrol used in each car, and
- Speed at which the cars were being driven.

After several participants have identified factors like these, point out that many factors have to be considered before a judgment can be made that one thing is better than another.

## 9.2 EXERCISE: TRAINER PRESENTATION

### TIME REQUIRED

30 minutes

### PURPOSE

This presentation is to provide participants with information on the concept of accounting as a management tool and how to make practical use of information from the accounting process to improve management analysis and decision-making.

### PROCESS

Prepare the presentation based on information covered by the preceding essay on accounting as a management tool. Explain the difference between financial accounting and management accounting and why accounting policies are important for planning and implementing financial management programs. Give some examples. Describe the concept of cost finding and the various methods available to the manager to analyze program costs. Explain types of overhead (indirect cost) and methods for allocating overhead costs, emphasizing the practice of setting and using overhead rates. Describe the use of financial statements by managers to evaluate how well the LG is using its financial resources. Emphasize the development and use of ratios and trends in financial condition analysis.

Outlined information on note cards may help you cover the information systematically and stay on schedule. Ask questions from time to time during the presentation as a check on participant comprehension and to hold their attention. Augment the presentation with visual aids including pre-printed newsprint sheets and overhead transparencies as a further aid to comprehension.



	Policy Statement	Group Rationale for Policy Adoption
_____	The LG will establish and maintain accounting practices in accordance with generally accepted accounting principles and standards.	
_____	The LG will have an annual audit performed by an independent public accounting firm or government agency that will issue an official opinion on the annual financial statement and a management letter detailing areas that need improvement.	
_____	The LG will establish a system of internal controls that is reviewed periodically by an independent auditor or government agency.	
_____	The LG will issue an audited annual financial statement that provides for full disclosure.	
_____	Within 60 days after the distribution of the audited financial statement to the governing body and citizens, the LG will prepare an analysis of the annual financial statement and report its findings to the governing body with a discussion of any problems identified and possible solutions.	

## 9.3 EXERCISE: THE POLICY FRAMEWORK

### TIME REQUIRED

45 minutes

### PURPOSE

This exercise is to help participants recognize the importance of adopting management-oriented accounting policies.

### PROCESS

Tell participants the purpose of the exercise is to evaluate a set of standard management-oriented accounting policies for use by the LGs participating in the workshop. Tell participants they are to identify which of the five policies listed on the attached handout are actually in use, in one form or another, by their own LGs. Participants are to complete this task individually. Then, in small groups, ask participants to discuss the general use of policies like these by the LGs represented in the group and to indicate which of the policies should be considered for adoption by their LGs and why.

Give participants about 30 minutes for the individual task and group discussion. Then, reconvene the participants and ask for reports from each small group. Look for similarities and differences in the reports and discuss the results.

## Handout

### Management-oriented accounting policies

Put an "X" on the line to the far left for each policy statement that already has been adopted, in some form or another, by your LG. Then join with other participants to share and discuss the results. On the lines on the right of the handout, indicate which of the five policies participants believe should be adopted by their LGs. Do this by describing in a few words opposite the statement what led members of your group to reach this conclusion.

## 9.4 EXERCISE: TWO CONTRACTING OUT DECISIONS

### TIME REQUIRED

60 minutes

### PURPOSE

This exercise is to develop participant skill in evaluating the comparative costs of in-house provision of a service with two proposals for contracting out the service.

[Note: It is recommended that you convert the monetary unit into the local currency and square feet into meters if meters are the common measurement standard in your country. Just be sure that, in your conversions, the numbers you come up with are realistic! And make any other changes that will make the exercise more relevant to the learner's experience. These exercises are only as effective as the trainer's ability to alter them to meet his or her client's learning needs.]

### PROCESS

Describe the exercise as an evaluation of two proposals for a LG to contract out building cleaning services to a private vendor. The task in each case is to determine if the costs avoided by the LG through contracting out are sufficient to justify a decision to accept the vendor's proposal.

Divide the participants into small groups. Give each group several pieces of information (see three reproducible handouts that follow the trainer notes) including:

- Background information on financial aspects of the “do it” or “have it done” decision with which the LG is faced;
- Financial details on cleaning one 10,000 square foot building that houses the local animal shelter (Proposal 1); and,
- Financial details on cleaning the entire 1,691,500 square feet of floor space used for LG operations (Proposal 2).

When participants have read the material, tell them they have thirty minutes to answer the questions at the bottom of HANDOUT NO. 1. They will be asked to reconvene after thirty minutes to discuss their answers and reasoning.

*Trainers note. This clarifying information may be helpful in the discussion that follows the small group reports.*

*In-house cleaning of the 10,000 square foot animal shelter at \$4.67 per square foot is considerably more than the amount bid by the vendor. However, none of the indirect costs that the LG calculates as applicable to cleaning this building can be avoided. As a result, the LG would incur a new cost of \$3.25 per square foot and would save only \$2.63 per square foot (\$26,250 in avoidable cost divided by 10,000*

*square feet). Therefore, it would not be in the LG's financial best interest to accept the vendor's proposal.*

Other considerations about Proposal 1.

Factors that might cause reconsideration of the decision include: (1) the possible use of labour saving devices by the vendor; and, (2) the need for the LG to make a significant cash investment in fixed assets in the near future if the service continues to be provided in-house.

Contracting out the cleaning of all LG floor space (1,691,500 square feet) would make it possible to gain greater savings since, unlike Proposal 1, a considerable amount of the overhead support cost can be avoided. The avoidable cost in this proposal is \$6,001,970 or \$3.55 per square foot ( $\$6,001,960 / 1,691,500$  square feet). This figures compares favourably with the cost of contracting out the service (\$3.25 per square foot) and would result in an estimated savings of \$507,450 ( $\$0.30$  per square foot savings times 1,691,500 square feet). Under these circumstances, serious consideration should be given to a recommendation for acceptance of Proposal 2.

Other considerations about Proposal 2.

Other factors that should be taken into account in reaching a final decision about contracting out include: (1) the vendor's reputation and experience in work of this kind; and, (2) the capacity of the LG to perform the service should the vendor fail to live up to its contractual obligations.

## Contracting out building cleaning services

Your LG has received two proposals from the same vendor for contracting out building cleaning services for \$3.25 per square foot.

One of the proposals is to clean the 10,000 square foot animal shelter that currently is being maintained by two full time custodians who are employees of the LG. The present total cost (including direct and indirect costs) for the LG to clean this building is \$4.67 per square foot).

The second proposal is to clean the entire 1,691,500 square feet of floor space used for LG operations for the same charge of \$3.25 per square foot.

A decision to accept either or both of the proposals depends on the amount of money the LG will save. This determination can be made by calculating how much of the total cost in each case can be avoided by contracting out and how much of the cost cannot be avoided. Tables showing full and avoidable amounts for the types of cost relevant to each proposal are shown on the next two pages.

### Questions

1. Would it be in the LG's financial interest to seriously consider accepting Proposal 1? What about Proposal 2? Explain your answers in each case.
2. What factors other than cost should be taken into account by the LG before making a final decision on Proposal 1? What about Proposal 2?

Handout no. 2

Proposal 1 (Clean 10,000 square feet)

Type of Costs	Full Cost	Avoidable Cost
Direct Cost:		
Salaries and Wages	\$20,000	\$20,000
Employee Benefits @21.25%	\$4,250	\$4,250
Services and Supplies	<u>\$2,000</u>	<u>\$2,000</u>
	\$26,250	\$26,250
Indirect Cost:		
Division Overhead @57.508%	\$11,502	0
Branch Overhead @8.413%	\$1,683	0
Department Overhead @22.259%	\$4,452	0
LG-wide Overhead @13.958%	\$2,792	0
	<u>\$20,429</u>	<u>0</u>
Total Cost	<u>\$46,679</u>	<u>\$26,250</u>
Cost Per Square Foot	\$4.67	\$2.63

Handout no. 3

Proposal 2 (Clean 1,691,500 square feet)

Type of Costs	Full Cost	Avoidable Cost
Direct Cost:		
Service Provision		
Salaries and Wages	\$2,145,817	\$2,145,817
Employee Benefits @21.25%	\$455,986	\$455,986
Services and Supplies	\$950,000	\$950,000
Subtotal	<u>\$3,551,803</u>	<u>\$3,551,803</u>
Division Costs		
Salaries and Wages	\$1,017,745	\$1,017,745
Employee Benefits @21.25%	\$216,271	\$216,271
Services and Supplies	0	0
Subtotal	<u>\$1,234,016</u>	<u>\$1,234,016</u>
Branch Costs		
Salaries and Wages	\$219,506	\$219,506
Employee Benefits @21.25%	\$46,645	\$46,645
Services and Supplies	0	0
Subtotal	<u>\$266,151</u>	<u>\$266,151</u>
Direct Cost Subtotal	\$5,051,970	\$5,051,970
Indirect Cost:		
Department Overhead @22.259%	\$753,057	\$600,000
LG-wide Overhead @13.958%	\$472,209	\$350,000
Indirect Cost Subtotal	<u>\$1,225,266</u>	<u>\$950,000</u>
Total Cost	<u>\$6,277,236</u>	<u>\$6,001,970</u>
Cost Per Square Foot	\$3.71	\$3.55



## 9.5 EXERCISE: FINANCIAL REPORTS FOR THE POLICY MAKERS

### TIME REQUIRED

60 minutes

### PURPOSE

This exercise is designed to provide an opportunity for policy makers (elected officials) to think about the kinds of financial reports that they would like to get from the local management staff on a routine basis.

*[Note to trainer: This exercise has been added to the original series based on the recommendations of the expert group who reviewed materials before their revisions. It is recommended that you use this exercise as an opportunity to work with elected officials on their financial management responsibilities. For example, you might put on a short (1-2 hours) workshop at an annual meeting of local elected officials. In addition, we encourage you to adapt this exercise so it can also be used when conducting a workshop with finance officers.]*

### PROCESS

Explain the purpose of the exercise and break them into teams of 4-6 participants. If you have several elected officials-policy makers from the same LG, encourage them to form their own team. Give the teams about 30 minutes to develop a list of financial reports that they would like to get from the management staff of their LGs on a routine basis and the basic rationale for wanting the reports. Ask them to prepare their list on newsprint or whatever approach is most common for making group reports.

After they have generated their lists, ask them to prioritize the list from most important to least important: 1 = most important; 2 = next most important; etc.

After about 30 minutes reconvene the teams and have them report their lists. Good discussion questions for concluding this exercise might be:

- What similarities and differences are there among the various team reports, particularly in those rated the most important?
- How realistic is it to ask the staff to generate many of these reports?
- Were you surprised by any of the items on the list of the other teams?

## 9.6 CLOSING EXERCISE: LEARNING TRANSFER

### TIME REQUIRED

30-45 minutes

### PURPOSE

This exercise is to help participants transfer the learning experiences of the workshop into their real-world activities as finance directors. The focus of this exercise is on raising expectations, engaging in realistic planning and making personal commitments. Most of the work is done on a personal basis with some interpersonal sharing.

### PROCESS

Spend at least half an hour at the end of the workshop to focus the attention of participants on important ideas and encourage them to continue experimenting with these ideas in their management activities. Begin by giving participants about fifteen minutes to work independently on a simple learning transfer questionnaire.

When participants have completed the questionnaire, ask them to share quickly with the group two or three things they intend to do differently in their roles with respect to accounting as a management tool to close the workshop.

*Trainers note. It is generally agreed that the purpose of training is to improve the way people do things by showing them a better way. In fact, the success of a training experience can be measured by the amount of personal growth and change that takes place both during training and after the training is over.*

*Commitments to learning and change made at the close of a workshop can help participants overcome learning resistance in themselves and in the work environment. A trainer can help learners make a successful transition from the world of learning to the world of doing through a few simple planning exercises.*

## A Learning Transfer Questionnaire

Take a few minutes to reflect on accounting, the new ideas you encountered in this workshop, and how you feel about them. Then, in the space below, write a sentence or two to describe something interesting you have learned about yourself during this workshop.

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Based on what you have learned about yourself and the many possibilities for change presented by this workshop, what two or three things do you intend to do differently in efforts to make better use of accounting data in evaluating and managing LG operations?

1. 

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2. 

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3. 

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Finally, what obstacles in yourself or in your work environment do you expect to experience during your efforts to implement these changes? What will you do to remove or minimize these obstacles?

Expected Obstacle

1. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Action to Remove It

1. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

# Performance Measures

## *PART ONE: CONCEPTS, PRINCIPLES, AND STRATEGIES*

### SUMMARY

This essay examines the development and implementation of performance measurement at the local level of government. We will define performance measurement and describe the benefits to a local government that uses it to improve the odds of success in achieving its service goals. We will also discuss the steps involved in setting up a performance measurement system and obstacles that may be encountered along the way.

### RELATIONSHIPS BETWEEN CHAPTERS IN THE SERIES

The following matrix shows the interrelationships between *Performance Measures* and other chapters in the series.

	Performance Measures
<i>Introduction</i>	The <i>Introduction</i> provides the framework for using the entire series.
<i>Trainer's Guide</i>	Provides guidelines for using the chapters to provide training.
<i>Financial Policy Making</i>	Financial policy making provides the framework for the LG's
<i>Financial Planning</i>	Financial planning is the long-term plan for where the community is going financially. Performance measures help ensure that the financial planning process is effective and efficient and accomplishing the priorities and goals of the LG.
<i>Citizen Participation</i>	Performance measures are a primary way for citizens to hold LG officials and policy makers responsible for financial decision making. They make the process more transparent also.
<i>Evaluating Financial Condition</i>	Citizens have a stake in the financial health of their LG, even when they are not paying taxes or revenues directly to the LG. If the financial condition worsens then the quality of public services provided for citizen's will be impacted. Performance measures help the LG ensure that it is effective and efficient and accomplishing the priorities and goals of the LG.

<b><i>Operating Budget</i></b>	The operating budget is a plan for the acquisition, maintenance and use of LG assets to deliver public services. Performance measures help the LG ensure that its operating budget process is effective and efficient and accomplishing the priorities and goals of the LG.
<b><i>Financing the Operating Budget</i></b>	The operating budget is a plan for the acquisition, maintenance and use of LG assets to deliver public services. Performance measures help the LG ensure that its operating budget process is effective and efficient and accomplishing the priorities and goals of the LG.
<b><i>Capital Investment Plan (CIP)</i></b>	The capital investment plan is a plan for the acquisition, maintenance and use of LG assets to deliver public services. Performance measures help the LG ensure that its capital investment planning process is effective and efficient and accomplishing the priorities and goals of the LG.
<b><i>Financing the Capital Investment Plan</i></b>	The capital investment plan is a plan for the acquisition, maintenance and use of LG assets to deliver public services. Performance measures help the LG ensure that its capital investment planning process is effective and efficient and accomplishing the priorities and goals of the LG.
<b><i>Accounting</i></b>	Accounting and reporting provide the method for holding LG officials and policy makers accountable. Performance measures are frequently based on some type of accounting or budgeting data.
<b><i>Asset Management</i></b>	The largest investment a LG makes is in its assets. These include streets, clinics, water systems, fire trucks, etc. Performance measures help the LG ensure that its asset management process is effective and efficient and accomplishing the priorities and goals of the LG.
<b><i>Procurement</i></b>	Procurement is one of the primary ways of disbursing monies. Performance measures help the LG ensure that its procurement process is effective and efficient and accomplishing the priorities and goals of the LG.

## INTRODUCTION

We recognize that basic or introductory concepts are relative—depending upon your background and frame of reference for both performance measures and local government. Users of this material will range from those who have no knowledge of performance measurement principles or concepts to those who have a very sophisticated understanding. The following are our ideas of what represents the most fundamental principles and concepts needed to understand performance measures at a beginning level.

## BASIC CONCEPTS AND DEFINITIONS

How many goods and services do you get for your money from your LG? What is the quality of those goods and services? Do you get good value in return for what you have paid? Do those goods and services help improve your life?

If a private sector company wants to stay in business, it must answer these questions to the satisfaction of its customers. Until recently, it was nearly impossible

to ask these questions of local governments and get a meaningful answer. Few local governments could tell you how good the services they provided were, or even how much service they provided. Usually, they could not even explain clearly what they were trying to accomplish. Citizens had no way to determine if they received good value in return for the taxes they paid.

But that is changing as more and more local governments are managing their service delivery to demonstrate quantifiable results. This approach has been called, “managing for results.” It is a comprehensive way of focusing an organization on its vision, mission, goals and objectives and using all decision-making processes to achieve them. Accomplishing the goals and objectives becomes the local government’s primary endeavour. Performance measurement is one of the tools used specifically with budget decision-making to assess whether or not the local government is on course to achieve its intended outcomes. **PERFORMANCE MEASUREMENT** is an objective and systematic process for collecting, analyzing and using information to determine how efficiently and effectively local government services are being delivered and objectives are being achieved.

Simply put, performance measurement determines how well the local government performs when providing goods and services. In other words, it is the process of asking and answering the questions identified above. Performance measurement produces information that can be used to help make decisions. Literally, it creates measures or indicators of the volume, quality, efficiency and outcomes of public services. For example, the measures “miles per gallon” and “acceleration rate” are ways of measuring a car’s performance; the products of performance measurement are rulers we can use to determine if local government is working well, poorly, or somewhere in between.

Performance measurement is important because governments should be held accountable for the proper use of resources (e.g., taxes, user fees, and transfers from the central government) and for providing the services citizens demand. Performance measures equip citizens and civil service societies with the information necessary to ensure accountability – to make sure that governments do what they are supposed to and achieve results that will improve people’s lives.

Successful long-range planning requires reliable and useful data. Performance measures give governments the kind of information they need to make accurate assessments of what has happened and what needs are not being met, and to devise a plan to meet those needs. Governments also use this information to ensure their day-to-day operations run smoothly.

A performance measurement system is not a panacea, and there are a number of things that it cannot help you accomplish. Performance measurement systems should not:

- Offer a quick-fix solution
- Become a mechanism to punish staff
- Become solely a data collection exercise
- Substitute for good management practices
- Explain why a program is not working as well as it should be.

# FRAMEWORK FOR DEVELOPING AND IMPLEMENTING PERFORMANCE MEASURES

When developing performance measures, it is important to understand the framework in which they should be developed. One of the primary driving forces behind developing performance measures is to have a quantifiable way to provide accountability to citizens for meeting community-identified needs and desires. These needs and desires are identified through a strategic planning process, then implemented through a budgeting process, with progress verified through the performance measurement process.

## ACCOUNTABILITY TO CITIZENS

Accountability means having a responsibility to a higher authority. In a democratic society, the citizens are that higher authority. Public officials, who understand the importance of maintaining the public's trust, work to ensure that all activities and actions are consistent with the needs and demands of the citizens they are entrusted to serve. Accountability is at best indirect. Citizens can indicate their satisfaction or dissatisfaction with local government services through voting or choosing whether or not to live or operate their businesses in a certain local government. However, these decisions are infrequent, difficult to tie directly to individual department performance, and may send mixed messages about conflicting citizen needs. The advent of performance measurement, especially when outcome information is reported regularly in an understandable way, has been a major step forward in demonstrating accountability for results.

In most developed countries, a comprehensive set of financial rules and regulations govern local governments because primary attention has been on financial accountability. These procedures are designed to ensure that funds are spent properly. Traditionally, accountability for programs and services has been based on a murkier set of expectations. Recent trends emphasize managing for results or outcomes. Managing for results means clearly stating what a program or service is expected to do and then developing a method to track or measure how well it is doing. This differs from the more prevalent practice of simply measuring how many resources go into a program or service.

Accountability focuses attention on performance. A comprehensive system of performance measures is one way to monitor local government performance. Since the 1980s, a growing pool of research, reports, and articles has advocated that local governments create and use performance measurement systems. Financial measures, generally the primary tool for assessing local governments, are no longer enough. To fully gauge performance, measures about the products or services, which local government money supports, must complement existing financial indicators.

When local governments collect and use a variety of indicators, they can better understand and gauge their performance. Some indicators may show how much was spent, how much staff was used, how many clients were served, how many units of service were delivered, and the per unit cost of each. While this information is use-



ful, it indicates little about program results. For example, it doesn't seem important to know that a job training program had large numbers of graduates, if none of the graduates get jobs. So, an effective performance accountability system will have indicators that measure results as well as other aspects of program operations.

## STRATEGIC PLANNING

The framework for strategic planning often determines whether the desired outcomes are achieved. Key questions are, "What do we hope to gain from strategic planning?" And, "What will this plan be used for during the year?" A strategic planning document should:

- Offer a clear road map for continuous improvement,
- Present the local government's vision, mission and operating philosophy, and
- Provide quantified goals and objectives against which to measure program progress, performance and success.

The purpose of strategic planning is to establish long-term goals, annual objectives, and detailed actions/strategies that address issues related to performance, productivity, community and personal well-being and required statutory services. The initial focus must be on identifying the most critical issues affecting the community and then second, on seeking the most effective and efficient means of addressing them.

In essence, strategic planning is a sequential process of thinking that is patterned after the scientific method of deductive reasoning. It includes investigation, learning, and implementation in a collaborative environment so that the entire organization progresses and evolves. It embodies more than the simple task of creating a local government-wide vision, establishing departmental missions and agreeing on general unit (e.g., department, division, work section, work group or program) goals. The impact of a properly developed integrated strategic planning process is enormous.

The strategic plan should be a practical document that serves as a guide for the organization. It is a road map to help constituents understand the major challenges facing the government, the goals established and the action plan to achieve the annual objectives. There is an implicit assumption that improvement will occur and that identified problems and needs will be addressed. Strategic planning must be developed with care and not be hurried. Most local government strategic planning processes take eighteen months to two years to work through.

A strategic plan is not an operations plan. The strategic plan is written first and provides the basis for the operations plan. Specific actions and tasks describing how objectives will be accomplished belong in an operations plan.

Each unit within a local government (department, division, section, work group) that has a specific mission should understand its mission and be able to clearly describe its challenges, the improvements it plans to make, and how it will make them. These ideas can then be expressed in clear mission statements, a well-crafted operat-

ing philosophy or values statement, a list of key issues or problems, and a set of written goals that establish clear direction. A list of measurable objectives with planned actions under each describes exactly what the unit intends to accomplish during the year. As a result, every organizational unit that has a plan will have accountability as well as the basis for evaluating performance and productivity.

## PERFORMANCE-BASED BUDGETING

Performance-based budgeting (PBB) is a method of budgeting<sup>1</sup> that links measured results with funding allocations. Through this budgeting process, departments identify the specific outputs and outcomes to be produced by their programs and services. They set targets for achievement and make their budget requests based upon the projected targets. Departments are held accountable for outcomes, spending is prioritized based on a program's ability to successfully reach goals, and comparative data enable policymakers to understand the results that can be achieved through different levels of spending.

PBB is designed to reduce or eliminate the cumbersome process of having elected officials examine inputs (resources), allowing them to focus on getting the best results for the public's money. The budget serves as a performance contract between a department and elected officials.

In contrast to traditional budgeting, the focus is on the unit cost of achieving a particular outcome rather than the unit cost of providing a service. For example, a roads department might set a target of upgrading the condition of 10 miles of sidewalks and curbs in busy commercial areas to a "satisfactory or excellent" condition (a measurable outcome). The strategy for accomplishing this outcome might include repairing 5 miles of sidewalks and replacing 5 miles of curbs (measurable outputs). The budget request would include the estimated cost for each output and the total cost to achieve the outcome of upgrading 10 miles of sidewalks and curbs. Costs for personnel, equipment, materials, and overhead, would not be listed separately, but would be included in the overall cost estimates for achieving the outputs and outcome. As a part of the budget request, the roads department would also document its accomplishments during previous budget cycles. It would report whether it had met its targets and what the costs were.

As a result of having this information, decision makers can base funding decisions on past performance as well as projected results. During budget deliberations, decision makers might debate a number of questions such as: Is this the right outcome? Can we reasonably expect the department to achieve these targets in light of past performance? And is this the most cost-effective approach? They would not debate the number of personnel needed to complete the job, the type of equipment to be used, or the number of computers to be purchased for the department. These types of decisions are left to department administrators and program managers, who build them into the overall cost estimates.

# STRATEGIC PLANNING, BUDGETING AND PERFORMANCE MEASUREMENT

What do we hope to gain from strategic planning? Crafted properly, a strategic planning document offers a clear road map for continuous improvement, presents the organization’s vision, mission and operating philosophy, and provides quantified goals and objectives against which to manage personnel and program progress, performance, and success.

A strategic plan must be a practical document that serves as a guide for the organization and a map to help the community understand the major challenges facing the LG, the goals the LG has established, and the actions the local government plans to take to achieve its annual objectives.

A budget is, first and foremost, a planning device and a central ingredient in an organization’s general operations planning. It is also an accountability device that provides the foundation for evaluating program performance. The strategic plan is the blueprint for change and performance; the budget is the engine that drives and energizes that change and performance. Properly crafted, a performance-based budget also encourages improvement and annually affirms continuous improvement plans. It helps establish, legitimize and maintain priorities while showcasing program intent and important contributions.

Requests for funding must always relate to actions, which in turn relate to both goals and objectives. This is what ties the plan to the budget. Goals and objectives cost nothing. It is the actions and strategies that cost time and money and therefore must tie to a budget request.

A strategic budget links to the issues/challenges, annual objectives, and actions identified in the strategic plan. It must factor in an annual review of program outputs and outcomes and always focus on the organization’s strategic direction and intent. Clear, hard quantifications and measurement must be part of annual budget review, but evaluative data should come directly from the programs being evaluated. This encourages all organizational elements to keep good numeric records, to begin recording both inputs and outputs and outcomes, and to relate the impact of those outputs and outcomes on identified issues and challenges. If a governing body expects program improvement, the budget is the perfect place to showcase it on an annual basis.

## COMMON ELEMENTS

Many of the elements developed in the strategic planning process are carried over into the performance-based budgeting and measurement systems.

	Strategic planning (SP)	Performance-based budgeting	Performance measurement system
Vision	Develop vision	Use SP vision	Use SP vision

Mission	Develop mission	Use SP mission	Use SP mission
Challenges/ issues	Identify challenges / issues	Use SP challenges/is- sues	Use SP challenges/is- sues
Major serv- ices	Identify major serv- ices	Use SP major services	Use SP major serv- ices
Goals	Develop goals	Use SP goals	Use SP goals
Objectives	May develop objec- tives	Develop objectives	Develop objectives
Performance measures		Develop measures	Use measures

In the “Steps for Implementing a Performance Measurement System,” there is detailed information on developing the various elements that we have seen in strategic planning and performance measurement systems from various countries. Following is a summary of some of these elements: vision, mission, challenges/issues, major services, goals and objectives. In developing countries where local governments are in the process of decentralization, the central government may have mandated specific elements that must be included in the strategic plan, budgeting documents, and performance measurement systems. We have included the most common elements. Some countries may only use 2 or 3 of these elements; others may use all of these elements plus some additional specialized elements.

## VISION (AT THE OVERALL LOCAL GOVERNMENT LEVEL)

A vision statement should be distinctive and not a bland statement. When people read it they should be able to identify it as their local government. The vision statement should be precise and focused. It is not attempting to cover every facet, but it is trying to define the uniqueness of the local government now and over the next fifteen to twenty years. Citizens of the local government should be able to read it and find in it something relevant to them. If this statement is too specific it will exclude many people. However, if it is too general people will not be able to see the emerging uniqueness of the local government’s future.

### Sample vision statement

LG ABC will be the leading centre for education, research and knowledge industries; providing diverse opportunities and a stimulating environment for people to live, learn, work and play.

## MISSION

**Mission statements** define why a unit (department, division, work section, work group, program) exists, what it does, why it does it and for whom it does it. Mission statements describe the overall and unique purpose of the agency and its services and furnish a basis for setting goals and objectives.

The mission statement is the foundation for every government function or service. Goals and objectives, on the other hand, are derived from the mission of an or-

ganization or organizational unit. As critical elements of a performance measurement system, all three work together to provide:

- A basis for programming decisions by creating explicit expectations for performance against which accomplishments can be measured and evaluated.
- A long-range orientation for reviewing the allocation of resources to priority programs and projects and their impact on alleviating major LG problems.
- A clear understandable documentation of the need for and commitment to continuous improvement.
- A basis for results-oriented budgeting.
- A focus that encourages everyone to work together.

Such statements define why an agency or program exists, what it does, why it does it and for whom it does it. Mission statements describe the overall and unique purpose of the agency and its services, and furnish a basis for setting goals and objectives. Here are examples of mission statements:

#### Sample mission statements

The mission of the Fire Department is to provide fire protection, emergency medical service and other emergency services to all citizens for the purpose of protecting lives, property and the environment.
The mission of the Finance Department is to provide accounting, budgeting, financial planning, debt and cash management and purchasing services to LG staff and the public for the purpose of protecting public assets and supporting the full range of services provided by the LG to achieve its objectives.
The mission of the Parks and Recreation Department is to provide diverse recreational and cultural services to all citizens in order to assist their development.
The Technical Services Department provides engineering, maintenance and operational services for public improvements and equipment to LG agencies and the public for the purpose of enhancing the quality of life for residents, businesses and visitors.

#### LEARNING APPLICATION

POLICY MAKER \_X\_    CEO \_X\_    FINANCE MANAGER \_X\_    DEPARTMENT HEAD \_X\_

Write a mission statement based on your role responsibilities in local government from the citizens' point of view. For example, how would citizens define the mission of the governing body, or the overall local government organisation, or the finance department, or the public health department?

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Does this statement differ from what you might have written from your own role perspective? If so, how?

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## CHALLENGES/ISSUES

**External challenges/issues:** What are the issues or challenges that relate to the mission of the specific unit (department, division, work section, work group)? Local governments exist to address needs in the community. If there were no potholes, crime, disease, fire, or vehicle accidents, there would be no need for departments to address them. So, the strongest part of the strategic plan should be to articulate the issues and challenges, because those are what define and justify why that unit or program exists.

**Internal challenges/issues:** Usually the focus on challenges and issues is on the external ones because they define why the unit exists in the first place. But strategic thinking and planning also requires looking internally at problems and concerns. In many local governments it is not popular to take a hard look at how the program, division or department operates. Is it productive, efficient, and effective? Does internal disharmony erode morale and reduce trust? Does lack of training prevent progress? A look at internal issues will pay significant dividends in the area of organizational growth.

Improvement and productivity are the basis for making a difference in the organization and ultimately in the community. The point of strategic planning is to bring significant measurable improvements to local management of identified issues— both internally and externally.

## MAJOR SERVICES

Major services are the activities conducted by the unit. You should identify the most critical and important services provided by the unit. Following are samples of major activities:

- Process requests for budget transfers
- Develop departmental policies and procedures manual
- Fiscal analysis and reporting
- Counselling or personnel matters
- Monitoring and reviewing projects
- Processing all payment requests
- Training for all employees
- Contract administration and maintenance
- Permit review
- Development application coordination and review
- Call dispatching
- Emergency response
- Code enforcement
- Repairing streets
- Providing mother and baby services
- Maintaining street lights
- Preparing draft legislation for the governing body
- Reviewing legislation
- Providing immunizations
- Facility management
- Field preparation and maintenance
- Landscape projects
- Street sweeping
- Small equipment repair
- Sidewalk repair
- Custodial services
- Water distribution
- Meter reading
- Solid waste collections

## GOALS

A *goal* is a general purpose statement describing what a local government functional unit would like to accomplish in the future. It is a purposeful statement that centres on community concerns and aspirations based upon current knowledge and values. Goal statements serve as the basis for developing directly related, measurable and shorter-range objectives. Generally, goals are broad in scope, timeless, subjective and related to important community needs.

Goal statements should support the mission identified in the strategic plan and become the foundation for developing performance measures.

We have found that a template can be very helpful in writing goal statements. The goal statement should answer the following four questions by looking at the unit (program, work group, work section, division or department) from the customer's point of view.

<p><b>Who we are</b> names the unit area.</p> <ul style="list-style-type: none"> <li>• Example 1: The purpose of computer services support ...</li> <li>• Example 2: The purpose of building maintenance ...</li> </ul>
<p><b>What we do</b> describes the products or services that are provided to the customer.</p> <ul style="list-style-type: none"> <li>• Example 1: ...is to provide appropriate purchases, minimize downtime and establish consistency for automated data information retrieval...</li> <li>• Example 2: ...is to provide general maintenance to the 42 district owned buildings ...</li> </ul>
<p><b>For whom we do it</b> identifies the customer(s) that receive the service provided.</p> <ul style="list-style-type: none"> <li>• Example 1: ...for all district information system users ...</li> <li>• Example 2: ...for all building occupants and visitors...</li> </ul>
<p><b>Why we do it</b> addresses the desired outcome or the “driving force” of the unit.</p> <ul style="list-style-type: none"> <li>• Example 1: ...so they can maintain and improve their efficient level of operations.</li> <li>• Example 2: ...so they may enjoy a safe and comfortable work environemnt and the district’s capital investments are protected.</li> </ul>

Here is what the template looks like when completed:

<b>Unit name</b>	<b>Computer services support</b>
The purpose/goal of the (unit name)	The purpose of computer services support...
Is to provide / produce (product or service)	...is to provide appropriate purchases, minimize downtime and establish consistency for automated data information retrieval...
To (customer)	...for all district information system users.
So that they can (accomplishments)	...so they can maintain and improve their efficient level of operations.

<b>Unit name</b>	<b>Building maintenance</b>
The purpose/goal of the (unit name)	The purpose of building maintenance...
Is to provide / produce (product or service)	...is to provide general maintenance to the 42 district owned buildings...
To (customer)	...for all building occupants and visitors.
So that they can (accomplishments)	...so they may enjoy a safe and comfortable work environment and the district’s capital investments are protected..

## LEARNING APPLICATION

POLICY MAKER \_X\_    CEO \_X\_    FINANCE MANAGER \_X\_    DEPARTMENT HEAD \_X\_

Evaluate the following objectives against the criteria stated above for well-drafted objective statements and rewrite them to meet the criteria as fully as possible.

To sweep every street once every two weeks.

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To correct all building code violations during this fiscal year.

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To fill all supply requisitions in a timely manner.

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To reduce complaints this year through improved training and better information transmittal.

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## OBJECTIVES

Mission and goals are operationalised through objectives which describe how to measure specific goal- and mission related accomplishments. An *objective* is a statement of desired or planned accomplishment that is measurable within a given time.

Objectives break broad goals into narrower more operational terms and serve as the basis for developing performance measures. They are action-oriented and results-focused. A unit uses them to monitor progress towards its goals, in managing its challenges, fulfilling its mission, and meeting the public's expectations.

Objectives should be SMART. SMART is an acronym for the common characteristics of attainable objectives. Specifically, they are:

- **Specific.** Objectives reflect the accomplishments to be achieved, but do not prescribe a method to reach them. They are action-oriented, specific enough to give clear direction, and easily understood by both local government staff and the public.
- **Measurable.** Objectives must be either quantifiable (“The percentage of Task A completed on time will be increased from 65 percent to 70 percent”) or verifiable (A study will be completed by December 31, 20xx”). The organization must be able to monitor its success in achieving each objective.
- **Achievable.** Objectives must be challenging yet attainable. Targets should be realistic. For example, it may be reasonable for a health department to adopt an objective of reducing infant mortality by a measurable amount; however, it may not be realistic to promise to eliminate it.
- **Results-oriented.** Objectives focus on desired outcomes, not on methods to achieve them. To illustrate, a transportation department may have an objective to reduce the number of traffic accidents by a given percentage within a specific time frame. Possible strategies may be to impose additional requirements or restrictions for drivers and/or vehicles and to provide driver safety education, or a combination of the two. (Clearly defined results are a must for accountability. Clearly stating outcomes here expedites the performance measurement process.)
- **Time-bound.** Since objectives become milestones to monitor progress toward a goal, specifying completion dates is important. A time frame should be reasonable, yet aggressive. Wherever possible, an agency should place interim milestones so it can track progress. The effectiveness of the methods for achieving an objective should be checked early and as frequently as possible.

To write an effective objective, a template that embraces the elements above has been developed. The items identified within the brackets should be completed in the following sentence.

[action verb]	[specific description of what is being affected by the action verb]	By / from [measurement]	Within /over/ by [timeframe]
Decrease	The number of cars entering downtown	By 10%	Over the next five years.

When writing objectives, the critical questions are : What is too high that must be reduced? What is too low that must be increased? What is just right and is a standard we wish to (or must) maintain?

### Sample Objective Statements

- Maintain an average response time of four minutes to emergency police calls and an average response time of seven minutes to urgent assistance police calls this fiscal year.

- Maintain the investment of 95% of the LG's available daily cash balance in accordance with the LG's investment policy this fiscal year.
- Maintain minute files so that they can be retrieved within five minutes 85% of the time at a cost of \$13.39 by December 31, 20xx.
- Maintain all turf and ground cover areas such that turf is green, healthy, and no more than 2 1/2 inches in height for 90% of the area and ground cover is 90% weed-free this fiscal year.
- Increase the level of dog licensing this year 7%, to 800 dogs per year by December 31, 20xx.
- Increase the overall customer service rating for the public works departments from 82% to 86% by December 31, 20xx.
- Decrease vehicle downtime by 10% from 1,000 hours to 900 hours during the next six months.
- Increase the percentage of invoices paid within 30 days to 98% during this fiscal year.

### Checklist for Preparing Objective Statements

- \_\_\_ Establish mission statements and goals before formulating objectives
- \_\_\_ Be sure objectives relate to the goals and mission statements
- \_\_\_ An objective should support and be tied to only one goal
- \_\_\_ Focus on a single issue per objective
- \_\_\_ Limit the number of objectives to a critical few (3-7)
- \_\_\_ Use an action verb-noun structure to write objectives
- \_\_\_ Allow for a margin of error and take note of adverse consequences and multiple objectives such as improving the flow of traffic and reducing accidents
- \_\_\_ Enable those affected by the objectives to participate in their determination
- \_\_\_ Ensure that objectives at one level of the organization are compatible with those at a higher level
- \_\_\_ Be sure objectives are compatible with each other
- \_\_\_ State objectives in a way that encourages the consideration of alternative ways of achieving them
- \_\_\_ Continually review and revise to ensure they reflect planned actions and changing conditions
- \_\_\_ Provide incentives for the accomplishment of the objectives
- \_\_\_ Consider the financial resources needed to achieve the objectives
- \_\_\_ Establish accountability for achieving the results
- \_\_\_ Make the objectives reasonable but challenging
- \_\_\_ Support the objectives with an action plan

### INTERRELATIONSHIPS OF GOALS AND OBJECTIVES AND DETERMINING THE COST OF ACHIEVING A GOAL

A goal should succinctly summarize and be supported by specific objectives. In other words, one goal should be linked to a set of objectives. The goal has been achieved

when all of the objectives related to it have been met. Following is an example of properly linked goals and objectives.

### Goals and objectives that are linked

	Expenditures (000)
Goal 1. The purpose of road maintenance is to increase driver safety for citizens in LG ABC so that accident mortality is decreased.	
Objective 1.A. Reduce the number of cars entering downtown from 1,500,000 to 1,350,000 (10%) by December 31, 20xx.	7,200,000
Objective 1B. Reduce traffic accidents at intersections from 1,350 to 1,283 (5%) by December 31, 20xx.	1,500,000
Total – Goal 1	8,700,000
Goal 2. The purpose of implementing a central command centre is to provide rapid response to road related problems to the citizens of LG ABC to improve resident satisfaction.	
Objective 2A. Decrease the number of reported potholes from 10 per kilometre to 9 per kilometre (10%) by December 31, 20xx.	11,100,000
Total Goal 2	11,100,000
Total of Goals 1 and 2	19,800,000

### Sample of a Poorly Prepared Budget Without Goals and Objectives Being Linked

Goals	Objectives	Programs	Activities	Expenditures (000)
<ul style="list-style-type: none"> <li>The purpose of road maintenance is to increase driver safety for citizens in LG ABC so that accident mortality is decreased.</li> </ul>	<ul style="list-style-type: none"> <li>Reduce the number of cars entering downtown from 1,500,000 to 1,350,000 (10%) by December 31, 20xx.</li> </ul>	<ul style="list-style-type: none"> <li>Road construction</li> <li>Public safety</li> </ul>	Build a bypass road	7,200,000
			Install traffic lights	1,000,000
<ul style="list-style-type: none"> <li>The purpose of implementing a central command centre is to provide rapid response to road related problems to the citizens of LG ABC to improve resident satisfaction.</li> </ul>	<ul style="list-style-type: none"> <li>Reduce traffic accidents at intersections from 1,350 to 1,283 (5%) by December 31, 20xx.</li> </ul>	<ul style="list-style-type: none"> <li>Road maintenance</li> <li>Public transportation</li> </ul>	Paint crosswalks	500,000
			Resurface streets	9,000,000
			Install culverts	100,000

	<ul style="list-style-type: none"> <li>• Decrease the number of reported potholes from 10 per kilometre to 9 per kilometre (10%) by December 31, 20xx.</li> </ul>		Purchase buses	<u>2,000,000</u>
			Total	19,800,000

National and local government legislation and guidelines on performance budgeting must be mindful of this one-to-many relationship between goals and objectives. Budget preparation forms which instruct a department to submit goals separately from its associated objectives will make it extremely difficult, if not impossible, to assess the relationship between goals and objectives. Moreover, the ability to roll-up expenditures to determine the cost of a single goal by totalling the cost of its objectives will be lost.

## PERFORMANCE MEASURES

After you have prepared a mission statement, goals and objectives you are ready to identify *performance measures* which quantify the resources used, services provided, results and cost of services. Performance measures assist you in determining the extent to which objectives are accomplished. You can establish measures before setting objectives in order to obtain a better understanding of a service. But the information will not tell you anything about the desired level of performance. This is why specific objectives are recommended as a foundation for developing performance measures.

### *WHAT PERFORMANCE MEASURES CAN DO*

Performance measures serve a number of purposes. They can:

- Instil a sense of mission and focus in an organization
- Indicate where the local government has made progress
- Assist leaders in making day-to-day management decisions
- Serve as a tool for communicating an organization's performance
- Identify areas where productivity can be improved
- Increase program accountability
- Improve the creditability of local government
- Provide a framework for the strategic planning process
- Provide a structured approach for linking budget decisions to public priorities.

In other words performance measures can tell the staff, leaders, elected officials, stakeholders and community what is working and what is not working. Although they do not tell you what recommendations or changes you should implement, they can indicate where you should focus your efforts.

## TYPES AND DESCRIPTIONS OF MEASURES

We will focus on four types of measures: Input, output, outcome, and efficiency.

Input	Show the resources (financial, personnel, materials, equipment) used to provide a service such as expenditures budgeted, employee hours, quantity of materials, and equipment hours. Input measures are easy to identify and are often found in budgets and management reports. They do not, however, tell you anything about what is being achieved with the resources.
Output	Show the workload accomplished such as tons of garbage collected, acres of parks mowed, potholes repaired, licenses issued and building inspections completed. These measures are commonly collected but indicate little about the quality and cost of the work. They are subject to a variety of interpretations.
Outcome	Report the results and quality of the service provided. These measures describe the extent to which services are accomplishing their intended mission, goals and objectives. Examples of outcome measures include citizen and user satisfaction ratings, crime clearance rates, percentage of street lights out of service, and percentage of roads in excellent or good condition. A special type of outcome measure, sometimes called a quality measure, addresses standards which are important to customers such as timeliness, accuracy, availability, safety, courtesy, convenience, compliance with regulations and knowledgeable, friendly and responsive service.
Efficiency	Show the cost of outputs and outcomes in terms of dollars or employee hours per unit. Examples of efficiency measures include cost per ton of garbage collected, potholes repaired, complaints handled, inspections completed, crimes cleared and employee hours per crime cleared. Efficiency measures, evaluated over time, provide evidence of productivity trends.

## CRITERIA FOR DEVELOPING PERFORMANCE MEASURES

The following criteria may be useful as you begin to develop performance measures and targets. The Performance Measures Worksheet can be used to tally this information. Total the points for an overall numerical score for each measure. The highest possible score is 65 and the lowest is 13. Ask the following questions:

1. Usefulness. Does the measure provide the users with information needed to make decisions or take corrective action?
2. Availability of data. Is information for the measure readily available?
3. Validity. Does the measure relate to the service and its objectives? Does it measure the resources used, output, outcome or cost of the service? Does the measure indicate whether there is a need to react to the results of the measure?
4. Clarity. Will the measure be understood by those who collect and use it?
5. Accuracy. Is it feasible to confirm the accuracy of the measure over time?
6. Reliability. If the measurement is repeated, will the results be identical?
7. Relevance to objectives. Does the measure apply to all or most objectives? Does it provide information to evaluate performance?

Performance Measures Worksheet			
Service			
Objectives	Potential Measures	Output	Outcome
		Efficiency	Usefulness
		Data availability Validity Understandability Accuracy Reliability Relevance Uniqueness Timeliness Controllability Cost Completeness Comparability _____ _____ _____ Score	
Selected Measures		Date	
		Strengths	
		Weakness	

8. Uniqueness. Does the measure provide information not covered by any other measure?
9. Timeliness. Does the measure provide information before decisions must be made and in time for corrective action to be taken?
10. Controllability. Does the user have control over the performance of the service?
11. Cost. Will the cost of data collection and analysis exceed the benefits?
12. Completeness. Does the measure provide a complete picture of the service and its objectives?
13. Comparability. Can the measure be used for inter-period and inter-jurisdictional and other comparisons?

## ADDITIONAL GUIDELINES TO HELP YOU SELECT USEFUL MEASURES

These additional guidelines may also be helpful:

1. Develop multiple measures (input, output, outcome and efficiency) for the same service and objective. A set of measures is necessary to give a complete picture of performance.
2. Balance the measures so that the effect of improving any one or two is weighed in relation to the impact on the others.
3. Select measures for which data are readily available.
4. Involve those who use and collect the data in the development of the measures. They can identify factors which are not within their control and cause unanticipated or unwanted results.
5. Consider customer requirements.
6. Review and revise measures when the mission and objectives change and if they do not adequately measure the objectives.
7. Limit the number of measures to a vital few. Too many measures confuse users and distract from key ones. **This is very, very important!**
8. Obtain information on measures used by other local governments.
9. Select measures that collectively provide the most practical and useful information for critical activities which are essential to carrying out the core mission.
10. For knowledge based services, measure performance in terms of deadlines and cost targets met, quantity of work produced, extent to which work must be revised or corrected and extent to which recommendations are accepted.

Considerable information on performance measures is available in the literature. The British Audit Commission has established a nationwide set of measures and publishes annual reports comparing performance among local authorities and police forces. In the Slovak Republic, the Association for Public Utility has developed basic indices of member organizations for technical services including local communications, public green spaces, public lighting, waste management, funeral and



cemetery services. Check with your central government and other local governments to see if indicators have been identified for your country.

## SPECIAL NOTE ON USING OUTCOME INDICATORS

Outcome measurement is considered the most useful performance indicators. They can be challenging because:

- Special data collection procedures such as surveys, trained observer ratings and technology may be required.
- Results may be difficult to measure because they cannot be quantified. Information may not be available, and the time for validation of many outcomes can be several years. These problems are common in measuring social, education, health, environmental and other quality of life services and knowledge-based staff services such as engineering, planning, legal and management.
- Outcomes may be subject to differing interpretations and affected by uncontrollable factors such as weather, population density, absence of crime witnesses and changes in demand.
- Outcomes may require the coordinated efforts of numerous public, private and non-profit agencies.
- It is more difficult to link the results achieved with the services provided.
- Unintended adverse impacts of service are often not obvious. For example, an increase in law enforcement efforts may result in an increase in police harassment complaints.

Regardless of the extra effort required, these really are the most helpful performance indicators.

## LEARNING APPLICATION

POLICY MAKER \_X\_ CEO \_X\_ FINANCE MANAGER \_X\_ DEPARTMENT HEAD \_X\_

Select one of the objectives from the reflection exercise earlier in this essay and develop output, outcome and efficiency measures for the objective.

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*Note: It is important to point out that performance indicators are not needed for every activity. It is more important to focus on the most critical activities of the unit. Also, do not just pull indicators from other sources without ensuring that they are applicable for your local government.*

## POLICIES

The formulation of public policy is a local government's way of declaring its intent to commit itself and its resources to a specific set of principles and goals. The adoption of a statement of policy on performance measurement by the governing body is the public's assurance that their local government is serious about performance measurement. The policy should require specific implementation procedures that all departments and programs are expected to follow. Such a policy statement should include, at a minimum, what the implementation of the performance measurement system should accomplish, how the strategic plan will be integrated and accomplished through performance measurement, and strategies for providing the public with information about performance measurement. It should then solicit information about those issues and needs of most concern to the community.<sup>2</sup> The policy should be designed for local needs, prepared in writing, and legally adopted by the governing body.

We recognize that different countries are at different points on implementing citizen participation in the various decision-making processes at the local government level. The allocation of local government resources through the budgeting process using performance measures is an excellent way to get citizens participating and connecting with their local government. The easiest way to do this is through customer satisfaction surveys or using focus groups.

### Policy Statement

The performance measurement system will be based on the strategic planning process and implemented in such a manner that citizens and elected officials have no difficulty understanding the local government's priorities.

## LEARNING APPLICATION

POLICY MAKER  CEO  FINANCE MANAGER  DEPARTMENT HEAD

One of the first places to test your local government's commitment to performance measurement is in the citizen's role in the process. In this Learning Application we want you to think about the performance measurement process from your own unique role perspective as a policy maker, CEO, finance manager, or department head.

From the perspective of my role, here are the things our local government already does to involve citizens in establishing priorities for those services that are most important in the community and need to be included in a performance measurement system.

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I believe our local government could improve these present practices by doing the following things.

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I also believe we could improve the quality and frequency of citizen involvement in the performance measurement process by:

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## BENEFITS

“What gets measured gets done.” “We manage what we measure.” “If you can’t measure it, you can’t control, manage or improve it.” These are familiar management axioms which illustrate the importance of performance measurement. An effective performance measurement system provides the feedback to managers and decision makers that is critical to continuous improvement of government services. It is a way of keeping score on how various operations are doing.

Properly developed and administered, a performance measurement system can have a number of benefits for a local government.

- **Policy Making and Oversight.** Strengthens policy formulation by providing decision makers with a sound basis for asking questions about service needs and performance and making resource reallocation decisions when needed. Performance measures can show whether programs, plans or policies are working. They can be reviewed and help decision-makers decide whether to continue, modify, or eliminate a particular policy, plan, or program.
- **Operational Direction.** Provides managers with a more systematic way to detect operational strengths and weaknesses and to exercise continuous program analysis, scheduling, evaluation and cost control. Measures can point to problems with plans, programs, or processes. The information can be used to develop solutions.
- **Accountability.** Can help departments and the whole organization earn the trust of citizens by demonstrating a good return in service for revenue received. When citizens and policy makers can easily understand performance measures, these indicators explain to the public what is being done with their tax dollars. Including measures in reports that the agency distributes to citizens is useful.
- **Planning.** Facilitates strategic and operational planning by providing information needed to set goals and objectives and plan programs to accomplish them. Well-crafted measures tell staff about constituent needs and satisfaction levels. Areas for improvement can be cited and appropriate actions taken.
- **Management.** Provides a basis for the early identification of operational deficiencies and a way to show how efficiently resources are being used to provide services and achieve goals. Performance measures can provide an objective way to gauge performance. With effective performance measures in place, managers can operate their programs to achieve the specified results. This builds employee morale and confidence while holding everyone accountable.
- **Budgeting.** Improves the budget process by making possible more objective decisions about resource allocation and redistribution, cost reduction

and investment of surplus funds. Performance indicators bring greater clarity to the budget development process. They provide an assessment of the resources needed to support activities. They identify the level of products or services that are possible at varying funding levels.

- Contracting. Aids competitive contracting by presenting well documented cost and performance data and monitoring contract performance for service quality.
- Work Supervision. Useful in achieving improved employee performance by providing an objective basis for setting performance targets and providing feedback and incentives.

Many countries have recognized the benefits of performance measurement. Agency performance is measured in the United States, Great Britain, Canada, Australia, New Zealand, Sweden, Finland, Norway, Denmark, Switzerland and the Netherlands. In the United States and New Zealand, department heads are held accountable through performance contracts, targeting, appraisal and pay for performance. Norway, Switzerland and the Netherlands stress accountability and control. Great Britain focuses on public reporting of performance. The United States, Australia, Canada, Finland and Sweden include performance information in the budget. Australia, the United States and Norway integrate performance measurement into their planning. See the section on Internet Resources for links to various documents from these and other countries and organizations.

## OBSTACLES, LIMITATIONS, RISKS AND OTHER CONSIDERATIONS

Performance measurement can be a time consuming, costly and difficult process. Several obstacles are often encountered in implementing a performance measurement system.

### *MANAGEMENT RESISTANCE*

Management may be concerned that the elected officials, citizens and media will use the information to hold them accountable for outcomes over which they have no control. Managers may fear that the information will be misinterpreted and used to assign blame and withdraw resources to cut costs. Management may view performance measurement as a passing fad or another “make work” exercise and see no benefit in it. Resistance can produce counterproductive behaviour such as withholding or falsifying information which will have a detrimental effect on data collection and reporting.

Management resistance can be reduced or eliminated through proper orientation, training, extensive involvement in design and implementation and incentives to use performance data. These steps must be supported by adequate resources, technical assistance and continuous feedback on results. Performance measurement should be introduced in work areas which are generally regarded as well managed. A

procedure should be made available to these work units for resolving disputes over data interpretation. Any evidence that performance measurement has improved management, work practices and relationship inside and outside the work area should be widely publicized and celebrated.

## ***EMPLOYEE RESISTANCE***

Employees are threatened by measurement. They perceive negative consequences and are skeptical about its use and value. Employees often view measurement as an excuse for downsizing, increasing workload and imposing unreasonable work standards or quotas and work rules.

Measurement is sometimes viewed by employees as management's way of punishing them because they are not doing their jobs. Employee resistance based on erroneous information of this kind can be overcome by orientation and training. Involvement of employees and their organizations in the design and implementation and rewarding program participation can help to allay fears about job loss, standards and adverse effects. Informal meetings and progress information in employee newsletters will help keep employees informed about the benefits of measurement. Managers must monitor continuously to be sure the system is implemented fairly, equitably and without any possibility of favouritism. It is very important to foster a spirit of team building when implementing performance measures.

## ***POLITICAL RESISTANCE***

Elected officials are often more interested in inputs than outcomes. They may resist measurement information which may show that their favourite programs are not working. There is also a fear that the information will be used in a negative way by political opponents. Furthermore, elected officials may be concerned that necessary service improvements resulting from performance measurement results may not be politically feasible. Elected officials are also aware that measurement data may be manipulated by the staff or used by citizens for purely political reasons.

The political support of elected officials can be won by involving them early in the process. They need to be informed about the benefits of performance measurement and how they can use the information to improve the quality and the political correctness of the decisions that must be made. Elected officials should be asked about the kinds of information they want. They need to receive measurement results and information on the status of improvement plans in a form that is understandable without being oversimplified. And they need to be asked from time to time if the information they are receiving is useful and they want anything done differently.

## ***LACK OF RESOURCES***

A substantial obstacle may be the lack of analytical staff, time, funds and information technology to implement a performance measurement system. Installation of

a comprehensive system can take three to five years. Analytical and information processing capabilities are essential. The cost will depend on whether an in-house or consultant approach is used, if training is needed and how quickly the system must be implemented.

Resource obstacles can be reduced by training in-house staff, starting with a pilot project and using as much available data as possible. Do not reinvent the wheel! Learn from the experience of others who have developed successful systems.

## *DATA LIMITATIONS*

Lack of information can be a major barrier. Historical, cost, employee hour, comparative and benchmark data may not be available or not suitably organized. It is not uncommon for unit cost data to be unavailable at the activity level. Considerable cost may be involved in collecting the data. Objectives may not have been prepared or may be unrealistic and contradictory.

On the other hand, there may be too much data scattered over a variety of sources which may not be easily accessible. Data problems can be minimized by the careful selection of services to be measured, use of available data and initiating the system on a gradual and pilot basis. Modification of the accounting system to collect data on an activity and cost centre basis may be useful.<sup>3</sup> The introduction of accrual accounting cost analysis, cost finding and activity-based costing will also be helpful. Work order systems are another method of accumulating relevant measurement data. Effective use of computer technology will facilitate the process.

## *UNREALISTIC EXPECTATIONS*

Performance measurement systems frequently fail because of unrealistic expectations. Public officials view measurement as a panacea. They are prone to expect the system to produce results overnight and to solve all their problems. You must recognize the limitations of performance measurement including these all too common ones:

- The outcome may not occur until long after the measurement period, causing managers to believe they have failed when success is just around the corner.
- Measurement doesn't indicate the extent to which reported outcomes are due to agency efforts rather than external factors.
- It is not possible to know the exact relationship between a service and its impact on the community.
- Not all services are easily measurable.
- The measures being used may not be the most relevant measures of the accomplishment of an objective.
- The objectives themselves may be unrealistic.
- Measurement may produce short range benefits that actually can retard progress toward a desired outcome such as using up an excessive amount

of limited resources to get a quick solution to a relatively insignificant problem.

- Measurement may incorrectly be expected to provide all the information needed to formulate and assess policy.

Performance measurement only identifies problems and when they occur. It does not explain why performance is at the level reported or how it can be improved. The process of measurement is separate from the process of evaluation. No single measure will cover 100% of the service outcome.

There is no bottom line measure that indicates the relative benefit of a service to society. To be successful, expectations must be reasonable and efforts made to be certain everyone involved is aware of measurement limitations. An analytical capability must exist or be developed to assess why performance is improving, worsening or staying the same. Multiple measures should be developed, and objectives, measures, and improvement efforts modified when appropriate. Realism dictates initiating performance measurement in areas conducive to measurement. Services that are in greatest need of improvement in terms of cost, quality and timeliness may be the best candidates. Practitioners of the art would do well to remember that strategy, human, and organization culture factors, not just techniques, shape the success of performance measurement.

## LEARNING APPLICATION

POLICY MAKER  CEO  FINANCE MANAGER  DEPARTMENT HEAD

What obstacles do you anticipate in implementing performance measurement in your organization and how would you overcome them?

Obstacle? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

How overcome? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Obstacle \_\_\_\_\_  
\_\_\_\_\_



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How overcome?

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Obstacle?

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How overcome?

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Obstacle?

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How overcome?

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## STEPS IN SETTING UP A PERFORMANCE MEASUREMENT SYSTEM

Careful planning and design are crucial to an effective performance measurement system. A systematic approach can simplify the development of the system and ensure its acceptance and use. The approach we propose consists of the following 13 steps.

## ***STEP 1: ASSESS THE ORGANIZATION'S READINESS***

Success in implementing a performance measurement system depends on the degree to which an organization is ready. Readiness means having the right mix of people, materials, and supplies in place. There must be enough time to complete the process, and those responsible for carrying out the process must be committed to follow through with development and implementation plans. Completion of the Organizational Readiness Assessment in Exhibit A can help you determine if your organization is ready for performance measurement.

## ***STEP 2: INVOLVE THE COMMUNITY***

Citizens are a very important part of the budget decision-making and performance measurement process. Citizens are the largest and most important audience for performance measures, but most do not have the opportunity to use such information to make decisions. Citizens should let their governments – provinces, states, cities, villages, school districts – know that performance measures are crucial, and ask that they be collected and reported to the public. Citizens and governments should collaborate to identify what performance information is needed, to develop useful measures and to establish a system for collecting and reporting those measures. The easiest way to do this is through customer satisfaction surveys and using focus groups.<sup>4</sup>

## ***STEP 3: DEFINE THE PURPOSE***

The purpose for developing a performance measurement system must be clearly defined. It is essential that the system be used to implement and track progress on the local government's strategic plan. Other reasons for implementing a performance measurement system may be to improve decision making, planning, management, budgeting, accountability or to achieve some other purpose. What are the community priorities and needs or conditions the process is intended to address? Who are the potential users of the performance data and their information requirements? Answering these questions will equip you to design a system that is responsive to specific information needs. And it will assist in building acceptance and support for the process and aims of performance measurement.

## ***STEP 4: PREPARE A POLICY STATEMENT***

Considerable time and resources are involved in implementing performance measurement. Therefore, well defined policies are necessary to legitimize and guide the process. Here are some of the matters that should be addressed in a policy statement on performance measurement:

- Formal legislative and management commitment to support the project with adequate financial and staff resources and to use the resulting information.
- Extent of employee and citizen involvement.
- Comprehensive or selected local government service focus.
- Use of in-house staff or outside consultants.
- Reporting frequency and format.
- Coordination with financial and personnel systems.

## ***STEP 5: DEVELOP A WORK PLAN***

The next step is to develop a written work plan covering project management, staffing, timetable, budget, training, strategy, methodology and monitoring criteria. A well-conceived work plan can prevent costly mistakes and delays and help to sell the idea of performance measurement to the organization's policy makers, managers and employees, as well as to the community. The work plan should designate the person or office responsible for managing the project. Strong interpersonal skills, sufficient authority to resolve conflicts and strong top management support are important factors to consider in selecting the project manager. In addition, the manager should be given adequate time to devote to the project. A committee consisting of service customers (i.e., customers can be employees of other departments of the local government as well as external users of a service) who have an interest in the service and its objectives should be organized to assist the project manager. Adequate staff support is important to the success of a project. The size of the staff will depend on the scope of the project. Personnel assigned should be competent to assist in the selection of measures, collecting data, analysis and report design. Existing budget, finance, computer and management analysis staff may be assigned project responsibilities.

Outside consultants are another option. They may be used when skilled staff is not available or the scope of the project is government-wide. Consultants can provide valuable assistance in such technical areas as data collection, citizen surveys, form and report design and training. Experienced consultants have measure data banks and extensive information on the experience of other local governments that have implemented performance measurement. They can also be helpful in troubleshooting and benchmarking. Factors to consider in selecting a consultant include relevant local government experience, positive client references and qualified staff. Be careful about using packaged consultant systems which may not fit your needs. Most important, do not become overly dependent on the consultant. Maximum staff participation is the key to a successful system. Your work plan should spell out how you can involve your employees and their work units in the development of the system. Labour-management, or user committees, and employee surveys are two notable methods.

Another element of the work plan is the timetable. A realistic schedule for completing the necessary tasks is a necessary project management tool. Establish milestones for each phase of the implementation, including start-up, objective setting, measure development, data collection and reporting. Allow sufficient time for fine tuning each phase. Experience shows that implementation of performance measurement can take two to five years depending on the scope of the project. Highly recom-

mended is a large, wall-size representation of the work plan that can serve as an easy reference for the project team when discussing phases of a project and the actual progress of work in relation to the established time lines.

The work plan should also include a project budget. The budget should include an estimate of costs for staff, consultant services, training, data collection, computer services, surveys and other supplies and services. Forecast costs for two or three years and factor in an amount for unexpected contingencies. Be realistic in your budget estimates. Consider collecting cost information from other local governments that have implemented measurement systems.

Training and orientation is another important element of the work plan. Outline the type of training to be provided and identify those to be trained. Include a training schedule and information on the qualifications of trainers to be used. Describe the orientation to be used and how progress will be communicated to the policy makers and staff.

The work plan should address the strategy to be used in selecting activities to be measured. For example, will the project be LG wide or more limited in scope? A comprehensive LG wide approach can be expensive, time consuming and complex. Pilot projects offer the advantage of being more manageable, less risky, and less expensive. Such pilots offer an increased opportunity for success. By introducing performance measurement on a smaller scale, there is greater chance of a successful first experience and an opportunity to perfect the methodology. Be sure the plan includes a description of the criteria to be used in selecting activities to be measured.

Finally, the work plan should describe how the project will be monitored. Establish performance criteria by which to measure the success of the project. Examples are better quality information, employee and citizen satisfaction, cost savings and documented service improvements. Outline how data validity and reliability will be verified. You will find that citizen and policy maker confidence in the system will be directly related to the quality of your monitoring efforts.

## ***STEP 6: INITIATE ORIENTATION AND TRAINING***

Acceptance of performance measurement is dependent on the involvement of key users and effective orientation and training. Involvement of elected officials, staff and employees in the design and implementation of the system lends credibility, avoids misunderstanding and facilitates their eventual ownership of the system. Orientation should cover the purpose of the project, how the data will be used and the steps involved. Devote particular attention in the orientation to the possibility employees will associate performance measurement with layoffs, work standards and performance appraisals. Be prepared to answer questions raised by employees such as these familiar ones:

- Why are we doing this?
- What assurance can you give us that the data will not be misused or misinterpreted?
- Will the data be used to set work standards?
- If not for these purposes, how will the data be used?

- What are the incentives for success? The penalties for failure?
- Will the data be used to appraise performance or adjust pay?
- Will the data be used to reduce resources? Eliminate jobs?
- Who will interpret results? How will disputes be resolved?

Employee concerns like these can be identified through group meetings and opinion surveys. Distribution of an information brochure is an excellent form of information giving, but it is no substitute for question and answer opportunities.

Performance measurement training must be structured to meet the needs of different users. Examples of training topics are:

- Performance measurement concepts and terminology
- Steps involved
- Writing objectives
- Selecting measures
- Data collection, analysis and reporting
- Uses of data
- Barriers
- Benchmarking
- Experiences of other local governments

The use of handouts, videos and exercises can enhance the learning value of the training. During implementation, briefing sessions, newsletters and other feedback methods can help to retain employee interest and support.

## ***STEP 7: SELECT SERVICE AREAS TO BE MEASURED***

Thoughtful selection of service areas for initiating performance measurement is critical to the success of a project. This step should begin with citizen input into the areas they think are most important to track. Some local government services are easier to measure than others. Street and vehicle maintenance, water supply, sewerage disposal, solid waste collection, parks and recreation, transportation, police patrol, and fire suppression are services that are relatively easy to quantify and measure. Soft services such as social services are more difficult to measure because results are unpredictable, difficult to quantify and take a long time to achieve.

There is evidence that a particular service area is a good candidate for a performance measurement project when the following criteria are met:

- It has been identified by citizens as an issue or need.
- The service is readily susceptible to measurement.
- Measurement data are currently being collected, and there is organizational experience in using quantifiable approaches.
- Written objectives have been prepared.
- The staff is interested and supportive.
- The service is labour intensive and involves significant resources and community impact.

- Elected officials and citizens have expressed high interest.
- Existing data indicates service problems and a need for improvement.
- A new service or program is being initiated.
- Other private, public or non-profit organizations provide the service.
- Services have been extensively measured by other local governments and comparable data is available.
- Substantial measurement information is available in the professional literature.

## LEARNING APPLICATION

POLICY MAKER  CEO  FINANCE MANAGER  DEPARTMENT HEAD

Based on your unique role as a policy maker, CEO, finance manager, or department head, identify those programmes and services your local government currently provides that you believe could be improved through performance measurement. For each, identify specifically what you would measure and describe how citizens could be involved to assist in this process.

1. Service or programme description:

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Specific characteristics to be measured:

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How citizens could be involved:

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2. Service or programme description:

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Specific characteristics to be measured:

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How citizens could be involved:

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### ***STEP 8: FORMULATE A MISSION STATEMENT, GOALS AND OBJECTIVES***

The mission statement as well as the goals and objectives should come from the local government's strategic planning process. Goals and objectives provide direction and can create enthusiasm for the provision of high quality public services. Normally, goals and objectives are anchored by an organization or department's mission statement. Taken together, the three constitute a hierarchy of purpose for organizational units.

### ***STEP 9: IDENTIFY MEASURES TO BE USED***

The measures should tie to the objectives and indicate whether the objective has been accomplished or not. Strive to use outcome measures wherever possible. Following are sample outcome measures.

#### Technical Services

- Road smoothness as measured by a roughness meter.
- Pavement distress indicators measured by visual surveys that relate to maintenance performance.
- Percentage of streets rated acceptably clean.
- Average customer satisfaction rating.
- Percentage of days that environmental standards are met.

#### Parks and Recreation Services

- Percentage of users rating the service as satisfactory or unsatisfactory.
- Percentage of citizens who live within/not within, 15/30 minutes travel time of a LG park or recreation facility.
- Number and percent of acts of vandalism repaired within 3 days of receipt of written work order.
- Percent of customer surveys which indicate that park users are satisfied with park maintenance.
- Percent of acres of turf maintained measured by visual surveys that meet established quality standards.

#### Fire Services

- Percentage of citizens rating performance satisfactory.
- Actual cost of fire losses.
- Average response time under five minutes.
- Average time to control fires.
- Percentage of fires preventable by inspection or education.

#### Economic Development

- Number and percentage of firms receiving assistance that located in jurisdiction and that felt that assistance contributed to their location decision.
- Amount of added tax revenues relating to assisted firms that located in the jurisdiction.
- Percentage of loans that are currently in default.
- Percentage of clients rating the length of time of processing their loan application as appropriate.
- Percentage of firms locating elsewhere for reasons over which agency had some influence.

#### Finance Services

- Percentage of invoices paid within 30 days.
- Percent of accounting transactions processed with less than 5 percent error rate.
- Percent of accounts receivable over 30 days.
- Percent of monthly budget reports completed five days after close of reporting period.
- Percent of departments rating service as excellent, good or poor.

#### Computer Services

- Percentage of time the system is down.
- Percentage of time deadlines are not met.
- Average turnaround time.
- Average time to respond to complaints.
- Percent of departments rating service as excellent, good or poor.

## ***STEP 10: ESTABLISH A PROCESS FOR DATA COLLECTION***

Now that the performance measurement system framework has been laid, it is time to move into data collection, analysis and reporting. Availability of information is a critical element of performance measurement. A decision has to be made about the kind of information needed to determine performance results and problems, and how that information can be obtained.

Collecting and analyzing information can be difficult and expensive. Consequently, considerable attention should be given to these activities. The focus should be on data that is easily collected and updated, data that is complete, timely, accurate, consistent over time, practical and affordable. Let's look at these activities one at a time beginning with eight basic steps in data collection.



## Data collection in Indonesia

If your LG is establishing performance measures for the first time, it may be overwhelming to think of where to find the data. But in many cases, the data may already be being collected. For example, Indonesia began implementing performance budgeting in 2001. In searching for information with which to establish goals, objectives and indicators, they were able to use a Data Book that had been published by each LG for many years. The information was collected and passed on to the central government. It was also used in the LG. This was a perfect tool for finding indicators to use in the new performance measurement system.

### WHAT TO DO

- Step 1.** Identify the personnel responsible for data collection. Usually data collection is the responsibility of operating agencies while compilation, dissemination and verification are the responsibility of a central office under the chief executive. Those involved in data collection should be encouraged to participate in the selection of the data and the design of the collection procedure.
- Step 2.** Prepare clearly written data definitions which will be easily understood by the users of the information and are neither ambiguous nor misleading.
- Step 3.** Design pre-printed data collection forms. Use a standard format which will simplify collection and aid comparability. Consider reader reading level and possible language barriers.
- Step 4.** Draft instructions on how to use the collection forms and conduct training using samples of completed forms. Determine the need to provide multi-lingual instructions. Pre-test the forms and instructions to identify problems and ensure they are simple and easy to use.
- Step 5.** Establish a schedule and frequency for collecting the information. For best results, collect the data on a continuing basis.
- Step 6.** Computerize data collection as much as possible. Consider computer requirements in designing the collection forms. Computers and information processing technology greatly facilitate organizing, processing and reporting data.
- Step 7.** Select the appropriate data collection technique including review of records, interviews, questionnaires, surveys, trained observers and use of technology. Existing records such as budgets, work orders, time sheets, citizen surveys, complaints, requests for service, and program statistics are a source of useful information on workload, duration of time to respond or complete work, completion dates, service interruptions and customer satisfaction (see box below for more details on data collection techniques.)
- Step 8.** Periodically review and monitor the collection procedures to reduce errors due to incorrectly recorded data, transposed digits and arithmetical errors. Verify accuracy, sampling methods and collection procedure. Document problems with the collection process and work to resolve them.

## Data Collection Techniques

<b>Use of existing data</b>	An inventory of existing data can simplify the collection process and avoid needless repetition or duplication of effort.
<b>Citizen or customer surveys</b>	<p>Citizen or customer surveys are a useful way of collecting service outcome and quality information. Such surveys also tell why service is not being used. Surveys are a source of information on satisfaction, perception of community problems and preferred financing methods. They can address services in general or specifically. Decisions relating to survey methods, i.e., telephone, mail or face to face interviews, questionnaire design, and sampling techniques, are an integral part of survey methodology.</p> <p>Care must be exercised to guarantee the integrity of the results. Surveys can be expensive, time consuming, misleading, and embarrassing. In order to maximize the benefits, consideration should be given to obtaining professional assistance from consultants or universities.</p>
<b>Observation</b>	Trained observers are employees who conduct systematic visual ratings of such conditions as road cleanliness or rideability and park and facility maintenance. The ratings are based on pre-specified rating criteria including photos, checklists, precise written definitions and a numerical grading system. Little judgment or interpretation is required from the observers. Care must be taken to periodically replicate a small sample of observations to minimize bias.
<b>Measurement technologies</b>	Equipment such as noise, air quality and road roughness meters can be used to provide measurement of conditions.

## Tips for collecting information

- Keep paperwork simple and to a minimum.
- Establish baseline data which reflects the current status and analyze to set targets.
- Emphasize accuracy, timeliness, completeness, consistency and comparability.
- Limit the number of revisions to the definitions and collection procedure which undermine comparability and frustrate those collecting the data.
- Involve staff in designing the collection system.
- Collect data for the most important objectives.
- Be tolerant of early collection deficiencies.

## STEP 11: MONITOR AND ANALYZE THE DATA

Meaningful performance measurement depends on the quality of the data analysis. Raw data doesn't tell you much. It is extremely important to understand what the data reveal and do not reveal. Analyzing what went right and what went wrong will help you prepare an action plan to correct or improve performance. If performance indicators don't look positive, be sure to look behind the numbers for reasons that may not be apparent on the surface.

Considerable insight can be obtained by subjecting current performance to a number of comparisons including:

- Comparisons with previously established objectives.  
Such a comparison will show the extent to which the objectives have been achieved; if the objectives are overstated, unrealistic or too costly; if the objectives are understated; if resources need to be reallocated; or if there is a need for improvement.
- Comparisons with a past performance period (month, year).  
This type of comparison indicates trends and shows whether the performance is improving, declining or staying the same.
- Comparisons with performance targets such as planned versus actual.  
Performance targets can be established as part of the budget, personnel appraisal or management by objective process. Targets are based on dates, duration of time, quantity and level of customer satisfaction.
- Comparisons with technically developed standards.  
Such standards may have been established by work measurement, professional organizations, standard setting bodies, or other levels of government. Examples include air, water, vehicle maintenance and accounting standards.
- Inter-jurisdictional comparisons.  
These are comparisons with other jurisdictions having similar demographic, social and economic characteristics and providing comparable services. Problems associated with such comparison include availability of data and different key characteristics, levels of service, objectives and climatic conditions. Ministries often collect comparative data on budget expenditures (gross and per capita) and staffing levels.
- Benchmarking.  
This is a process of measuring your organization's performance against best-in-the-class organizations to improve services, operations or cost position.

### LEARNING APPLICATION

POLICY MAKER \_X\_ CEO \_X\_ FINANCE MANAGER \_X\_ DEPARTMENT HEAD \_X\_

What kind of a system would you develop to evaluate the effectiveness of performance measurement in your organization?

<b>Performance Report</b>				
<b>Department</b>	<b>Division/Program</b>			<b>Date</b>
<b>Performance Objectives</b>				
<b>Measures</b>	<b>Last Year Target Actual Variance</b>	<b>This Month Target Actual Variance</b>	<b>Year -to - date Target Actual Variance</b>	
<b>Outcome</b>				
<b>Output</b>				
<b>Efficiency</b>				
<b>Resources</b>	<b>Last Year</b>	<b>This Year</b>	<b>Explanation of Variances and Proposed Corrective Action</b>	
<b>Budget</b>				
<b>Positions</b>				

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Would this include external verification? How would you create conditions to assure that evaluation data is used to make necessary corrections in the system?

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## ***STEP 12: REPORT PERFORMANCE AND USE TO IMPROVE LG***

Once data collection and analysis have been completed, performance reports are prepared. Good information is useless if no one understands what it means and uses it to improve organizational performance. Therefore, it is important to present the information in ways that are easy to understand, permit comparison and meet the user's information needs and help them to draw meaningful conclusions. The reporting system should show what was expected, what actually occurred, and account for the difference.

Report formats vary depending upon the level of detail desired and the audience. Program managers will require detailed information on inputs, outputs, outcomes and efficiency. An exception format which only reports where actual is above or below expected by a specific percentage or amount is more appropriate for senior managers and elected officials. Citizen reports can provide more summarized information on outcome and efficiency, changes over the previous period and actual performance against expected.

Reports should provide the reader with a reasonable overall picture of performance and assist them in assessing service efforts and costs. Different groups of users should be consulted in designing the report formats and on the usefulness of the reports.

Exemplary reports make extensive use of graphics including graphs, charts, photos, maps and tables which display comparative data. Maps are valuable in presenting information on such conditions as street cleanliness or crime rates by geo-

graphic area. Graphs and charts clearly show trends. Graphics and colour are especially valuable in citizen performance reports which often take the form of newspaper supplements and newsletters.

## CHARACTERISTICS OF EFFECTIVE REPORTS

1. Compare planned to actual results.
2. Describe the activity, mission and objectives.
3. Show trends over previous periods.
4. Present a mix of key measures for each major objective.
5. Highlight variances.
6. Explain in narrative form the reasons for the variances.
7. Describe the improvement or corrective action to be taken.

In reporting, pay particular attention to the narrative explanatory information provided with the reports. This information should explain the reasons for variances, factors that affect the results and limitations in the quality of the data. Factors over which the agency has no or little control should be identified. Changes in data definitions, measures and collection procedures should be noted. Finally, proposed improvement efforts should be described along with any obstacles to improvement.

When you draft the explanatory section of the report, ask yourself these questions:

- Do the objectives continue to be appropriate?
- To what extent are the objectives being achieved?
- Why is the performance improving, getting worse or remaining the same?
- Is the service competitive?
- Could the service be better provided in an alternative way?
- Should the service be retained, discontinued or modified?
- Are resources being optimally utilized?
- Are customer service needs being met?
- What secondary benefits and unintended adverse consequences are occurring?

Report frequency also needs to be addressed and depends on the audience. Monthly reports are usually needed by operating personnel. More frequent reporting may be required where backlogs or cost increases can occur in a short period of time. Quarterly or semi-annual reports are generally sufficient for senior managers and elected officials. Exhibit E—Performance Report is a worksheet that can be used to develop a report or can be used as an internal report. Citizen reports are typically issued on an annual basis. It is important to issue reports promptly within a few days following the end of the reporting period in order to permit the user to take appropriate corrective action as needed.

In addition to specific performance reports, performance data are used extensively in budgets, strategic and operational plans, performance audits, program evaluations, annual financial reports, annual reports, performance appraisals, citizen newsletters, press releases and special management reports. There is considerable

merit to linking performance data with financial data in annual budgets and comprehensive annual financial reports.

### Checklist for Evaluating your Performance Reports

_____	Is information presented in a timely, comprehensive, accurate and readable manner?
_____	Is the report user friendly?
_____	Does the report make imaginative use of graphics?
_____	Do formats satisfy the information needs of different users?
_____	Are variances highlighted?
_____	Is narrative explanatory information presented?
_____	Is accountability pinpointed?
_____	Is an improvement plan provided?

### USE THE INFORMATION

Going through this extensive process is useless unless you use the performance results to improve the organizational performance. The CEO and governing body should use the performance results to hold managers accountable for the use of resources. Also, the information should be summarized and provided to citizens so that the community can clearly see how well their LG is performing.

### LEARNING APPLICATION

POLICY MAKER \_X\_ CEO \_X\_ FINANCE MANAGER \_X\_ DEPARTMENT HEAD \_X\_

Think about setting up a performance reporting system for one of your programs. What kind of data should you track in relation to your objectives? How will you use the information to improve your organizational performance?

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## BENCHMARKING—A SEVEN STEP PROCESS

*Benchmarking* helps to identify better results and more efficient methods and to incorporate them into an improvement plan. Best management practices refer to the processes, practices and systems identified in public and private organizations that are performed exceptionally well and are widely recognized as improving an organization's performance and efficiency in specific areas. You can apply benchmarking to a wide range of processes, such as accounting, maintenance services, cash management, training and crime control. Australia makes extensive use of benchmarks at the local level. Canada emphasizes best practices. Especially important to data analysis is the need to explain what the data and comparisons reveal. Variances from the baseline, targets, standards, prior periods, and best practices should be highlighted and explained. Numbers by themselves are often difficult to understand and may not lead to conclusions.

For decades, local government officials have been urged to measure performance and have been given advice on how to get started. Those who have followed the prescriptions have soon discovered that a performance measure is virtually valueless if it appears in the form of an isolated, abstract number. Its value comes in comparison with a relevant peg or benchmark.

Several options exist. Performance measures can be compared with those from earlier periods, with other units in the same local government, with relevant outside local governments, with pre-established targets, or with existing country standards. Following are steps you can take to do benchmarking:

1. Identify and document the process you want to benchmark and determine current performance levels.
2. Research industry trends and literature on the subject. There may be benchmarking information available for your country.
3. Select appropriate local governments for comparison.
4. Collect data from the selected local governments through questionnaires and interviews.
5. Compare and contrast processes and develop recommendations and an action plan.
6. Make comparisons among geographical areas and customer client groups such as neighbourhoods and age groups. These comparisons are very useful in comparing street cleanliness, crime rates, park facilities, water quality and road condition by area of the local government and recreational services by age group.
7. Make comparisons with private and non-profit organizations providing comparable services. These comparisons can be the basis for making key decisions about performing a service in-house, contracting it or privatiz-



ing it. Examples of comparable services include custodial, data processing, debt collection, payroll, road maintenance, solid waste collection and water and wastewater services.

If you cannot explain the variances, the data may be of limited value. Remember, the data will tell what the performance is, not why it occurred. Additional detailed analysis and program evaluation will be needed to further diagnose the problems and devise solutions.

### Questions to Ask about the Data

1. Do the data fit the measures?
2. Are the data too difficult to use?
3. Are the data too hard or expensive to acquire?
4. Do the measures and/or objectives need to be changed?
5. Do the data meet the information needs of the users?
6. Is more detailed analysis required to interpret the data?
7. Are the data sufficient to explain variances?

### Guidelines for Analyzing the Data

1. Develop an analysis checklist
2. Verify data accuracy
3. Establish benchmarks
4. Scrutinize for unintended consequences
5. Consider uncontrollable factors such as population, climate, economic conditions, terrain and client characteristics
6. Explain variances
7. Analyze over a sufficient period of time so fluctuations are considered
8. Disregard or replace data that fluctuates for no apparent reason or are inaccurate
9. Establish a baseline
10. Be careful of averages and biased statistics
11. Recognize limitations in the data when interpreting results
10. Expect mistakes, misinformation and misunderstandings
13. Encourage a dialog on conclusions reached from the analysis and establish a procedure for resolving disagreements

The integrity of a performance measurement system is dependent on close monitoring and fine tuning or possibly corrective action. Performance measurement is a continuous and evolving process which requires constant scrutiny of performance for evidence of accuracy, completeness and usefulness.

Independent verification of the data enhances its credibility. Therefore, periodic independent audits of the system are as crucial as financial post audits. In Great Britain the Audit Commission for Local Authorities monitors local authorities' program performance through value-for-money audits. Local governments in the United States utilize elected auditors, internal auditors and external independent auditors to conduct performance audits and to verify performance data.

Close monitoring provides for reworking objectives, measures, performance targets, collection procedures, report formats and improvement plans in response to problems which are identified and in response to changing conditions. Typical problems involve unrealistic objectives, measures which do not adequately measure, inaccurate and incomplete data, reports which do not meet the needs of the users and deficient improvement plans. Competent and ongoing evaluation prevents the process from being undermined by distorted and biased information.

The monitoring process should involve the operating staff, report users and customers who should be frequently contacted to determine their level of satisfaction with the system. In assessing the system, use the mission, goal and objective statements, customer feedback, past trends, comparative data and spot checks of the collection analysis and reporting techniques.

## INTERNET RESOURCES

MAH - Municipal Performance Measurement Program (MPMP)—This program requires municipalities to collect data to measure their performance in 10 core municipal service areas.

[www.mah.gov.on.ca/userfiles/HTML/nts\\_1\\_5600\\_1.html](http://www.mah.gov.on.ca/userfiles/HTML/nts_1_5600_1.html)

Municipal Performance Measurement—2003 Municipal Performance Measurement Report · 2004 Municipal Performance

[www.citywindsor.ca/001110.asp](http://www.citywindsor.ca/001110.asp)

International Experience in Municipal Performance Measurement—The rationale and objectives for municipal performance measurement systems ...

[unpan1.un.org/intradoc/groups/public/documents/APCITY/UNPAN017423.pdf](http://unpan1.un.org/intradoc/groups/public/documents/APCITY/UNPAN017423.pdf)

City of Toronto: Toronto's Municipal Performance—The province's Municipal Performance Measurement Program (MPMP) requires municipalities to report to citizens on performance in nine core service areas: ...

[www.toronto.ca/city\\_performance/](http://www.toronto.ca/city_performance/)

[PDF] REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL ON THE RESULTS OF PERFORMANCE MEASUREMENT OF THE CITY OF CAPE TOWN FOR THE YEAR ENDED 30. JUNE 2003

[www.capetown.gov.za/reports/financial\\_statements2003/CCT\\_PMS\\_REPORT\\_2003.pdf](http://www.capetown.gov.za/reports/financial_statements2003/CCT_PMS_REPORT_2003.pdf)

Article Performance measures for the South African Police Service. [muse.jhu.edu/journals/transformation/v049/49.1leggett.pdf](http://muse.jhu.edu/journals/transformation/v049/49.1leggett.pdf)

Making Cities Work: Service Delivery—ICMA's Comparative Performance Measurement Program currently assists approximately 130 cities ... UNCHS Privatization of Municipal Services in East Africa ...

[www.makingcitieswork.org/urbanThemes/city\\_governance/service\\_delivery](http://www.makingcitieswork.org/urbanThemes/city_governance/service_delivery)

Urban Indicators Program—These indicators would measure the performance of a municipal body, which are benchmarked against set targets. Performance can be measured over a period of ...

[www.cmag-india.org/programs\\_urban\\_indi\\_prog.htm](http://www.cmag-india.org/programs_urban_indi_prog.htm)

Public Record of Operations and Finance - PROOF – Bangalore—A municipal sanitation department could use performance measures to decide ... of performance indicators for Bangalore's public services. India.

[www.indiatogether.org/govt/local/articles/bmp-proof.htm](http://www.indiatogether.org/govt/local/articles/bmp-proof.htm)

Benchmarking - Customer Satisfaction Measurement Association—The Customer Satisfaction Measurement Association™ is an association of companies... Federal, State, Municipal Finance Managers · Government Performance ...

[www.csmassociation.org/](http://www.csmassociation.org/)

Performance Management: When Results Matter. Measures from Slovakia.

[www.icma.org/documents/PerfMeas\\_small.pdf](http://www.icma.org/documents/PerfMeas_small.pdf)

List of projects for Listing of All Projects—Performance Measurement: Improving Municipal Service Delivery and Strengthening—Local ... Housing and Urban Development in Czech and Slovak Republic ...

[www2.urban.org/centers/iac/pdsdev/projlist.cfm?allprojects=1](http://www2.urban.org/centers/iac/pdsdev/projlist.cfm?allprojects=1)

Performance Measurement In Local Government In Victoria—ABSTRACT. Performance measurement has been introduced in the local government environment in the UK through the use of performance indicators. ...

[www.cmqr.rmit.edu.au/publications/vudal.pdf](http://www.cmqr.rmit.edu.au/publications/vudal.pdf)

Enhancing Municipal Services Delivery Capability - Phase 2 Provides a forum for the exchange of performance measurements and benchmarking data for all ... The International Journal of Public Sector Management, UK ...

[www.adb.org/projects/Benchmarking/links.asp](http://www.adb.org/projects/Benchmarking/links.asp)

Main responsibilities of the municipalities according to Municipal Self-. Government Act, March 8 ... The use of performance measures in the UK ...

[soc.kuleuven.be/io/egpa/qual/ljubljana/Wilcox%20Bugaj\\_paper.pdf](http://soc.kuleuven.be/io/egpa/qual/ljubljana/Wilcox%20Bugaj_paper.pdf)

Citizen-Driven Government Performance - Curricular Resources. A BRIEF GUIDE FOR PERFORMANCE MEASUREMENT IN LOCAL GOVERNMENT ... and foreign countries such as Great Britain, Australia, and New Zealand are on their way.

...

[www.andromeda.rutgers.edu/~ncpp/cdgp/teaching/brief-manual.html](http://www.andromeda.rutgers.edu/~ncpp/cdgp/teaching/brief-manual.html)

Towards Designing a Performance Measurement System for the CGIAR ...performance indicators for municipal services such as police, ... The government of New Zealand is in the process of establishing a Performance-

[www.cgiar.org/pdf/agm03/agm03bus\\_wgpm\\_annexes.pdf](http://www.cgiar.org/pdf/agm03/agm03bus_wgpm_annexes.pdf)

Performance Measurement within the Municipal Solid Waste/Urban Agriculture ...The first one was in Indonesia involving senior key political and technical ...

[www.ruaf.org/conference/methods/papers/background/Paper%20Batac.doc](http://www.ruaf.org/conference/methods/papers/background/Paper%20Batac.doc)

Sub-National/Local Governance - Governance Initiatives ...Indonesia. Local Government Provision of Minimum Basic Services for the Poor ...Support for the Local Governance Performance Measurement System ...

[www.adb.org/Governance/gov\\_snlg.asp](http://www.adb.org/Governance/gov_snlg.asp)

Performance Measurement Archives. · An Approach to Productivity Improvement in the Public Sector: A Procedural Manual, Multi-Municipal Productivity Project, ...

[www.andromeda.rutgers.edu/~ncpp/performance\\_manuals/](http://www.andromeda.rutgers.edu/~ncpp/performance_manuals/)

Best Practices in Local Government—... Lynnwood Municipal Code, “Performance Measurement and Results” ... Performance-Based Measurement System Manual.

[www.mrsc.org/subjects/management/performancemeasurement.aspx](http://www.mrsc.org/subjects/management/performancemeasurement.aspx)

International Experience in Municipal Performance Measurement—The rational and objectives for municipal performance measurement systems ...Municipal performance measurement comes in many shapes and sizes. ...

[unpan1.un.org/intradoc/groups/public/documents/APCITY/UNPAN017423.pdf](http://unpan1.un.org/intradoc/groups/public/documents/APCITY/UNPAN017423.pdf)

Basic Manual for Performance Measurement (Fairfax County, Virginia) [www.civinfo.bc.ca/Local\\_Content/Manuals/4615.pdf](http://www.civinfo.bc.ca/Local_Content/Manuals/4615.pdf)

The Principles of Governance and Management: Strategic Planning and Corporate Management. In explaining the concepts and practices of urban governance and management, the paper cites the experience of New Zealand. It describes transparency, accountability and contestability as the key requirements to improve the performance of local governments. The paper also discusses the key features of strategic planning and city visioning which are essential processes toward good urban governance and management.

<http://www.worldbank.org/wbi/urbancitymgt/singapore/assets/s-griffin-mod02.pdf>

Best Management Practices: The Case of Colombo, Sri Lanka. This paper describes the types of innovations introduced in the City of Colombo which brought in a new culture, a new vision, and new dimensions in local governance. The success that has been achieved in Colombo to date owes much to its commitment to empowering

all stakeholders to participate and take ownership of development initiatives in the city.

<http://www.worldbank.org/wbi/urbancitymgt/goa/assets/g-kamil-mod09.pdf>

Developing a City Vision for Palmerston North (New Zealand).\* (PDF 1 Mb) Michael Willis (1999)—Palmerston North, New Zealand, has taken the initiative in deciding its future rather than be simply subject to either the whims of the central government or vicissitudes of globalization. The city has worked to take a strong hand in creating its own future rather than having it created for it by someone else, somewhere else. This paper describes the city's experience in grappling with the challenges of change and how it has endeavored to take a new approach to its responsibility of civic leadership. It outlines in detail the process it followed in producing its city vision.

<http://www.worldbank.org/wbi/urbancitymgt/toronto/assets/t-willis-mod02.pdf>

Performance Measurement. Harry P. Hatry and Scott Bryant (1998)—This short paper introduces the potential of performance measurement as a means to improve service delivery. It describes the principal characteristics of the measurement process, what it entails, and how it is conducted.

<http://www.worldbank.org/wbi/urbancitymgt/toronto/assets/t-hatry-mod03.pdf>

Indicator Tools for Assessment and Analysis of City Governance. Leo Fonseka (2000)—Measuring the performance and effectiveness of urban institutions, mechanisms, and processes must receive utmost attention to promote good governance. The paper discusses the essential dimensions and elements of good governance, and attempts to enhance understanding of how to measure it. It also presents the key issues to consider when conducting a performance assessment of cities.

<http://www.worldbank.org/wbi/urbancitymgt/goa/assets/g-fonseka-mod02.pdf>

Benchmarking as a Means of Improving Municipal Service Delivery. Naved Hamid (2000)—Benchmarking is a technique which aims to stimulate improvement through comparisons of services, processes, and performance between organizations. This paper details how this technique was applied in six municipalities and how it helps identify potential for improvement and bring about change in these areas. It discusses challenges faced during implementation and how they were overcome.

<http://www.worldbank.org/wbi/urbancitymgt/singapore/assets/s-hamid-mod05.pdf>

Towards Good Governance: Promoting Operational Efficiency and Accountability. Lim Soo Ping (2000)—This paper outlines the basic principles and issues of good governance, focusing on the aspects of operational efficiency and accountability. Against these principles, it describes Singapore's governance practices and performance. The paper concludes by emphasizing the importance of appropriate administrative structure and systems, and a pervasive organizational culture that

promotes quality service, is always ready in anticipating and making changes, and strives for excellence.

<http://www.worldbank.org/wbi/urbancitymgt/singapore/assets/s-limsooping-mod02.pdf>

Best Management Practices: The Case of Calcutta, India.\* (PDF 59 kb) Asim Barman (2000)—Cities in the developing countries are increasingly faced with the pressure of improving existing urban service delivery and urban management performance but has inadequate resources to do so. This paper describes the reform measures adopted in the Calcutta Metropolitan Area of India in response to such challenges. These involve institutional capacity building, strengthening its revenue base, financial management innovations, and modern technology applications, among others.

<http://www.worldbank.org/wbi/urbancitymgt/goa/assets/g-barman-mod09.pdf>

## APPENDIX A—ORGANIZATIONAL READINESS ASSESSMENT

Yes	No	Assessment Criteria
___	___	1. Elected officials are committed to performance measurement, will support the system philosophically and financially and will use the information in policy making.
___	___	2. Management is committed to performance measurement, will support the effort with adequate financial and staff resources and will use the information in decision making and managing.
___	___	3. Employees and their organizations are receptive to performance measurement and will support the effort.
___	___	4. Elected officials and management work to be objective and to make decisions based on facts.
___	___	5. Elected officials and management are prepared to take corrective action to resolve performance problems identified by performance measurement.
___	___	6. Elected officials and management work well together and have a relationship based on a high level of trust.
___	___	7. The LG has staff trained in analysis and adequate analytical capability.
___	___	8. The accounting, budgeting and information management systems are capable of supporting performance measurement.
___	___	9. The LG is committed to a strategic and operational planning process.
___	___	10. There are data collection and measurement efforts currently in effect.
___	___	11. Elected officials and management support public reporting and customer feedback.
___	___	10. Elected officials and management are willing to implement new management systems and techniques.

A substantial number of “no” answers should suggest caution in proceeding with a performance measurement system because of the risk of failure. Instead, an effort should be made to determine what needs to be done to change the “no” answers to “yes.” Several strategies are available:

- Hold a workshop or retreat for elected officials and senior managers to explore the development and implementation of performance measurement.
- Conduct technical skill workshops on performance measurement

- Provide information on the experience of LGs that have successfully implemented performance measurement.
- Establish an employee-management committee to study the feasibility of implementing a performance measurement system.
- Begin strategic planning that leads to implementation of a pilot performance measurement project.



## APPENDIX B—SAMPLE MEASURES FROM INDONESIA

### GENERAL

- # persons in local government (population)
- # of households in local government

### ACCOUNTING

- # of customer surveys distributed to other city departments and agencies
- # of customer surveys distributed to vendors with whom city does business
- % of customer service surveys returned with satisfactory or better rating (customers may be internal departments that accounting serves or vendors to whom payments are made)
- % of Budget book (DASK) provided to all DPRD members, appropriate staff and to Information Systems department for onward distribution.
- % of time that financial management computer system is available to all budget preparers.
- # of all financial data entries input into computer system
- % of all financial data input into financial management system within one week of the information first being available
- # of requests for formal training
- % of arrangements made for formal training on the financial management system within one week of being requested

### ACCOUNTS PAYABLE

- # of hours on a daily basis the creditors/vendors system available to all appropriate officers.
- % of time on a daily basis the creditors/vendors system available to all appropriate officers.
- # of invoices processed.
- # of late payments
- # - Rp amount – for any prompt payment penalties and interest
- # of vendor payments made
- % of vendors/creditors paid within one day of the weekly deadline
- # of invoices paid within 30 days of receipt or mutually agreed terms
- % of invoices paid within 30 days of receipt or mutually agreed terms
- # of reports submitted to BAWASDA
- # of financial statements submitted to Comisi C
- % of all major deadlines completed on time for the accounts for submission to the local monitoring board (BAWASDA), and the financial statements for submission to Commission C (DPRD Comisi C)

# of customer service surveys distributed to other departments  
# of customer service surveys distributed to vendors  
% of customer service surveys returned with satisfactory or better rating (customers may be internal departments that accounting serves or vendors to whom payments are made)  
Average cost per vendor payment processed  
Average cost per invoice processed

## ***AGRICULTURE INSPECTION***

# of agriculturally related business referrals made  
# of agriculturally related sales facilitated  
# of applicator certification exams administered  
# of calibrations performed  
# of companies enrolled in Dept of Agriculture marketing programs  
# of dealer/marketplace/applicator/producer and use inspections  
# of egg inspections conducted  
# of export certificates issued  
# of formal enforcement actions taken for pesticide-related violations  
# of grain warehouse inspections and audits conducted  
# of grain warehouse licenses/permits/registrations issued  
# of hectares inspected for seed certification  
# of hectares inspected/surveyed for the presence of pests and diseases  
# of informal enforcement actions taken for pesticide-related violations  
# of license verification inspections conducted  
# of licenses and certificates issued to pesticide applicators  
# of nursery and floral certificates issued  
# of nursery/floral establishment inspections conducted  
# of pesticide analyses performed  
# of pesticide complaint investigations conducted  
# of producers informed about integrated pest management practices  
# of seed samples analyzed  
# of seed samples found out of compliance  
# of state/federal quarantine inspections conducted  
# of weights and measures inspections conducted  
% increase from prior year in organic program participation  
% of hectares in pest management zones in compliance  
% of inspected seed samples found in full compliance with standards  
% of octane samples tested resulting in full compliance  
% of rural communities assisted by Dept of Agriculture  
% reduction in the # of incidents of pesticide related violations  
Average cost per commodity warehouse inspection  
Average cost per egg producer, dealer-wholesaler inspected  
Average cost per hectare inspected  
Average cost per license verification inspection  
Average cost per pesticide inspection  
Average cost per pesticide registered  
Average cost per rural community assisted

Average cost per seed sample analyzed  
Average cost per weighing and measuring device inspected

### ***ANNUAL AUDIT***

# of audit adjustments  
audit completed by December 31.  
# of qualifications on the audit opinion

### ***ASSET MANAGEMENT - LOCAL***

Market value % of book value  
% of time quarterly report prepared and distributed by 30 business days after quarter ends

### ***FINANCIAL DIVISION - BUDGETING,***

Annual Budget and Plan of Services (DASK) printed and distributed within 90 days of DPRD approval  
APKASI/APEKSI Distinguished Budget Presentation Award received (sample for future)  
DASK provided to all DPRD members, appropriate staff and to Information Services department for onward distribution  
Implement KepMen xx on Basic Financial Statements and Management's Discussion and Analysis.- (sample for implementation of future government regulation)  
To meet all deadlines for providing reports and recommendations to executive budget team  
To meet deadlines for production of budget monitoring reports to DPRD (%)  
To meet deadlines set out in the budgetary process for presentation of reports and information to DPRD (%)

### ***BUILDING INSPECTION AND REGULATION***

# of violations  
# of inspections  
# of cases for appeals, variance and special exceptions.  
# of city policies/codes/ordinances reviewed.  
# of errors or omissions in plan review or inspections.  
# of violations per 100 apartment units.  
% of total apartments in apartment buildings inspected.  
% of all demolition notices issued within 10 working days of receipt of application.  
% of appeals dismissed.  
% of Code Enforcement inspections performed within 24 hours.  
% of inspections performed morning or afternoon requested (future)  
% of plans reviewed within one week  
% of time to respond within 1 day to cases when dangerous structures are identified.  
% of unauthorized works/construction/modifications rectified.

% of violations corrected within 30 days of correction order

Average boiler inspections done by each inspector on any given day for the reporting period.

Average construction inspections done by each inspector on any given day for the reporting period.

Average Crane & Derrick inspections done by each inspector on any given day for the reporting period.

Average electrical inspections done by each inspector on any given day for the reporting period. (future)

Average elevator inspections done by each inspector on any given day for the reporting period. (future)

Average plumbing inspections done by each inspector on any given day for the reporting period

Cost per apartment unit (total cost of program divided by total # of registered apartment units.)

Cost per inspection (Building Department budget divided by total # of inspections performed)

Field inspections completed within 4 hours.

Response to dangerous structure in one hour.

Total # of boiler inspections performed during the reporting period.

Total # of construction inspections performed during the reporting period.

Total # of Crane & Derrick inspections performed during the reporting period.

Total # of electrical inspections performed during the reporting period.

Total # of elevator inspections performed during the reporting period (Dept. of Buildings and private

Total # of plumbing inspections performed during the reporting period.

## ***BUILDING PERMITS***

# of advertised departures from the statutory plan as a % of total permissions granted.

# of applications

% of applicants rating experience with City review process as excellent/above average.

% of applications determined within 8 weeks.

% of applications registered in 5 working days.

Average time taken to determine all applications

Cost per application processed.

## ***BUILDINGS/FACILITIES MANAGEMENT***

### **BUILDING ADMINISTRATION**

# of customer service programs initiated.

Average application processing time.

Average time taken to check Plans.

Average waiting time it takes a customer to be served in Dept. of Buildings offices.

Completion Certificate issued within one week.  
 # of permit applications filed for all categories of work during the reporting period. (New buildings, alterations, etc.)  
 # of seminars held.  
 % of applications decided within 10 working days.  
 % of building Notices registered in 1 day  
 % of building Notices visited in 3 days  
 % of customers satisfied with the service provided  
 % of full plans registered in 3 days  
 % of full plans vetted and letter in 3 weeks.  
 % of plans determined within prescribed period.  
 % of respondents rating department as excellent/above average on customer surveys: homeowners, permit applicants.  
 % of respondents rating department as good or excellent on community survey.  
 Reduce the average length of time for completion of building permit application process.  
 Response to all written inquiries for information and advice within 10 working days.  
 Total # of new applications for new construction and renovations jobs entered by Dept. of Buildings applications processors during reporting period.

#### SURVEY AND ANALYSIS, TECHNICAL PLANNING, CONSTRUCTION, BUILDING ADMINISTRATION

# of fast track permits facilitated.  
 # of Home Builder technical training  
 # of Pre-Construction meetings with contractors.  
 Commercial finish-out permit review turn-around-time.  
 Fence/pool permit review turn-around-time.  
 Increase the % of building plans reviewed within established timelines.  
 New commercial permit review turn-around-time  
 New commercial permit review turn-around-time  
 Single Family Dwelling review turn-around-time.  
 The average time that it takes for plan examiners to review plans for new construction and renovation jobs filed during the reporting period.  
 # of violations issued by the Department that are returnable to the Environmental Control Board.  
 Total # of building permits issued and renewed during the reporting period, broken down by category (new buildings and alterations).  
 Total # of original and renewed licenses the department issues to tradespeople in certain classifications of the building industry to certify their legal fitness to practice their trade. (Licenses are issued to: Stationary Engineers, Hoist Machine Operators, Cherry Pickers, Welders, Fire Suppression Contractors, Riggers, Sign Hangers, Plumbers, Tower Climbers, Electricians, Private Elevator Inspectors.) (for future)

## **CASH MANAGEMENT**

- Achievement of a rate of earnings on local government investments that exceeds (on an amortized basis) (use some government standard rate of return).
- Cash management policy to be reviewed annually
- Investment return to exceed average 7-day rate (%)
- Prepare cash management procedure manual on schedule
- To ensure that all cash management payments are made on due date
- To ensure that all transactions comply with the cash management policy

## **CEMETERIES**

- % out of working hours advice for the public and booking service for funeral directors.
- % to give the public a choice of burial locations at times requested by them.
- Grounds, gardens and book of remembrance (crematorium) open 365 days per year (%).
- # of complaints about cemetery grounds per quarter.
- # of gravesites sold.
- # of invoices mailed.
- % of service requests completed within 2 workdays.
- % of inquiries resulting in sale.
- % of invoices mailed out within 3 workdays.
- Satisfaction measures through customer surveys and comments scheme (%)

## **CHIEF EXECUTIVE OFFICER**

- % of citizens satisfied with City's performance (Citizen Survey Results)
- % of citizens satisfied with the City's communication level (Citizen Survey results)
- % ranking the City's Customer Service as satisfactory (according to Citizen Survey results)
- # of contacts to the City's web page
- Overall satisfaction rating of City employees (Annual/%)
- % change in City crime rate
- Quality rating for City employees' customer service (Annual/%)
- Quality rating for City services and programs (Annual/%)
- Rating on City Bond (Aa2/AA/AA+) (future)

## **CLEAN AIR**

- Has the local authority completed a full review and assessment of air quality in its area, including consultation with statutory consultees, in order to determine whether or not an air quality management area has to be designated?
- Levels of benzene, 1,3 Butadiene, carbon monoxide, lead, ozone and sulphur dioxide

## **COMMUNICATION SERVICES**

- % of time that the Microwave System is operational
- Cost of inventory shrinkage

## **GOVERNING BODY (DPRD)**

- # of pieces of legislation processed (perda)
- Citizen requests responded to within 24 hours of receipt
- Cost per household for DPRD budget
- # of ADEKSI meetings attended by DPRD members each year
- # of days to respond to citizens' correspondence when additional response is directed by the head of the DPRD.
- # of DPRD legislative agenda packets posted on local bulletin boards or to the Internet within 48 to 72 hours prior to a DPRD or DPRD Committee meeting
- # of hits to the web site for DPRD meeting agendas and minutes
- # of public forums held in DPRD Members' districts annually
- # of technical and personnel development training classes attended by DPRD members.
- % of citizen concern items responded to within 10 days of the day received
- % of DPRD and Committee agendas that are posted on local bulletin boards and the local government's web site at least three days in advance of the meeting
- % of DPRD and Committee meeting minutes that are posted on local bulletin boards and on the web site within six weeks following the meeting
- % of reports from the DPRD's analysts that are posted on local bulletin boards or on the web site at least 72 hours prior to a Committee hearing
- % of respondents who approve/strongly approve the job performance of the Mayor /Bupati and DPRD in a community survey
- % of written requests that are answered within 24 hours of receipt

## **GOVERNING BODY - DPRD MEASURES BASED ON CITIZEN SURVEYS**

For the indicators below, goals and objectives for each area should be developed.

Then, a citizen survey should be done, and %s used.

Community development: % of citizens satisfied with DPRD's performance

Customer service: % of citizens satisfied with DPRD's performance

Economic development: % of citizens satisfied with DPRD's performance

Effective transportation: % of citizens rating this goal as important

Financial Management: % of citizens satisfied with DPRD's performance

Financially sound city: % of citizens rating this goal as important

Governance: % of citizens satisfied with DPRD's performance

Intergovernmental relations: % of citizens satisfied with DPRD's performance

Public safety: % of citizens satisfied with DPRD's performance

Quality neighborhoods: % of citizens rating this goal as important

Strong local economy: % of citizens rating this goal as important

Strong partnerships: % of citizens rating this goal as important

Youth: % of citizens satisfied with DPRD's performance

## **GOVERNING BODY (DPRD) SECRETARY**

Average # of days to process a business license

Information and requests for information

- # of comments transcribed that were received through the CEO and DPRD's Comment line, within ten hours from log-in time
- # of DPRD Formal meetings for which agendas and minutes are prepared
- # of CEO and DPRD meetings attended as the official scribe
- # of applications for appointment to city boards, commissions and committees
- # of applications per Government Academy class
- # of audits completed
- # of campaign finance reports (CEO and DPRD candidates) reviewed and processed
- # of City records microfilmed annually
- # of City records microfilmed for retention and retrieval (future)
- # of completed requests for assistance and information from the Mayor and DPRD and Chief executive officer
- # of Contracts processed annually per full-time person equivalent
- # of DPRD meetings
- # of employees trained in computer and office automation
- # of legal advertisements published
- # of meeting minutes and verbatim transcripts for boards, commissions, and committees transcribed within 30 days of meeting or request
- # of meeting minutes and verbatim transcripts for CEO and DPRD meetings transcribed within 30 days of meeting or request
- # of meeting notices and agendas posted within required time frames
- # of official city documents processed in accordance with city and state/province law within 30 days of receipt
- # of seminars conducted
- # of Special DPRD Permits processed annually per full-time person equivalent (FTE)
- # of water bills and other items mailed
- Ordinances and resolutions (perda) processed within 7 working days after DPRD meeting
- % information request processed within a one-day turnaround and to the customer's satisfaction
- % of Chief executive officer referrals completed
- % of copies of DPRD-approved documents distributed within three days
- % of meeting requirements met
- % of Records Center service actions completed to customer's satisfaction
- % of records requested that are available within one working day
- % of requests from DPRD completed
- % of time minutes are ready for approval the following meeting and are approved without amendment(s)
- % of transcription and distribution of comments on the DPRD's Citizen Comment Line completed within ten work hours
- % of documents archived within the required time frame
- % of records destroyed in accordance with retention schedule
- Post DPRD agenda on Webpage by 3:30 p.m. on Friday (this assumes DPRD meets weekly)
- Post DPRD minutes on the web site within twelve hours of approval



Postage savings realized by presorting mail (\$)  
Prepare accurate minutes of DPRD meetings for approval within 2 weeks  
Process, index, jacket, and distribute to customers 90% of documents in 3 days  
Provide 24 hour response to records requests with a 3 day turn around for information with the exception being extremely large research requests  
Turnaround times for routine printing jobs (# of days)  
Turnaround times for rush printing jobs (# of days)

## ***ECONOMIC DEVELOPMENT***

# of assistance programs  
# of company relocations/expansions  
# of existing companies participating in Taiwan office [sample of an off-site office to bring industry or tourism to a city]and other product promotional events  
# of international marketing trips  
# of investments secured  
# of matchmaking events  
# of prospect inquiries  
# of prospect trips  
# of prospects contacted  
# of square. meters of new investments (in millions)  
Add 5,000 new jobs from attraction of new and expansion of existing businesses. (non-retail)  
Add or expand 75 targeted businesses  
Add or expand 75 targeted businesses to City.  
Amount of capital investment made by companies receiving incentives.  
Attract or expand 12 companies and generate 1,200 new jobs through business incentive program.  
Cost per Rp 10,000,000 of added tax base  
Cost per job brought  
Development agreements managed.  
Rupiah generated by new or existing revenue sources (cumulative/\$)  
Rupiah of tax base added  
Hectares of city-owned property managed for lease or sale.  
Increase economic development capital investment by 40 trillion rupiah from the expansion of existing businesses. (non-retail)  
Increase economic development capital investment by 400 trillion rupiah from the attraction of new businesses. (non-retail)  
Increase non-residential tax base by 30 trillion rupiah annually.  
Increase the average wage per employee by 12% at the end of 4 years as measured in constant rupiah.  
Loan applications approved for the Expand Collateral Loan Assistance Program.  
Maintain and/or improve City loan/bond ratings  
Maintain rate of return for City in economic development incentives at Rp 50,000.  
# of companies receiving incentives.  
# of foreign firms operating in the area.  
# of jobs brought

- # of jobs created or retained by companies receiving incentives.
- # of jobs created/retained within the City with which the department assisted.
- # of new businesses
- # of people obtaining qualifications
- % of contracts renewed prior to expiration.
- % of business survey respondents rating City excellent/above average as a location for their business
- % of businesses receiving proposals that are located in City
- Private funds through partnerships
- Rate of return in economic development incentives (annual/Rp)
- Residents' value rating (annual/%)
- The % of new businesses surviving two years after start up
- Total # of business owners receiving Neighborhood Business Revitalization loans
- Total office /retail/industrial space available in target development areas
- Value of goods sold (in trillions Rp)

## ***EDUCATION ADMINISTRATION***

- Access (excluding transport) - expenditure per pupil
- Annual % of school overcrowding in public schools
- Average national test points score of pupils in schools maintained by the authority completing Year 11
- Central administration - expenditure per pupil
- Education Standard Spending Assessment passed on to Local Schools budget
- Expenditure per head on adult education
- Individual schools budget as % of local schools budget
- Net expenditure per pupil: Nursery & Primary pupils under 5
- Net expenditure per pupil: Primary pupils aged 5 & over
- Net expenditure per pupil: Secondary pupils aged 16 & over
- Net expenditure per pupil: Secondary pupils under 16
- Net youth service expenditure per head of population in the Youth Service target age range
- # of courses offered
- # of enrolments on all adult education courses provided and secured by the local authority per 1,000 adult population
- # of leaflets distributed
- # of presentations made
- # of press releases issued
- % annual student attrition
- % increase in delegated funding per pupil
- % of primary school places to be allocated by 19 May
- % of secondary places to be allocated by 28 February
- Proportion of pupils in schools achieving at grade G or equivalent
- Proportion of pupils in schools achieving at grades A - C or equivalent
- Proportion of pupils in schools achieving Level 4 or above in Math
- Proportion of pupils in schools in the previous summer achieving Level 4 or above in English

School improvement - expenditure per pupil  
Special educational provision - expenditure per pupil  
Total public school enrollment

### ***EDUCATION JUNIOR AND SENIOR HIGH SCHOOLS***

% of secondary schools with 10% or more surplus places.  
% of secondary schools with 25% or more surplus places.  
% of surplus places in secondary phase.  
High School graduation rate  
Inverse of the High School drop-out rate  
# of pupils permanently excluded during the year from schools maintained per  
1000 pupils: Secondary schools  
# of schools per student  
# of unfilled places in all secondary schools with surplus capacity as a % of total  
secondary capacity  
% of students who are multi-lingual  
% annual drop-out rate for public High Schools  
% of 15 year old pupils in schools maintained by the authority achieving at Grade  
G or equivalent  
% of absences in secondary schools that are unauthorized absences  
% of half days missed due to unauthorized absence in secondary schools  
% of pupil sessions lost to all absence in secondary schools  
% of pupils in excess of capacity in secondary schools  
% of secondary schools with 25% or more (and at least 30) of their places un-  
filled  
Proportion of pupils in schools achieving Level 4 or above in the Mathematics  
test  
Proportion of pupils in schools achieving Level 4 or above in the English test  
Ratio of the City graduation rate to the province graduation rate  
Total # of schools with Arts are Basic [or any special program] curricula  
Total # of students enrolled in Arts are Basic[or any special program] curricula  
Total # of youth participating in Arts Street [or any special program]

### ***EDUCATION KINDERGARTEN & ELEMENTARY SCHOOLS***

% of primary schools with 10% or more surplus places.  
% of primary schools with 25% or more surplus places.  
% of surplus places in primary phase  
Children under five in local authority maintained schools as a % of all three and  
four year olds  
# of pupils permanently excluded during the year from schools per 1000 pupils:  
Primary schools  
# of unfilled places in all primary schools with surplus capacity as a % of total  
primary capacity  
% of 3-year-olds who have access to a good quality free early years education  
place in the voluntary, private or maintained sectors  
% of all four year olds in nursery

- % of half days missed due to unauthorized absence in primary schools maintained by the authority
- % of primary school classes with 21 to 30 pupils
- % of primary school classes with less than 21 pupils
- % of primary school classes with more than 30 pupils in Years reception to two inclusive
- % of primary school classes with more than 30 pupils in Years three to six
- % of primary schools with 25% or more of their places unfilled
- % of half days missed due to unauthorized absence in primary schools maintained by the authority
- % of permanently excluded pupils attending between 10 and 25 hrs per week of alternative tuition
- % of permanently excluded pupils attending less than 10 hrs per week of alternative tuition

## ***EDUCATION -OUT OF SCHOOL***

### **ADULT EDUCATION**

- 85% of citizens report that they have easy access to adult learning opportunities
- Citizens report 90% satisfaction rate with opportunities for life-long learning in the community
- # of adults enrolling in adult education courses
- % of adult education hours for which students attended
- The # of enrolments on all adult education courses provided and secured by the local authority per 1,000 adult population

### **YOUTH**

- # of detached youth work contacts
- Total attendance in youth centers
- 13 - 19 attendances at youth centers

### **SPORTS AND CULTURAL**

- Cost per visit to public libraries
- Net cost per museum visit/usage
- # of authority playgrounds/play areas per 1,000 children under 12
- # of books/other items issued authority's libraries per head of population
- # of museums operated or supported by the authority
- # of physical visits per head of population to public libraries
- # of pupils visiting museums and galleries in organized school groups
- # of those museums registered under the national museum registration scheme
- # of visits to/usages of museums per 1,000 population
- % of playgrounds/play areas that conform to national standards for local un-equipped play areas

% of playgrounds/play areas that conform to national standards for local equipped play areas  
% of playgrounds/play areas that conform to national standards for larger, neighborhood equipped play areas  
Spend per head of population on cultural and recreational facilities and activities  
Swimming pools and sports centers: Net cost per swim/visit  
Swimming pools and sports centers: # of swims and other visits per 1,000 population

## **AFTER SCHOOL**

Maintain or increase the # of after-school programs focused on developing computer skills  
Increase the # of after-school programs striving to develop computer skills  
Enhance the amount of funding acquired through new partnerships and sources  
Increase the # of volunteers in after-school programs

## ***EDUCATION VOCATIONAL SENIOR HIGH SCHOOLS***

90% of targeted industry will be satisfied with the work force preparedness provided by educational service providers  
100% of targeted industries have enough qualified workers, 70% of which are City residents  
95% of those who graduate from General Educational Development get a job, go on to further their education or meet stated personal objectives  
90% of those enrolled in literacy programs can read at levels above the national standard upon leaving the program

## ***ELECTIONS***

# of elections  
% of time there is at least one qualified applicant submitted to DPRD per vacancy  
# of DPRD regular and special elections held  
Election time from poll closing to final results in Citywide election  
# applications  
Election time from poll closing to final results in city election  
Reduction in the staff time required per election

## ***EMPOWERMENT OF WOMEN***

Total rupiah value of City awards to MBE/WBE Firms.  
% of City MBE/WBE awards compared to the annual goals.  
# of City-certified MBE/WBE businesses enrolled.  
# of firms attending MWBE (Minority and Women Business Enterprise Program) training functions.  
% increase in certified MWBE firms.  
Actual utilization of total rupiahs spent by City with all MWBE firms.

Increase the participation rate of women in the city workforce.  
% of under \$5,000 competitive procurement awards to certified MWBE vendors.

## ***ENGINEERING***

### **SURVEY AND MAPPING**

Average cost per area plans analyzed.  
Monitor time scale for preparation to insure minimum time between commencement and completion of guidance. Aim for one month from draft to adoption.  
Reduce production cost to allow for enhanced print runs. (%)  
# of data requests completed.  
% of data requests completed within the agreed upon timeframe.  
% of planned surveys completed.  
Staff cost per data request completed

### **PLANNING**

Engineering studies - calendar days to complete initial reviews.  
Linear feet of sidewalk requested.  
# of curb ramps constructed.  
# of curb ramps requested.  
# of linear feet of sidewalk constructed.  
# of section 38 agreements [or any special program] in progress  
# of section 38 agreements: [or any special program] roads adopted  
% of construction projects completed within original budget and on time.  
% of pedestrian crossings with facilities for disabled people.  
Project designs completed within the original contract time.  
Send plans for floodplain to consultant within working days.  
Timely comments on planning applications

## ***FACILITIES***

Average expenditures per measurable program  
Average expenditures per participant for measurable programs  
# of participants per measurable program  
% of households reporting participation in special programs and activities on community surveys  
% of participants rating facility as a 4 or 5 on user surveys  
Revenue as a % of operating expenditures

## ***FINANCE ADMINISTRATION***

% of time annual report prepared and distributed within 60 business days after year end  
% of time citizen inquiries answered quickly and courteously  
Investment diversification ratios in compliance  
Investment pool yield (interest earnings yield) comparable to other area local governments

Meet all deadlines related to loans and other sources of revenues  
Operation and maintenance expense per square foot for all facilities maintained  
by financial administration  
To meet deadlines for production of budget monitoring reports to DPRD (%)  
To meet deadlines set out in the budgetary process for presentation of reports  
and information to DPRD (%)  
Turnaround time for accounts payable within the deadline (in calendar days)

### ***FINANCIAL REPORTING***

APEKSI/APKASI Award for Excellence in Financial Reporting received  
Comprehensive annual performance report published by January 31.  
Financial reports distributed no later than 10 business days after month end.  
Financial statements made available to public (%)

### ***FIRE ADMINISTRATION***

A maximum of customer complaints and/or public safety service professional  
complaints of less than one % of the total call volume  
Ambulance billing/collection as compared to benchmark average (example:  
115%).  
Assist new businesses and industries with disaster plans (#).  
Citizen/household contacts re: Emergency Management Information (#).  
Emergency Management exercises (#).  
Expenditure per head of population  
Fund, maintain and operate department functions 24/365 (%).  
Increase the # of volunteer firefighters by 25%  
# of fire firefighters per 1000 population (Target less than 1.0).  
# of in-service training courses.  
# of in-service training hours: Supervisory and Non-supervisory.  
# of plan reviews.  
# of program improvements (#).  
# of trained fire recruits.  
% of firefighters who are EMTs (Emergency Medical Technicians).  
% of plan reviews completed in 10 days.  
% of trained fire recruits graduated.  
Respond to 100% of customer complaints or information requests within 48 hrs.  
(%)

### ***FIRE FIGHTING OPERATIONS***

% of required training complete.  
Hold residential fire-related deaths to less than two per year  
Incidents requiring "on demand" medic.  
Medic units meeting province or national requirements.  
Mutual aid given (#).  
Mutual aid received (#).  
# of accidental fires in dwellings confined to room of origin  
# of accidental fires in dwellings per 10,000 dwellings

# of calls to malicious false alarms per 1,000 population  
# of deaths and injuries arising from accidental fires in dwellings per 100,000 population  
# of false alarms caused by automatic fire detection apparatus per 1,000 non-domestic properties  
# of primary fires per 10,000 population  
% of active fire calls where extinguishing agent is applied within 9 minutes of alarm time.  
% of fire confined to room or area of origin.  
% of calls for fire at which national standards for attendance were met  
Reduce fire injuries from 13.3 to 11 per 100,000 population per year  
Response time within eight minutes (%).  
Response time within four minutes (%).  
Total # of fire calls (excluding false alarms) per 10,000 population

### ***FIRE INFRASTRUCTURE AND FACILITIES***

# of engine company inspections.  
Average annual maintenance cost per fire truck  
Average time per year a fire truck is unavailable due to a) failures and b) maintenance activities  
Average time per year a fire truck is unavailable due to failures  
Maximum response time of truck #25.  
Maximum response time of truck #27.  
% of situations where adequate backup equipment not immediately available.  
% of emergency repairs completed within 48 hours  
% of users rating maintenance procedures and repairs as excellent/very good

### ***FIRE PREVENTION***

# of fire prevention inspections.  
# of investigations.  
# of training classes held.  
3,500 annual inspections due/completed (%).  
Average time taken to complete inspections for fire safety certificates  
Cost per public contact.  
Direct rupiah loss from fires per Rp 1,000,000,000 of property served.  
Fire prevention cost per Rp 1,000,000,000 of property protected.  
Maintain cycle time for fire inspection process at 12 days  
# of incendiary/suspicious fires per 1,000 households.  
# of residential structural fires per 1,000 households.  
# of violations per occupancy inspected.  
% of fire code violation cases cleared on first re-inspection  
% of sites inspected yearly.  
Response time for certificate of occupancy requests.  
Response time for fire company inspections referrals.



## ***FIRE PROMOTION AND OUTREACH***

Corrective program for juvenile fire setters

Maintain the % of customers who feel safe that the fire dept protects them in case of fire at 94%

# of programs for disaster preparedness and recovery for homes and businesses

# of Business presentations.

# of Citizens CPR and first aid classes conducted.

# of citizens receiving CPR certification.

# of incentives to encourage the installation of residential fire suppression systems in new and existing homes

# of Life safety programs. [or any special program]

# of programs utilizing public safety and community resources to promote self-help for fire and rescue

## ***FIRE SUPPRESSION***

Average call processing time.

Average % of structure valuation loss due to fire.

Fire suppression response times will improve by five % points

Response time of eight minutes or less for 90% of service calls

No more than 1% of total calls can exceed the response time of ten minutes

% of in service time less < 4 minutes (emergency calls only).

% of on scene time < 8 minutes (emergency calls only).

% of respondents rating department good/excellent on community survey.

Total cost per Rp 1 trillion of property protected.

Total cost per fire call.

Total cost per household.

## ***HEALTH ADMINISTRATION***

Annual # of sections of Dept. of Health rules reviewed.

Cost per service area overseen

# of general practitioners (doctors) who have access to the internet.

# of health service area objectives accomplished in a year

# of service areas overseen

% of health service area objectives accomplished

% of staff receiving initial city compliance program training.

% of employees with access to computers, e-mail and Internet.

% of mandated safety and other training classes completed.

% of objectives completed

% of projects completed

% of reporting deadlines met

% of training classes facilitated or completed

Variance of current year's expenditures to actual expenditures

## ***HEALTH INSPECTIONS***

Average cost per citrus maturity inspection

Cost per service area overseen.

Incidence rate of food borne illness per 100,000.  
 Monitor and process all documents in a timely manner.  
 Net spending per head of population on environmental health & consumer protection

- # of food service inspections
- # of fruit, vegetable, peanut and nut shipment certificates issued
- # of lots of citrus fruit tested for quality standards
- # of media calls/requests responded to
- # of media contacts
- # of objectives completed.
- # of pounds of fruits, vegetables, peanuts and nuts inspected
- # of projects completed.
- # of public health events/programs.
- # of reporting deadlines met
- # of service areas overseen
- # of training classes facilitated or completed

Participation in educational programs

- % of egg inspections in full compliance with standards
- % of grain inspections in full compliance
- % of media calls responded to within 15 minutes
- % of media calls/requests responded to
- % of employees with access to computers, e-mail and Internet.
- % of food premises inspections that should have been carried out that were carried out for High-risk premises
- % of food premises inspections that should have been carried out that were carried out for other premises
- % of food service inspections

Reduce the # of cases of food poisoning from city restaurants.  
 Reduce the # of restaurants with critical violations.

## ***HEALTH PHARMACIES***

- Prescribing levels of antibacterial drugs
- Prescribing levels of generic drugs
- Prescribing levels of ulcer-healing drugs
- Ratio of pharmacy quality indicator benchmarks achieved

## ***HEALTH PREVENTION AND ERADICATION***

- Annual # of emergency admissions for people suffering from chronic conditions such as asthma and diabetes.
- Closure of 100% the shellfish growing areas within two hours of receiving high toxin test results.
- Incidence rate of food borne illness per 100,000.
- Increase the % of residents who feel protected from public health threats.
- Increase to 2,224,160 the # of doses of vaccine distributed to local health jurisdictions for immunization of children 0-18 years.

Increase to 5 the # of laboratories converting to electronic reporting of infectious disease results to local and state health agencies.  
Increase to 83% the immunization rate of 2-year-olds.  
Net spending per head of population on environmental health & consumer protection  
# of children immunized against measles, mumps, rubella and diphtheria.  
# of people vaccinated against flu.  
The incidence rate of AIDS per 100,000 population.  
The incidence rate of HIV per 100,000 population.  
The incidence rate of newly reported Chlamydia, Gonorrhea and Syphilis in the community served per 100,000 population.  
The incidence rate of newly reported tuberculosis cases per 100,000 population.

### ***HEALTH PROGRAM DEVELOPMENT***

Increase to 20 the # of Dept. of Health process improvement teams.  
Increase by 10% the yearly # of inquiries from the general public to check standards, credentials, and/or status of compliance for health care providers, facilities and services.  
The # of general practitioners (doctors) who have access to the internet.  
# of public health events/programs.  
Increase the % of children restrained in a car seat when involved in an automobile crash.  
Participation in educational programs

### ***HEALTH SERVICES***

Annual # of emergency admissions for people suffering from chronic conditions such as asthma and diabetes.  
Average communications call-processing time (from time stamp of call initiation to time stamp of dispatch of ambulance).  
Cost per Adult and Aging/Long Term Care client  
Customer satisfaction rating of at least 90 %.  
Increase the # of families linked with a health care provider.  
Increase the % of babies of a healthy birth weight.  
Increase to 61% the proportion of women participating in the WIC program who breastfeed their babies for at least 5 weeks.  
Increase to 65% the proportion of health care facility and services inspections completed within established timelines.  
Increase to 80% the proportion of X-Ray facilities in compliance with protection and safety regulations.  
Increase to 90% the proportion of health care facilities and provider complaints, alleging serious threat to life and safety, resolved within established timelines.  
Increase to 90% the proportion of parents with young children (ages birth to 3) sent CHILD Profile health promotion materials.  
Levels of sexual health as measured by the # of diagnoses of gonorrhea.  
# of Adult and Aging/Long Term Care clients served  
# of children immunized against measles, mumps, rubella and diphtheria.

# of children under 2 receiving services  
 # of dental encounters (where services are provided)  
 # of immunizations  
 # of laboratory tests  
 # of patients waiting more than 26 weeks for an outpatient appointment.  
 # of patients waiting more than 6 weeks for an outpatient appointment.  
 # of patients waiting over 18 months for inpatient treatment.  
 # of patients waiting over 2 months for inpatient treatment.  
 # of people vaccinated against flu.  
 # of pregnant mothers enrolled in health services in first trimester.  
 # of senior citizens receiving services  
 # of women screened for cervical cancer.  
 % increase in annual medical and dental encounters.  
 % increase in unduplicated patient count.  
 % of Adult and Aging/Long Term Care clients satisfied with services  
 % of clients served home-delivered meals who score at or below a moderate nutritional risk category  
 % of clients who remain in their homes after one year of services  
 % of children under 2 receiving services  
 % of dental encounters (where services are provided)  
 % of immunizations  
 % of laboratory tests  
 % of patients able to see a General Practitioner within 48 hours.  
 % of patients with full cardiac arrest from medical causes (excluding trauma) delivered to a medical facility with a pulse.  
 % of pregnant mothers enrolled in health services in first trimester.  
 % of Priority One (life-threatening) calls responded to in less than 10 minutes.  
 % of senior citizens receiving services  
 Reduce by 3% per year rate of unintended pregnancy over the next three biennia.  
 Reduce the # of case of meningitis, pertussis, tuberculosis and syphilis.  
 Reduce the % of children with current and past tooth decay.  
 Surgery rates for coronary heart disease (per million population).  
 Teen pregnancy rate (per 1,000 females ages 13-17).  
 Teenage pregnancy measured as conceptions under the age of 18.  
 Waiting time (in days) for pregnant mother and child health services

### ***HEALTH SEXUALLY TRANSMITTED OR COMMUNICABLE DISEASES***

% of health sexually transmitted disease questions answered at time of call or office visit  
 Levels of sexual health as measured by the # of diagnoses of gonorrhea.  
 # of cases of syphilis, etc.  
 The incidence rate of newly reported tuberculosis cases per 100,000 population.  
 The incidence rate of newly reported Chlamydia, Gonorrhea and Syphilis in the community served per 100,000 population.  
 The incidence rate of AIDS per 100,000 population.

The incidence rate of HIV per 100,000 population

### ***HOUSING ADMINISTRATION***

Achieve maximum expenditure against capital budget.

# of information and assistance requests.

Cost per project

Cost per project/partnership

# of projects/partnerships

Total # of persons assisted through the Single Family Rehabilitation and Emergency Home Repair programs [or any special program]

### ***HOUSING AND LAND CONVEYANCE***

# of information and assistance requests for Neighborhood Integrity. [or any special program]

Anticipated # of households served.

User satisfaction survey covering issues of accessibility, staffing issues (helpfulness, etc) and communications/information (understandability, etc.)

Total # of individuals receiving loans through the Single Family Home Mortgage Bond Program for Housing [or any special program]

% of housing that is owner occupied

### **HOUSING STRATEGY**

Reduction of CO2 emissions (in tonnes) achieved through energy efficiency initiatives

Achieve maximum expenditure against capital budget

Fund 120 affordable homes per year

### **HOUSING**

Applicants on the housing register

Applicants housed

Justified complaints about the service

### **IMPROVEMENT GRANTS**

Customer satisfaction with grants provided (# of justified complaints)

Proportion of discretionary budget spent

Completed Home Repairs Assistance Grants [or any special program]

Completed Home in Multiple Occupation grants [or any special program]

Completed Disabled facilities grants [or any special program]

Completed Renovation grants [or any special program]

### **HOUSES IN MULTIPLE OCCUPATION**

Houses in multiple occupation properties brought up to standard (cumulative)

Enforcement actions started

Properties registered on houses in multiple occupation licensing scheme (cumulative)

## ***HOUSING CLEAN/FOUL WATER***

Reduction in CO2 emissions (in tonnes) achieved through energy efficiency initiatives.

Net spending per head of population on environmental health & consumer protection.

% of monitoring events found compliant.

# of information and assistance requests for Environmental Quality.

% inspections/samplings in pretreatment, storm water & liquid waste vs. other

Score against a checklist of enforcement best practice for environmental health standards

Manufacturing released toxic chemicals in pounds per year into the air

# of days of "good" air quality under air quality standards

## ***HOUSING LICENSING DISPUTE RESOLUTION SETTLEMENT AND SUPERVISION***

# of justified complaints about the service.

Does the authority have a written and pro-active strategy to combat fraud and error? (yes/no)

The proportion of unfit private sector dwellings made fit or demolished as a direct result of action by the local authority.

The proportion of private sector dwellings that have been vacant for more than 6 months that are returned to occupation as a direct result of action by the local authority.

% of complaints with staff investigations in less than 48 hours.

% of cases staff initiated vs. citizen complaints.

# of permits issued.

# of code compliance inspections.

# of zoning complaints investigated.

% of zoning complaints investigated.

Satisfaction of tenants of city housing with the overall service provided by their landlord

Ratio of land use mediation cases to rezonings and variances

## ***HOUSING PLANNING***

Fund 120 affordable homes per year.

# of building plans reviewed.

% of new homes built on previously developed land.

Planning cost per head of population.

The # of advertised departures from the statutory plan as a % of total permissions granted.

The # of advertised departures from the statutory plan.

% of applications determined within 8 weeks.  
 The % of householder applications decided within 8 weeks.  
 The % of non-householder applications decided within 8 weeks.  
 Average time taken to determine all applications.  
 # of affordable housing units for families and individuals.  
 Rental assistance provided for low-income residents in the private housing market (#).  
 # of city-owned and operated public housing units for families and seniors.  
 Occupancy rate for public housing units.  
 Increase # of low/moderate income families assisted  
 # of homebuyers assisted  
 # of S.M.A.R.T. [or any special program] housing units certified  
 # of S.M.A.R.T. [or any special program] housing units completed  
 # of units created  
 # of units created/retained  
 # of units retained  
 Median family income as a % of median value single-family home sales price  
 Median family income as a % of annual median value single-family house mortgage payment  
 % of households able to afford the median value single-family house  
 Inverse of the jobs to housing balance  
 Average apartment rental rate in City  
 # of subsidized housing units per person  
 Average annual multi-family housing vacancy rate  
 New housing units relative to new households  
 New multi-family units as a % of total new residential units permitted  
 Single family units as a % of total housing  
 Multi-family units as a % of total housing  
 Annual housing vacancy rate

## ***HUMAN RESOURCES***

# of strategic department administrator meetings conducted  
 # of applications processed  
 # of vacancies filled  
 # of personnel actions prepared  
 # of recruiting contracts executed  
 # of folders retrieved and filed  
 # of Employee Performance Evaluations processed  
 # of phone/written verifications performed  
 # of documents received  
 # of payroll transactions processed  
 # of procurement and financial documents processed  
 # of salary changes  
 # of job description reviews  
 # of salary surveys  
 # of disciplinary actions processed  
 # of grievances processed

# of Step 3 (pre-termination) hearings held  
# of third party arbitrations  
# of promotional applicants tested  
# of fire cadets tested  
# of exams administered  
# of new employee orientations  
# of training participants  
Reduce the # of lost time injury claims.  
Increase the % of labor contract required policies and procedures developed and implemented.  
Conduct 95% of discipline/grievance hearings within contractual timelines.  
Reduce the # of classifications compensated significantly above or below the rate of comparable classifications utilizing an appropriate market strategy.  
% of employees who rate the City as a good place to work  
# of recruitment processes  
Average cycle time of recruitments.  
# of training program participants.  
# of industrial claims filed.  
Employee turnover rate  
Employee ratings of overall job satisfaction  
Diversity representation  
Average time to complete the recruitment process  
Sick leave utilization per 1,000 hours worked  
Lost time injury rate

### ***INFORMATION SYSTEMS***

% of time the enterprise network is available for Computer Aided Dispatch (CAD)  
% of time the enterprise network is available for the financial application  
% of time the Area Telecommunications Network data network is available  
% of help desk calls closed within one day  
Cost of Help Desk per Help Desk call processed

### ***INTERNAL AUDIT***

Audits conducted  
Agencies audited  
Recommendations made  
Recommendations accepted  
Audits per auditor  
Recommendations per auditor  
% of audits completed on time  
% of agencies audited  
% of recommendations implemented

### ***IRRIGATION/ DRAINAGE:***

% of maintenance work orders generated by drainage staff.



Project cost savings resulting from community service workers.  
 Community service workload (hours) by community service volunteers.  
 % of storm water catch basins cleaned.  
 Average cost of street leveling (per location).  
 % of street leveling backlog completed annually.  
 % of catch basins/manholes reviewed and evaluated.  
 Pond flooding events (# of times any pond exceeds the 100 year high water elevation) as a % of the total # of ponds in system.  
 Cost per pond maintained (pond maintenance cost divided by total # of ponds in system.)  
 Storm sewer maintenance cost per system mile (non-pond, non-ditch, non-road culvert maintenance costs.)  
 Average length of time for an unplanned water service outage - not to exceed 5 hours.  
 Water treatment - % of compliance (based on days per quarter) in which all of the reportable regulatory standards are met.  
 % of monthly bacteriological samples in compliance with TNRCC guidelines (100 samples per month.)  
 # of preventive maintenance conducted on pumps and motors per year.  
 % of chlorine residual samples in compliance with TNRCC requirements.  
 # of minor main repair inventory pending per month.  
 % of water leak repairs completed within 7 hours.  
 # of fire hydrants receiving preventive maintenance per year.  
 Limit to one the average annual # of wet weather overflows at controlled and monitored Combined Sewer Overflow sites.  
 Maintain counts of adult salmon and steelhead populations in urban creeks (baseline: 143) and continue to assess these #s to determine status of restoration efforts.  
 Yearly reduction in water use (acre - feet) through conservation and reuse.  
 Yearly peak day reduction in water usage - gallons per day (GPD).  
 Experience zero acute water quality public health incidents per year.  
 Restore service for at least 95% of unplanned water outage incidents in 10 hours or less.  
 # of breaks in water mains per 100 kilometers of water main pipe in a year.  
 Weighted # of days when a boil water advisory issued by the Medical Officer of Health, applicable to a municipal water supply.  
 % of necessary service repairs performed prior to next scheduled read.  
 % of customers affected by service disruptions due to repairs.  
 Average length of time per service disruption.  
 % of disruptions with service restored within 4 hours.  
 # of disruptions per 1,000 customers.  
 # of times water sprinkling is banned.  
 Average length of sprinkling ban.

## **LAW**

% of lawsuits filed in 1999 and thereafter processed  
 % of legal documents drafted within two weeks

- % of requests responded to within five days
- % of lawsuits disposed or settled
- % of legal documents completed within two weeks
- % of property damage losses collected
- # of trial/appellate deadlines missed
- # of continuing legal education hours for ethics
- # of professional organizations
- # of new class actions (utility)
- # of amicus curiae briefs
- # of DPRD, Commission meetings
- # of hours of continuing legal hours
- % of civil litigation cases resolved in favor of the City or within established settlement range
- % of clients reporting that advice provided by attorneys is clear, relevant and timely.
- City's average in-house rate per hour (including overhead costs) compared to average hourly rate for outside counsel services
- Employee turnover rate
- % of assets recovered
- % of contracts processed in 10 days
- % of personnel appeals mediated by City
- # of reports on turnaround time provided to agencies
- Average reduction in total processing time
- Increase the # of municipal court matters submitted for alternative dispute resolution and restorative justice resolution
- Work toward efficiency in the # of cases or projects handled by the prosecution staff per person work/hour
- Strive to ensure that the City's insurance premiums and claim payouts are low compared to other front range cities
- Strive to ensure that the City's payouts and attorney's fees are paid out at no greater than historical (adjusted) levels
- Disposition rate
- Age to Case Disposition (90-day ideal)
- % of warrants issued within 72 hours warrants served
- # of Community Service hours provided to other departments
- Accuracy (% of transactions)
- # of hours of training provided

## **MAYOR**

- % of DPRD priorities accomplished or on track to accomplish by target date
- % of citizens indicating city is headed in the right direction.
- % of citizens rating city as “good” or “excellent” place to live
- Total budget managed in trillions
- # of full-time persons (equivalents) FTEs managed
- Performance targets managed city-wide
- Citizens concerns requiring action (monthly average)
- DPRD matters requiring action (monthly average)

DPRD packet items prepared (monthly average)  
Average days to respond to citizen concerns  
Average days to respond to DPRD matters and correspondence.  
% of DPRD satisfied with Mayor's handling of DPRD matters and correspondence items  
% of DPRD packet items submitted to CEO requiring revision or correction before being sent to DPRD  
% of performance targets achieved by City agencies and departments  
% of citizen concerns responded to within 14 days  
% of DPRD items and correspondence items responded to within 14 days  
% of DPRD packet items sent out completely accurate and on time

## ***PARK MAINTENANCE***

% of time service requests replied to within 24 hours.  
% reduction of safety related accidents due to training and awareness.  
% good rating or better on mechanic staff service report by internal survey.  
% of playground safety inspections with acceptable rating.  
% of unsafe pieces removed within 24 hours.  
Frequency per week of toilet inspections.  
Total gallons of herbicide applied per acre.  
# of trees pruned annually.  
% of fountain repairs completed  
# of general parks repairs completed.  
# of building repairs completed.  
# of complaints about parks per quarter.  
# of complaints about playgrounds per quarter.  
% rating overall parks facilities as "good" or "excellent."  
Water conservation in parks - annual AF of water savings derived from water conservation methods  
Total # of recreational and after school programs per population under age 16  
% of native areas covered by weeds.  
% of trees mulched at base with wood chips.  
Total plant production.  
Net change in # of trees on City-managed land.  
Net change in the quality and/or quantity of locally important natural/semi-natural habitats.  
Direct consultation with local people (%).  
Publicity of forthcoming schemes (# per year).  
Implementation of agreed scheme within budget and to time where appropriate (%).  
% of landscape schemes approved without need for extensive revision.  
Utilization of whole budget (%).  
Issue of publication leaflets (#).  
# of new Adopt-A-Park sites.  
% increase in environmental program participation at City lakes.

## ***PARKS ADMINISTRATION***

- % of customer service ratings good or better on special event surveys.
- % of projects completed on time and within budget.
- % of time web page information updated within 2 weeks.
- % increase of residents familiar with recreation programs (per survey)
- % increase training in division.
- % of time "Leisure Connections" (department newsletter) delivered on time with fewer than 3 mistakes.
- Customer satisfaction with facilities (%).
- Net operating and maintenance per capita.
- Gross operating and maintenance per capita.
- # of summer youth workers in Parks and Recreation
- # of employee work days lost
- Increase customer service rating of summer recreation program from 95% to 98%
- Increase the safety rating of neighborhood parks from 88% to 89%
- Increase quality service rating for Recreation/Athletic Facilities from 85% to 86%

## ***PARKS PLANNING AND DEVELOPMENT***

- Parkland hectares per 1,000 population
- Hectares per Full-time equivalents (FTEs)
- % of projects completed on time and within budget.
- # of additional hectares developed or restored.
- Three urban parks hectares per 1,000 population.
- City Beautiful cost-benefit ratio
- Cost recovery at recreation centers.
- Maintain cost recovery ratio (from user fees) for the Recreation Division at 57%
- % of community survey respondents rating park and recreational facilities as excellent or good
- % of households using facilities frequently or occasionally (from community survey)
- Miles of trails per 1,000 households
- Administrative cost - staff hours and engineering fees per \$100,000 of park development expense (for bid projects measured at the time of project acceptance)
- Hectares of parkland per capita
- Linear feet of trails per capita
- Average # of recreation centers per neighborhood
- Attendance at recreation centers per population
- Average # of community facilities per neighborhood
- Total # of schools with grounds that double as neighborhood parks

## ***PLANNING***

- % of Planning Commission/DPRD ratings of plan review as excellent/above average
- % of Planning Commission/DPRD ratings of special studies as excellent/above average
- Average final cost as a % of initial estimated cost.
- % of complaints acknowledged in five working days.
- Writing to complainant within 15 working days advising what action is intended.
- Respond to all written inquiries for information within 10 working days.

## ***PLANNING – SPATIAL***

- % of plans processed within 60 days.
- % of plans processed within 120 days.
- % of studies completed on time.
- # of annual area plans reviewed each year.
- % of area plans containing core policy development applied to land use
- Respond to 100% of consultations on planning applications within 10 working days.
- Score against checklist of planning best practice.
- Planning cost per head of population

## ***PROCUREMENT***

- % of customer service surveys graded satisfactory or better
- Sponsoring a quarterly procurement procedures class with a satisfactory or above rating.
- Ongoing procurement system training classes.
- Depts. Trained on internet access to state/province or national contract information.
- # of bids rejected or re-bid.
- Increase the % of purchase requisitions under \$10,000 processed within 24 hours from 67% to 79%.
- # of agencies with access to online purchase requisitioning
- # of requisitions processed
- # of vendor contracts processed
- Average # of days to process open market requests (Rp 50,000,000 or below)
- Average days to process informal requests (Rp 50,000,001 to Rp 240,000,999)
- Average days to process formal requests (Rp 250,000,000 and over)
- # of requisitions returned for corrections
- % of requisitions returned for corrections
- # of agencies with procurement credit cards
- # of agencies with travel credit cards
- % of vendor solicitations successfully awarded without delay due to re-bids or protests

## ***PUBLIC WELFARE***

Adult and medical services: continue to meet or exceed State standards of processing 70 % of public assistance requests within recommended times by providing improved training and by improving staff retention.

Adult and medical services: % of public assistance requests processed within state guidelines

Children needing public assistance - % of children growing up at or below 185% of the national poverty level

Decrease # of substantiated cases of abuse, neglect, and exploitation of children, adults and the elderly by 25% each per 1,000 population.

Decrease the # of adult drug and alcohol arrests by 10% to 5.38 and 15.62 per 1,000 adult population and the # of juvenile drug and alcohol arrests to 1.33 and 1.90 per 1,000 youth population.

Decrease the # of homeless residents in the city by 15%.

Ensure 80% of elderly and persons with disabilities identified as being at-risk receive services to enhance their ability to remain independent.

Ensure outstanding customer service by city employees so that all Human Services agencies have at least 90% of clients rating their service as favorable.

Food stamp error rate (%)

Food stamps: provide quality service to clients by achieving an error rate of 5.9 % or less through training and quality control.

Help 20% more low income families secure assisted living units and affordable housing units.

% of staff trained

Public assistance - inverse of the ratio of average # of individuals served by department of human services per capita

Reduce juvenile arrests per 1,000 youth population to less than 23.

Reduce the # of at-risk youth to no more than three out of every 1,000 youth who enter juvenile correctional facilities, State psychiatric hospitals, or out-of-county residential facilities each year.

Total # of children served by the Family and Children's Division - Child Welfare Legal Unit

## ***REVENUES***

### **DEPARTMENTAL MANAGEMENT**

% of common forms made available via the Internet

% of growth in "hits" on department web site

% of growth in transactions completed via the Internet

% of customers rating City Payment Center and Information Counter overall as excellent or good in customer surveys

Maximum # of days before e-mails to the department are answered

## PAYMENT PLANS FOR CUSTOMER ASSISTANCE

Emergency medical services (# of payment plans)

Property (# of payment plans)

## CASH INVESTMENTS

Accuracy rate of forecasting of cash on hand)

## DELINQUENT REVENUES

Amount of revenue collected on delinquent business taxes in trillions

# of escrow/bankruptcy claims filed

## PROPERTY TAX/LICENSING

Combined delinquency rate of secured and unsecured property taxes

Kota or kabupaten's rank among province local governments in property tax collections

% of collection - current

Rupiah collected (in billions)

## BUSINESS TAX

Cost as % of total revenue generated

Revenue collected from delinquent business tax accounts (in trillions)

% of collectors who meet monthly collection revenue goal (delinquent business tax only)

# of businesses registered after being identified from external lists

Unsecured personal property tax delinquency rate

% of increase in revenue from sales of city surplus property

## VERIFICATION, ARREARS AND OBJECTIONS

# of payment plans for customer assistance: emergency medical services

# of payment plans for customer assistance: property tax

# of additional bills requested: tax accounts

# of additional bills requested: emergency medical services accounts

# of additional bills requested: Insurance co/attorney

# of additional bills requested: Individuals

Emergency medical services billing: % of collection

Emergency medical services billing: rupiah collected

# of tape payments processed (tax)

Rupiah amount (in trillions)

Emergency medical services /rejected insurance claims: incomplete information

Emergency medical services /rejected insurance claims: additional information needed

## **SANITATION**

Total tonnage of household waste - % recycled.  
Total tonnes of waste collected per household that was recycled  
Total tonnage of household waste - % composted  
The cost per kilometre of keeping relevant land, for which the local authority is responsible, clear of litter and refuse  
Cost of waste collection per household  
% of people satisfied with cleanliness standards  
% of population served by a kerbside collection of recyclables or within 1 kilometre of a recycling centre  
Kg of household waste collected per head  
% of people expressing satisfaction with Recycling Facilities

## **STREET CLEANING**

Net spending per head of population on street cleaning

## **STREET LIGHTING**

Average cost of a working streetlight.  
The % of street lamps not working as planned.  
Average cost of maintaining street lights.

## **STREETS/HIGHWAYS**

Acknowledge letter response time (calendar days). Response Time Goals: 3 days for phone calls, 6 days for e-mail and letters.)  
Customer satisfaction - measured through citizen survey.  
# of complaints per lane kilometer.  
% of citizens rating highway maintenance as excellent/good.  
Total annual labor hours per kilometer for asphalt patching  
Total annual labor hours per kilometer for crack sealing.  
Total annual labor hours per kilometer for road striping.  
Total annual labor hours per kilometer for ditch mowing.  
Total annual labor hours per kilometer for seal coating.  
Service users given advice and assistance

## **STREET TRAFFIC CONTROL**

# of days of temporary traffic controls on traffic sensitive roads.

## **STREET MAINTENANCE**

% of improvements completed within budgetary time scale.  
% of major thoroughfares inspected weekly for defects.  
Condition rating of patched potholes/sealed cracks 12 months after work performed.



% of highway miles having an acceptable Pavement Condition Index rating.  
Total cost per lane kilometer for pavement maintenance activities.  
Total cost per meter for asphalt patching.  
Total cost per kilogram for crack sealing.  
Total cost per square meter for seal coating.  
% of highways that are of a high standard of cleanliness.  
% of highways that are of an acceptable standard of cleanliness.  
% of total lane kilometers resurfaced or chipsealed.  
Total tons of asphalt placed.  
% of completed overlays meeting specified thickness requirements.  
% of completed overlays meeting specified engineering density requirements.  
The cost of highway maintenance per 100 kilometers travelled by a vehicle on principal roads.  
% of damaged roads and pavements repaired or made safe within 24 hours.

### ***TOURISM***

# of visitors to tourists information centers  
Conference sales (\$)  
% of households with user(s) (Tourist Information Center)  
Level of awareness of Tourist Information Center: residents  
Level of awareness of Tourist Information Center: young people

### ***WAGES AND SALARIES***

Average % of timesheets with errors per pay period

### ***WATER ADMINISTRATION***

% of customer service surveys with an excellent rating.  
Average # of days to complete storm drainage account reviews/work-ups.  
% of complaint investigations performed within 24 hours.  
# of cross-connection control inspections completed per year.  
Answer at least 80% of Call Center calls within target time of 60 seconds.  
Staff cost per peak day gallons of water saved.  
Average cost per 100 meters read.  
Average cost per meter repair.  
% of residential meters read per cycle by the 25th of the month.  
Maintain the department's overall quality service rating at 92%  
Update water and sewer maps within working days of receiving record drawings from contractors.  
Provide floodplain determinations within 5 days.

### ***WATER DEVELOPMENT***

Operating costs for the treatment and distribution of drinking quality water per megaliter.  
Total average cost of operation, maintenance and repair per kilometer of water main.

Total annual average cost of operation, maintenance and repair per 1000 liters pumped.

Lineal meters of storm sewer line inspected.

Lineal meters of unimproved ditches maintained.

# of manhole adjustments.

Lineal meters of storm sewer pipe installed.

Solve at least 85% of reported drainage problems that fall under the Spot Drainage Program within one year.

### ***WATER LICENSING & EDUCATION***

% of employees with required certification.

EPA report [central government required report] mandated published and mailed by July 1.

# of public education programs and events per year.

Incur no regulatory violations or fines from overflows released to the environment.

# of customers participating in water conservation.

% of customers participating in water conservation programs compared to all water customers

Maintain 100% compliance rate with province and national required water quality tests

### ***WHEN IMPLEMENT A NEW ACCOUNTING SYSTEM***

To supply all financial information and reports from the Financial Management System (accounting system) within 3 working days of the deadlines (%)

Financial Management System (accounting system) made available to all budget officers and senior staff.

FMS (accounting system) training provided wherever required (%)

### ***YOUTH AND SPORT***

Spending per head of population on cultural and recreational facilities and activities

% of residents by targeted group satisfied with the local authority's cultural and recreational activities: a) sport and leisure facilities, and b) parks and open spaces

# of swims per 1,000 population

% of all respondents that are satisfied with cultural and recreational facilities

% of ethnic minority respondents that are satisfied with cultural and recreational facilities

% of non-ethnic minority respondents that are satisfied with cultural and recreational facilities

% of female respondents that are satisfied with cultural and recreational facilities

% of male respondents that are satisfied with cultural and recreational facilities

# of playgrounds and play areas provided per 1,000 children under 12

- % of playgrounds and play areas that conform to national standards for local unequipped play areas
- % of playgrounds and play areas that conform to national standards for local equipped play areas
- % of playgrounds and play areas that conform to national standards for larger, neighborhood equipped play areas

## **ZONING**

- Filing plats after receipt of corrected copies (# of days)
- Zoning verification letters (# of days)
- % reduction of the # of inactive or "cases on hold"
- # of days prior to Planning & Zoning Commission meetings final staff reports are complete
- Supply up-to-date digital based maps to city departments. and public (example: semi-annually)
- Provide updated zoning agendas and results on Web page (%)
- % of zoning plan reviews completed within 15 days
- The net expenditure per head of population on planning
- The # of advertised departures from the statutory zoning plan approved by the DPRD as a % of total permissions granted
- % of new homes built on previously developed land
- % of planning applications determined within 8 weeks
- Average time taken to determine all planning applications
- % of applicants satisfied with the service received
- % issued within 2 working days of decision

## APPENDIX C—EVALUATION CHECKLIST, PERFORMANCE MEASUREMENT SYSTEM

- \_\_\_\_\_ Has a strategic plan been developed, regularly reviewed and updated?
- \_\_\_\_\_ Have mission statements, goals and results oriented objectives been prepared and linked to the strategic plan?
- \_\_\_\_\_ Have input, output, outcome and efficiency measures been established?
- \_\_\_\_\_ Are outputs and outcomes benchmarked against objectives, performance targets, standards and alternative providers?
- \_\_\_\_\_ Are performance reports prepared on a timely basis and do they include comparative, variance and explanatory information?
- \_\_\_\_\_ Does performance information meet the needs of stakeholders (elected officials, management, employees, public, other users) by providing understandable, accurate, relevant and useful information?
- \_\_\_\_\_ Is the system regularly monitored and audited to ensure data completeness, accuracy and reliability?
- \_\_\_\_\_ What performance improvements (service delivery, customer satisfaction, cost reduction, and so on) have resulted from the system?
- \_\_\_\_\_ What actions have been taken to improve and refine the system?
- \_\_\_\_\_ Is the system integrated with the planning, budgeting, performance management, financial management and management information systems?
- \_\_\_\_\_ What percent of the LG is covered by the system?
- \_\_\_\_\_ How do elected officials, managers, employees and customers rate the system?

# *PART TWO—MANAGEMENT TOOLS*

## **PURPOSE**

Local governments, increasingly, are expected to demonstrate that they are doing what they are supposed to be doing and doing it efficiently. Performance measurement provides government officials with an objective basis for evaluating how efficiently public resources are being used and how effectively public service outcomes are being achieved. It is a process used to support government self-analysis and furnish a basis for more informed and publicly defensible decision making.

## **CONTENTS**

A brief description of each learning activity is shown below with an approximation of the amount of time required. If you wish to change the order, to omit something, or to add training material of your own, feel free to do so.

### **10.1 WARM-UP EXERCISE: THE MEASURE OF A MEAL**

Participants develop indicators and criteria for measuring the performance of a familiar social activity. (45 minutes)

### **10.2 TRAINER PRESENTATION**

Brief concept presentation based on the preceding essay that describes the ten step performance measurement process and emphasizes where and when to undertake performance measurement, what to measure, and common obstacles to success. (30 minutes)

### **10.3 A PERFORMANCE MEASUREMENT QUIZ**

Participants match examples of actual performance measures with the broad measurement categories to which they belong. (60 minutes)

### **10.4 CASE STUDY: MEASURING THE PERFORMANCE OF WASTE COLLECTION**

Participants read and discuss a case involving the application of performance measurement to the collection of garbage in a small Southeast Asian community. (75 minutes)

### **10.5 EXERCISE: DEVELOP A PERFORMANCE MEASUREMENT SYSTEM**

Participants develop the components of a performance measurement system for an assigned function of local government finance. (90 minutes)

## 10.6 EXERCISE: GETTING CITIZENS INVOLVED IN PERFORMANCE MEASUREMENTS

Participants develop a strategy for involving citizens in measuring the performance of various kinds of local government programmes and services.

## 10.7 EXERCISE: LEARNING TRANSFER

Participants reflect individually on what they have learned and make commitments to put it to use back home after the workshop. (30-45 minutes)

# 10.1 WARM-UP EXERCISE: THE MEASURE OF A MEAL

## TIME REQUIRED

45 minutes

## PURPOSE

Introduce participants to the concept of performance measurement as a fundamentally simple but profoundly important instrument for finance directors to assess the progress and results of local government activities based on objective criteria.

## PROCESS

Describe the exercise as a way to demonstrate the development and use of performance measures. Explain that setting and using performance measures to assess the quality of one's dining experience is the same process a finance director might use to measure program performance.

Ask participants to picture in their minds the ideal restaurant experience and, then, to think of several indicators of the experience. Suggest that they include on their lists of indicators such things as, distance, accessibility, type of food, food quality, price, service, the dining environment, and so forth.

Opposite each indicator, ask participants to write the criterion or standard to be met by their ideal dining experience.

To clarify the task, write an example of an indicator and its corresponding criterion on a sheet of newsprint:

**Indicator: Distance**

Criterion: Between 2-3 Kilometers

Ask for questions and give participants ten minutes to complete the task. At the end of ten minutes, ask someone in the group to name one of the indicators on his or her list. Ask who else included the same indicator and the criteria each of these participants used for their indicators. Continue until all participants have discussed their indicators and the corresponding criteria.

Conclude the exercise by asking participants to describe the usefulness to a finance director of a process like the one used in this exercise to evaluate the quality and efficiency of the finance function in a local government.

## 10.2 TRAINER PRESENTATION

### TIME REQUIRED

30 minutes

### PURPOSE

This presentation is to provide participants with ideas and perspectives on performance measurement and a conceptual foundation for the exercises included in this workshop.

### PROCESS

Prepare the presentation based on information covered by the preceding essay on performance measurement. Concentrate on the essential components of performance measurement, ten steps for setting up a performance measurement system, identifying and describing what is to be measured (i.e., inputs, outputs, outcomes), dealing with obstacles and reporting results to decision makers.

Outlined information on note cards may help you cover the information systematically and stay on schedule. Ask questions from time to time during the presentation as a check on participant comprehension and to hold their attention. Augment the presentation with visual aids including pre-printed newsprint sheets and overhead transparencies as a further aid to comprehension.



## 10.3 EXERCISE: PERFORMANCE MEASUREMENT QUIZ

### TIME REQUIRED

60 minutes

### PURPOSE

This exercise is to help participants distinguish among eight key components or characteristics of government programs and services that are appropriate targets of performance measurement.

### PROCESS

Divide participants into small groups of five to seven participants each. Distribute copies of the one-page Performance Measurement Quiz on the next page.

Explain that the purpose of the exercise is to match each statement with the performance measure that it represents and to compare individual responses to the Quiz with the collective responses of a small group. Give participants about thirty minutes to complete the individual and group parts of the Quiz following instructions.

When all groups have completed the task, supply each small group with a copy of the Scoring Key.

#### Scoring Key

7	Efficiency measure
6	Goal
5	Input measure
1	Mission
8	Objective
3	Outcome measure
4	Output measure
2	Quality measure

Using the scoring key, have participants in each group:

- Calculate the number of correct responses in Column 3.
- Calculate the average number of correct responses for all of the individual participants in the group (sum of the number of correct responses in Column 2 for all participants divided by the number of participants). When each small group has completed its calculations, ask each group to report the difference in the two scores and to describe how agreement was reached on its group scores. Lead a discussion of the implications of this exercise for reaching collective agreement on appropriate targets for performance measurement in a local government.

**Instructions.** Working alone, identify the type of performance measure represented by each statement in Column 1 and record your choice by number in the open block in Column 2. When you have made a choice for each of the eight statements, share your results with other members of your group. Discuss any differences and reach agreement as a group on a revised set of choices. Record the group's choice for each statement in the open blocks in Column 3.

1. Efficiency Measure
2. Goal
3. Input Measure
4. Mission
5. Objective
6. Outcome Measure
7. Output Measure
8. Quality Measure

1. Performance Category	2. Type of Measure (# My Choices)	3. Type of Measure (# Our Choices)
Provide financial planning and management services to support a full range of local government services and adequate protection for public assets.		
Percentage of real estate taxes collected during the year of levy is above 95%.		
Notification that the local government has received a coveted award for excellence in financial reporting.		
Decrease in the number of delinquent tax accounts over the preceding year.		
Weekly financial reports are delivered on time in readable form and free of mathematical errors.		
Fiscal stability and a reputation for professionalism in financial planning and management.		
Reduction of 20% in the unit cost of automobile and truck tires by purchasing in bulk quantities.		
Maintain sufficient fund balances to cover at least 60 days of expenditures.		

## 10.4 CASE STUDY: MEASURING THE PERFORMANCE OF WASTE COLLECTION

### TIME REQUIRED

75 minutes

### PURPOSE

This case study is to provide an opportunity for participants to expand their understanding of performance measurement by evaluating a scheme used in the case to measure the efficiency of a LG's LG garbage collection service.

### PROCESS

Distribute copies of Measuring the Performance of Garbage Collection in Pungsomlee and ask participants to read the case. If possible, arrange to provide participants with copies of the case to read before the workshop.

After participants have read the case, divide them into small groups of four to seven. Ask each group to answer the three questions at the end of the case.

After 45 minutes, reconvene the participants and ask for reports from each of the small groups. Discuss the various interpretations of the case and design improvement ideas.

## Measuring the Performance of Garbage Collection in Pongsomlee

*Note: This case is freely adapted from Charas Suwanmala, "Measuring Public Service Productivity: Case Study from Thailand," International Journal of Public Administration, November/December 1996, pp. 2007-2033*

### BACKGROUND

Garbage collection is a basic service provided by local governments for their citizens. In fact, the collection of garbage brings a local government into close, daily association with its citizens.

Accordingly, the cleanliness of yards and streets in residential neighbourhoods and business districts is universally regarded by urban dwellers as a primary performance indicator of governmental service quality. This is as true in South East Asia as it is in the United States, Ecuador, Morocco or the Slovak Republic.

The subject of this case is performance measurement of door-to-door waste collection in Pongsomlee, a relatively small, slow growing and financially stable Southeast Asian LG. Local elections in Pongsomlee have resulted in a new mayor who has come into office promising to improve the quality of basic LG services without increasing the cost of government to its citizens. Owing to a tradition of political patronage, many of the LG's employees were hired for political reasons. Many of these workers have limited skills and are not very productive. Others do not actually work in the jobs to which they have been appointed; rather, they serve the politicians to whose patronage they owe their posts. These practices are widespread in Pongsomlee, increasing the operating costs of most local services, including waste collection.

The new mayor has come into office pledged to dismantle the patronage system and change other conditions responsible for driving up the cost of government. As a first step, the mayor has asked the finance department to examine the operations of several LG departments and to identify areas of inefficiency and potential cost saving and service improvement. The finance department has begun its investigations by measuring the productivity of the local garbage collection service.

Productivity, as defined by the finance department in this case, is a measure of service performance consisting of two elements: efficiency and effectiveness. The finance department defines efficiency as the economy of resource utilization in waste collection. It defines effectiveness, on the other hand, as the degree to which the waste collection service responds to local needs.

### WASTE COLLECTION IN PONGSOMLEE

In Pongsomlee, the local government's department of public health is responsible for the collection of garbage from residences, businesses and industrial plants. Waste collection and disposal is regarded as the most significant activity of this department, and it consumes almost 60 percent of the department's annual budget. Approximately 80 percent of the department's employees are engaged in or administratively support waste collection and disposal.

**Inputs.** Waste collection vehicles used throughout the LG are non-compaction, side-loading tipping trucks, with capacities varying from 7.5 to 12 cubic meters. Five vehicles with five-person crews (including the driver) begin their routes about 4:00 a.m. each day and complete the first trip at 9:00 a.m. The second trip starts around 10:00 a.m. and takes three to four hours to complete. The number of collection hours is approximately 200 per week. LG regulations call for the placement of refuse containers at the curb for collection twice weekly in most sections of the LG.

**Outputs.** The outputs of waste collection fluctuate. The density of waste per kilometre on each route varies from three to ten cubic meters. Most of the waste consists of vegetable and decomposable material (garbage). Paper is the second largest element. The approximate weight of wastes is 330 kilograms per cubic meter with 55 percent moisture content.

It is estimated that between 20 and 40 percent of all LG waste in Pungsomlee is not properly collected or disposed of by the local government. Many LG dwellers are accustomed to waste disposal practices that preceded urbanization. Those who live along rivers and canals, for instance, are in the habit of flushing away wastes through their windows into the rivers. Others dump it next to the street or transport it for dumping in a distant ravine or vacant lot. Although the lack of popular participation in LG waste collection has long been acknowledged as a problem in Pungsomlee, previous LG administrations have largely ignored it.

## MEASURING EFFICIENCY

The indicator of efficiency used to measure the economy of resource utilization is the ratio of units of output (cubic meters of waste collected/LG block) to the full cost of producing the service (the cost per unit of output). In calculating full cost, the finance department considered both direct and indirect costs. Direct costs were computed based primarily on the amount of waste collected from a given block in the LG. Indirect costs were computed based on an allocation formula that was used to assign to the waste collection function of the health department its proportionate share of the costs or various administrative departments of the LG that provide support services (i.e., departments of the LG clerk, department of finance, central administration). The computations resulted in a determination that the full cost per cubic meter of waste collected from a typical block in the LG was approximately 56 baht (Thai currency).

## MEASURING EFFECTIVENESS

As mentioned earlier, effectiveness refers to the degree of responsiveness and accomplishment of waste collection with respect to local needs and the department's planned activities. Five indicators were used by the Pungsomlee finance department to measure service effectiveness: percentage of serviced areas; percentage of serviced population; percentage of waste collected; percentage of scheduled collections completed; and an average rating of customer satisfaction. Data on actual garbage collection was collected at several locations in the LG over several weeks by finance department personnel as a basis for effectiveness measurement. Other factors related to effectiveness examined by the finance department included the level of budget ef-

forts by the health department relative to waste collection and the level of supervision and control being exercised over workers in the field.

## RESULTS

It was the conclusion of the finance department from its study of waste collection in Pungsomlee, that productivity overall was low. As an index of efficiency, the total cost for collecting waste averaged 176,000 baht per block (the unit of output). This high cost was attributed, in part, to the rather high amount of centrally mandated costs. A further explanation was the small volume of waste relative to a larger community resulting in a high cost per unit of output. However, it was also found that direct costs, which were under local control, were quite high, reflecting the effect of local discretion on service costs.

Service effectiveness was found to be poor as well. Several factors accounted for this finding. The local budget allocation for waste collection had increased over the past five years. Supervision and control over workers was found to be lax. On several occasions, workers did not show up in time for their shifts, and some routes or parts of a route frequently were skipped over. Still another factor was evidence of poor cooperation by residents who were unwilling to place garbage in a prescribed waste container at the curb for pickup. There was evidence of little change in the practice of dumping refuse in the river or in nearby non-residential areas.

### Questions

1. Identify the various approaches used in the Pungsomlee case to measure productivity.
2. Evaluate the usefulness of the criteria used in the case to measure productivity. On what basis did you conclude that the criteria were or were not useful?
3. If you were a consultant on this project, what would you recommend to improve the evaluation process?

## 10.5 EXERCISE: DEVELOP A PERFORMANCE MEASUREMENT SYSTEM

### TIME REQUIRED

90 minutes

### PURPOSE

This exercise is to give participants an opportunity to apply information from preceding exercises to develop the components of a performance measurement system for a local government finance function.

### PROCESS

Tell participants they will be working for a few minutes on the elements of a system for measuring the performance of a function within a local government finance department.

Divide the participants into three groups and assign one of the following procedures changes to each group:

Convert to a new computerized accounting system.

Streamline procedures for the procurement of items with a value of less than 2,000 Euros.

Modify the annual budgeting process to include performance data as justification for proposed appropriation increases.

*Note: If you have enough participants to justify it, divide them into more than three groups and add other finance functions to the list so that each group is working on a different function.*

Before sending the groups to separate work areas, distribute copies of a worksheet (see the next page) and tell them to use it as a guide for completing their system plan. Give them about 45 minutes to complete the task.

When the groups have completed their plans, have them reassemble and present their results to other groups. Encourage a discussion of each presentation.

## Worksheet for Developing a Performance Measurement System

Function \_\_\_\_\_

Group \_\_\_\_\_

Identify how (and by whom) the performance measurement would be carried out.

How \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

By whom \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Identify one important objective and several associated performance indicators/ measures (input, output, efficiency and outcome) you would propose to use.

Objective (i.e., specific statement of what is to be accomplished and by when, such as “achieve a 15% reduction in traffic accidents within the LG limits by January 1, 19xx”):

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Input Indicator/Measure (i.e., instrumental in obtaining the desired output such as “access to a neighbourhood park 1/2 to 3/4 kilometres radius to serve a population up to 5,000”).

\_\_\_\_\_

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\_\_\_\_\_

\_\_\_\_\_



Output Indicator/Measure: (i.e., the amount of work performed or the amount of service rendered such as “response to police emergency calls/no more than five minutes”)

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Efficiency Indicator/Measure (i.e., ratio between the amount of work performed and the cost to perform it such as “cost for repair of a water meter/10 Euros or less per meter”):

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Outcome Indicator/Measure (i.e., degree to which a performance objective is achieved such as “the percentage of school aged children who have received a complete set of required immunizations/over 93 %”):

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Describe the data collection method or methods you would suggest (physical inventories, trained process observers, user surveys, personal interviews, other) to identify actual performance related to each of the four indicator/measures.

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Describe how you would propose to use the data gathered to measure actual performance including the standards or norms (past years self comparison or comparisons with other cities) against which the performance would be benchmarked.

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## 10.6 EXERCISE: GETTING CITIZENS INVOLVED IN PERFORMANCE MEASUREMENT

### TIME REQUIRED

90 minutes

### PURPOSE

This exercise is designed to provide workshop participants with an opportunity to consider how they might involve citizens in measuring the performance of various kinds of programmes and services.

### PROCESS

Explain to the workshop participants that they will be exploring ways to involve citizens in measuring the performance of various kinds of programmes and services based on several good governance principles.

Divide the participants into four- or five-person teams and provide each team with a copy of the Worksheet on performance measurements and good governance on the following page. Tell them they have about 30 minutes to complete the tasks on the worksheet.

Reconvene the teams at the completion of their shared assignments and ask for team reports. Follow the team reports with a general discussion with contributions from participants on how they might put what they have learned into action within their own communities.

#### **Linking Good Governance and Citizen Involvement Through Performance Measurement Opportunities**

For each of the good governance principles listed below, identify at least two local government programmes or services where citizens could get involved in helping to measure its performance through the involvement of citizens.

##### **1. Equity of access to decision making:**

Programme or service: \_\_\_\_\_

How to involve citizens: \_\_\_\_\_

Programme or service: \_\_\_\_\_

How to involve citizens: \_\_\_\_\_

##### **2. Transparency and accountability of decision makers:**

Programme or service: \_\_\_\_\_

How to involve citizens: \_\_\_\_\_

Programme or service: \_\_\_\_\_

How to involve citizens: \_\_\_\_\_

**3. Efficiency in the delivery of the programme or service:**

Programme or service: \_\_\_\_\_

How to involve citizens: \_\_\_\_\_

Programme or service: \_\_\_\_\_

How to involve citizens: \_\_\_\_\_

**4. Inclusiveness of delivery to all citizens:**

Programme or service: \_\_\_\_\_

How to involve citizens: \_\_\_\_\_

Programme or service: \_\_\_\_\_

How to involve citizens: \_\_\_\_\_

**5. Subsidiarity of authority and resources to lowest level consistent with efficient and effective delivery:**

Programme or service: \_\_\_\_\_

How to involve citizens: \_\_\_\_\_

Programme or service: \_\_\_\_\_

How to involve citizens: \_\_\_\_\_

**6. Participation of women and children in programme and service delivery:**

Programme or service: \_\_\_\_\_

How to involve citizens: \_\_\_\_\_

Programme or service: \_\_\_\_\_

How to involve citizens: \_\_\_\_\_

## 10.7 CLOSING EXERCISE: LEARNING TRANSFER

### TIME REQUIRED

30-45 minutes

### PURPOSE

This exercise is to help participants transfer the learning experiences of the workshop into their real-world activities as finance directors. The focus of this exercise is on raising expectations, engaging in realistic planning and making personal commitments. Most of the work is done on a personal basis with some interpersonal sharing.

### PROCESS

Spend at least half an hour at the end of the workshop to focus the attention of participants on important learnings and encourage them to continue experimenting with these learnings in their management activities. Begin by giving participants about fifteen minutes to work independently on a simple learning transfer questionnaire.

When participants have completed the questionnaire, ask them to share quickly with the group two or three things they intend to do differently in their roles with respect to performance measurement to close the workshop.

*Trainer's note. It is generally agreed that the purpose of training is to improve the way people do things by showing them a better way. In fact, the success of a training experience can be measured by the amount of personal growth and change that takes place both during training and after the training is over.*

Commitments to learning and change made at the close of a workshop can help participants overcome learning resistance in themselves and in the work environment. A trainer can help learners make a successful transition from the world of learning to the world of doing through a few simple planning exercises.

## A Learning Transfer Questionnaire

Take a few minutes to reflect on performance measurement, the new ideas you encountered in this workshop, and how you feel about them. Then, in the space below, write a sentence or two to describe something interesting you have learned about yourself during this workshop.

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Based on what you have learned about yourself and the many possibilities for change presented by this workshop, what two or three things do you intend to do differently that involve performance measurement?

1. 

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2. 

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3. 

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What obstacles in yourself or in your work environment do you expect to experience during your efforts to implement these changes? What will you do to remove or minimize these obstacles?

Expected Obstacle

1. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Action to Remove It

1. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3.

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# Asset Management

## *PART ONE: CONCEPTS, PRINCIPLES, AND STRATEGIES*

### SUMMARY

This chapter examines how you can use asset management as an effective management tool. We define the term assets, as it is used in this chapter, asset management systems, and plans and describe the benefits of using asset management to better plan capital investments and achieve service delivery goals.

The best place to start developing an asset management plan is with the basics. According to the World Bank, these include:

- Developing basic asset inventories including surplus real property,
- Documenting asset operation and maintenance processes,
- Developing primary asset information systems,
- Preparing basic asset management plans, and
- Developing staff skills and governing body awareness.

We have structured the book to provide information on these basic components from two perspectives. The first deals with the assets that are used to provide day-to-day services to the citizens of the LG. The second recognizes that some countries are in a decentralization process where the central government is giving LGs responsibility for assets for which they have not previously been responsible. For those local governments that may be in the second category, we have provided a section on Surplus Real Property since it represents a different challenge than working with the assets used to provide ongoing services. However, this chapter does not deal with managing apartment or housing units.

### RELATIONSHIPS BETWEEN CHAPTERS IN THE SERIES

The following matrix shows the interrelationships between *Asset Management* and other chapters in the series.

	Asset Management
<i>Introduction</i>	The <i>Introduction</i> provides the framework for using the entire series.
<i>Trainer’s Guide</i>	Provides guidelines for using the chapters to provide training.
<i>Financial Policy Making</i>	Financial policy making provides the framework for the asset management process.
<i>Financial Planning</i>	Financial planning identifies assets that will be needed in the future so that the LG can accomplish its priorities.
<i>Citizen Participation</i>	The largest investment a LG makes is in its assets. These include streets, clinics, water systems, fire trucks, etc. It is important that citizens participate in setting priorities for acquiring or building assets. It is equally important that citizens monitor the LG’s use of its assets to ensure that they are being adequately utilized.
<i>Evaluating Financial Condition</i>	Assets are a major investment of LG resources. Deterioration in assets may indicate a deterioration in the financial condition of the LG.
<i>Operating Budget</i>	The operating budget is a plan for the acquisition, maintenance and use of LG assets to deliver public services.
<i>Financing the Operating Budget</i>	The operating budget is a plan for the acquisition, maintenance and use of LG assets to deliver public services.
<i>Capital Investment Plan (CIP)</i>	The capital investment plan is a plan for the acquisition, maintenance and use of LG assets to deliver public services.
<i>Financing the Capital Investment Plan</i>	The capital investment plan is a plan for the acquisition, maintenance and use of LG assets to deliver public services.
<i>Accounting</i>	Accounting provides the financial foundation for the asset management records.
<i>Performance Measures</i>	Performance measures help the LG ensure that its asset management process is effective and efficient and accomplishing the priorities and goals of the LG.
<i>Procurement</i>	Procurement is the process used to acquire/build LG assets.

## INTRODUCTION

We recognize that basic or introductory concepts are relative—depending upon your background and frame of reference for both asset management and local government. Users of this material will range from those who have no knowledge of asset management principles or concepts to those who have a very sophisticated understanding. The following are our ideas of what represents the most fundamental principles and concepts needed to understand asset management at a beginning level.

# BASIC CONCEPTS AND DEFINITIONS

We recognize that basic or introductory concepts are relative—depending upon your background and frame of reference for both asset management and local government. Users of this material will range from those who have no knowledge of asset management principles or concepts to those who have a very sophisticated understanding. The following are our ideas of what represents the most fundamental principles and concepts needed to understand asset management at a beginning level.

LGs manage the world’s largest portfolio of assets on behalf of their communities. We use the term “asset” a little differently in this chapter than we do in the other chapters. We are not referring to cash or inventories (although those are assets), but instead to the *assets* (capital investments) which make up a vast network of infrastructure, buildings, equipment, vehicles, and property or land for which LGs are routinely responsible: including: roads, bridges, sidewalks, water supply, sewerage, drainage, power supply, flood protection, and irrigation. Many others are responsible for other types of assets like housing, recreational facilities, ports, airports, golf courses, forests, mines, and even commercial enterprises such as markets, hotels, restaurants and printing facilities. We also are referring to *surplus real property assets*, which are property that the LG owns but does not use in the provision of day-to-day services to citizens. All of these assets constitute a major investment over many generations, made in the hope that benefits will accrue through increased productivity, improved living conditions, and greater prosperity in the community. It is therefore particularly appropriate for LGs to be vitally interested in asset management issues, and in particular the techniques that aid responsible asset management.

*Asset management* is an approach to develop and maintain LG-owned assets to ensure that:

- Asset requirements and asset management strategies are driven by defined service levels and performance standards.
- Scarce financial resources are properly allocated and managed to optimize investment in infrastructure.
- A long-term (life-cycle) approach is taken when determining asset operations, maintenance, renewal and development strategies. The chapters *Capital Investment Planning*<sup>1</sup> and *Procurement*<sup>2</sup> both have in-depth discussions on life-cycle costing.

An *asset management system* is defined as a collection of all the relevant information on all the assets (capital and surplus real property) owned by the LG, including the procedures used to report data, the defined responsibilities of those participating in administering the system, the paper work and forms used in reporting the additions, deletions, transfers and changes, and the various reports generated from the input of the data.

Specifically, an asset management system should include:

- An asset records inventory that adequately identifies all the LG assets.
- Written policies and procedures.

- A method to revise the asset records and general ledger as items are purchased, moved, or disposed of.
- A method to periodically reconcile physical counts to the asset records.
- A method to physically tag assets (if tagging is used).
- Procedures to collect data on operating and maintenance costs for major asset items.
- An on-going preventative maintenance programme that provides for scheduling of maintenance for major asset items and a system for monitoring and recording maintenance work performed and needed.

## KEY INGREDIENTS FOR SUCCESS FOR ASSET MANAGEMENT

According to World Bank documents the key drivers and success factors for improving asset management are:

- Legislative requirements for sustainable financial planning.
- Support systems to improve asset management knowledge and understanding such as:
  - Guidelines and standards,
  - Training and awareness raising, and
  - Computerized asset management information systems.
- A structural improvement plan approach.

As your LG looks at establishing or maintaining an asset management system, it is important that you be familiar with any legal requirements for asset management. These requirements may be from the Ministries of Finance or Planning.

## LEARNING APPLICATION

*In the first Learning Application in each of the chapters in this series we will be reminding the reader about how to get the most from each of these exercises. First, there is a box identifying the four key LG roles that most readers represent. These are Policy Makers (elected officials), CEOs (Chief Executive Officers such as mayors, city managers, etc.), Finance Managers (the chief finance official in the LG), and Department Heads (those individuals who are responsible for the management of specific LG departments such as public works, planning, and human resources). Second, we will indicate in the box those readers we believe will benefit most from completing the learning application task. Finally, when more than one official is listed, we see this as an opportunity for these individuals to get together and compare their responses. These Learning Application opportunities can also be modified to become training exercises for group learning. So, our advice is to make the most of these reflective interludes in the text.*

POLICY MAKER   X      CEO   X      FINANCE MANAGER   X      DEPARTMENT HEAD   X

From your unique role consider the rationale behind the purpose and objectives of asset management and determine if any additional factors should be considered. Jot these down and then describe your greatest concern about the way the asset management process is managed in your LG.

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## ASSET MANAGEMENT POLICIES

A key component in obtaining a smoothly operating asset management system is for the governing body to adopt an appropriate set of policies. A *policy* is a written and formally adopted statement delineating the general principles that will govern the LG's actions regarding asset management.

Establishment of clear policies regarding the asset management system can help the LG and its staff in the following ways:

- It gives clear guidance as to what is expected,
- It allows staff to invest time and energy in activities consistent with the policies, with the expectation that results should be approved by management or the governing body. This predictability can save a lot of time, energy, and cost on the part of staff in planning and implementing their actions, as well as in speeding up the process of any required formal approvals.
- Adoption of policies gives management and the governing body the security of knowing that operations can conform to a specific framework without requiring micro management on their part. This allows the implementing staff greater freedom to respond creatively and quickly to actual conditions, and reduces the time that senior managers and elected officials need to spend on particular projects to assure the overall results they want.
- Adoption of written policies sends a clear message to all involved as to expectations and outcomes, thereby increasing the transparency, fairness, and predictability of actions. This is particularly important with regard to matters regarding the sale or leasing of properties, rent increases and rent collection procedures. Adoption of policies and procedures helps avoid the actuality (and the appearance) of favouritism with regard to selecting buyers or renters. Their adoption also simplifies the task of management by not requiring repetition of all instructions to staff in each case of usage.

Following are some sample policies:

- The LG will centralize its asset management.
- The LG will solicit competitive bids for all sales of property valued in excess of a monetary value established by the governing body.
- The LG will prepare and maintain an asset management plan for surplus real property. This should include:
  - When and how real property shall be declared surplus,
  - When and how to decide whether to retain or dispose of surplus real property or to improve it,
  - When and how to inventory and budget for surplus real property and make decisions with regard to it,
  - How surplus real property should be sold or rented,
  - How surplus real property should be maintained, and
  - How surplus property held for rental should be managed—specifically how tenants and their rental revenues and costs should be managed.
- The LG will conduct an annual inventory of all assets.
- The asset management unit will issue an annual report to the governing body and citizens on the current status of all LG assets.

## LEARNING APPLICATION

ELECTED OFFICIAL  CEO  FINANCE MANAGER  DEPARTMENT HEAD

Consider the policies identified in establishing an asset management plan. Which of these policies has your LG already adopted and implemented?

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Of the policies already implemented, are they working the way you think they should?

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If not, prepare a list of objectives you want to achieve for changing the way the policies have been implemented.

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Which, if any, new policies need to be adopted in your LG?

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## ASSET MANAGEMENT PLANS (AMPS)

A key tool for achieving the LG’s strategic goals is a long-term tactical plan for managing the LG’s asset portfolio called an *asset management plan (AMP)*. It provides a mechanism for integrating a LG’s long-term strategic planning processes with its operations and capital investment planning activities. In this section, we will deal primarily with capital assets as defined above—those assets used in the day-to-day delivery of services. Surplus real property—or assets not used in day-to-day delivery of services will be examined in the section on Surplus Real Property.

## PRODUCING AN AMP

If your LG already has an AMP, use the following list as a checklist for improvement. But, if your LG does not currently have an AMP consider the following activities as a framework for supporting the production of an asset management plan:

- Consultation with the governing body and definition of strategic goals for the AMP,
- Ongoing review of service levels and performance standards,
- Planning for future asset requirements and reviewing the adequacy of current asset portfolios, based on growth projections and service levels,
- Collecting and maintaining asset records and performance indication,
- Continually assessing and reviewing asset management options to ensure that optimal operations, maintenance, renewal, acquisition and disposal decisions are made, taking into account both social and economic objectives,
- Accounting for assets in such a way that the true cost of services provided can be calculated, and future investment needs required to maintain the “service potential” of the assets can be determined, and
- Auditing asset management performance (the practice, procedures and systems used to make asset management decisions) and continuously monitoring and improving these asset management processes to ensure improvement.

## VARIOUS LEVELS OF AMPS

Asset management plans can have various levels of sophistication. Initially, plans are developed at a level designed to provide basic technical management outputs such as forward replacement program and associated financial projections. This is referred to as the “basic” approach to asset management planning. An “advanced” approach seeks to optimize activities and programs through the collection and analysis of detailed information about asset condition, performance, life-cycle costs and management options, therefore providing the required level of service at least cost.

## STEPS IN DEVELOPING AN AMP

An asset management plan will typically include: strategic goals, levels of service and performance standards, growth and demand projections, asset management strategies, asset management tactics, financial projections including cash-flow statements, monitoring control and review mechanisms, and an asset management improvement plan. Before reading the following explanations of each of these sections, please turn to *Appendix A: AMP Sample Table of Contents*. We have provided tables of contents from several LGs.

To demonstrate the steps in developing an AMP we have used examples taken from the asset management plans of several LGs including: from Rushcliffe Borough



Council (UK), Pitkin County (USA), Cheshire County Council (UK), West Devon Borough Council (UK) and West Berkshire Council (UK). We believe these concepts are best described by concrete examples from specific LG asset management plans.

## STEP 1. DETERMINE STRATEGIC GOALS

In order for an asset management plan to be effective it must fully support the strategic goals of the LG. To ensure that the plan is consistent with the general aims, the strategic goals must be clearly defined as part of the plan. Following is a sample:

<p><b>Goals</b>          The goal of the Pitkin County Asset Management Plan, hereinafter known as the AMP, is to provide specific maintenance and construction information to Pitkin County residents and to assist county staff in maintenance prioritization and expectation of county assets.</p>
<p><b>Definition of an asset</b>          Any county owned and maintained road, facility, trail, right-of-way or property.</p>
<p><b>Objectives</b>          To communicate management policies.          To assist in the administration of maintenance of county assets.          To clarify maintenance levels of service and apply them to assets.          To standardize construction activities.          To provide specifications for all aspects of construction.          To outline permitting requirements with regards to county assets.          To provide landscaping guidelines for county roadway system.</p>

The following sample describes the purpose of the AMP and how the County plans to use the information. It also describes the links between other plans and the AMP.

### Cheshire County Council (UK)

<p><b>Aims of the Amp</b>          16. The AMP will provide an agreed basis for local decisions on spending priorities and will set out a framework within which the capital implications of other plans (for example, the School Organisation Plan</p>
<p>17. Schools, dioceses and the LEA will be expected to draw on the AMP information to inform capital spending and to provide assurance that capital investment decisions are soundly based and represent good value for money.</p>

18. A major aim of the Asset Management Plan is to manage accurate, comprehensive, consistent and up-to-date information to ensure that expenditure on school properties contributes to the raising of educational standards and to 'Best Value'. It will take account of the following expectations:

- providing access to property-related data on all Education establishments;
- providing data for bids to DfES and other bodies for other building programme resources;
- providing data for maintenance programmes;
- recording completed building work, both "capital" and "maintenance";
- providing data for, and recording, property implications of the Education Development Plan, and other statutory and corporate plans;
- providing a basis for evaluation, justification, and prioritization of property developments;
- demonstrating 'good practice' in asset management:
- procuring sustainable and energy-efficient buildings that are consistent with sustainability strategies;
- providing innovative design solutions incorporating the future needs of ICT - based education;
- helping to increase community use of school facilities;
- maximizing value for money.

#### LINKS TO OTHER PLANS

19. The question of links to other statutory and corporate plans, including those dealing with financial planning, is dealt with in some detail in the Statement of Priorities. The following summarizes some of the more important priority areas for Education in the statutory plans. This section begins with an extract from County Council's "The Way Forward"

"The Council's core purpose is to improve the Quality of Life for the people and the communities of Cheshire.

We do this by helping the people of Cheshire to:

- learn and develop throughout their lives
- have jobs and a good standard of living
- be safe, stay healthy and get help when in need, and care for their communities and environment.

We also aim to be a well managed local authority..."

20. The Education Development Plan is rooted in the Cheshire Education Strategy which was developed in 1998 in conjunction with a wide range of partners across the Douny. The Strategy has been recently reviewed and aims to create the conditions in Cheshire under which there will be: even more improvements in Learning Quality; better ways of ensuring high quality Learning for Everyone; leadership to develop through schools and other parts of the education service Learning Communities that will embody and promote their own culture of lifelong learning in locally relevant and practical ways, better Learning Support Systems for schools, people and communities

21. The AMP will make a contribution, in differing measure, to all the Corporate Aims of the County Council and the themes of the Cheshire Education Strategy.

Following is a sample that demonstrates how corporate goals or objectives are tied to the various strategies in an asset management and other plans.

### Rushcliffe Borough Council (UK)

CAPITAL SCHEMES SUPPORT OF CORPORATE OBJECTIVES	
Objective	Schemes supporting the objective
Wellbeing of the Community	Waste Management strategy Environmental Improvements HERS scheme in Ruddington Cycling strategy Grants to voluntary organisations Disabled facilities grants Renovation Grants Mobility vehicles storage Asbestos removal Disability Discrimination Act
Sustainable Development	Waste Management strategy Environmental improvements Energy efficiency measures at Leisures Centres, Civic Centre and Depot Air quality monitor
Quality, Accessibility and Performance of Services	Repairs at the Central Depot Waste Management strategy implementation Children's play areas and facilities for older children Grantham Canal Jubilee Bandstand Civic Centre improvements Remote Customer Services Centres Vehicles and plant replacements  Improvements to: West Park Gresham Sports Pavilion Alford Road Pavilion Cofgrave Leisure Centre — relocation of Bar and Gym improvements Keyworth Leisure Centre — changing rooms Rushcliffe Arena : "Run Riot" refurbishment Enlarge Evergreen Suite Rushcliffe Leisure Centre: Court resurfacing

## STEP 2. IDENTIFY LEVELS OF SERVICE AND PERFORMANCE STANDARDS

This section should clearly define the levels of service or performance that are required and the basis of the decisions to provide these levels of service. The service levels must support the strategic goals outlined in the strategic goals section and be based both on customer expectations, and legislative and regulatory requirements. Typical levels of service would include measurable performance standards relating to:

- o Quality,
- o Quantity,
- o Reliability and availability,
- o Safety,
- o Economic efficiency, and
- o Environmental objectives.

The following are selected examples of how the Rushcliffe Borough Council describes various performance indicators and measurable standards.

### Selected Samples from Rushcliffe Borough Council (UK) Report

ODPM NATIONAL KEY PERFORMANCE INDICATORS							
The Council's performance against the National Performance indicators is detailed below with explanatory notes where necessary.							
Ref	Short Description	2001/02	2002/03	Target 2002/03	Target 2003/04	Type	Collection
AM1ai	Gross internal (operational) floor space in Category A	*85%	*45.9%	90%	90%	Quality	P&D
AM1aii	Gross internal (operational) floor space in Category B	*15%	*54.1%	10%	10%	Quality	P&D
AM2a	Average rate of return for Industrial Property	7.37%	7.54%	7.5%	7.6%	Cost & Efficiency	P&D
AM2b	Average rate of return for Retail Property	9.79%	10.16%	10.0%	10.25%	Cost & Efficiency	P&D
AM5a	Capital Programme projects completed within +/- 5% of Estimate	20%	100%	60%	100%	Outcomes	P&D
AM5b	Capital Programme projects completed within +/- 5% of timescale	0%	0%	60%	100%	Outcomes	P&D
*The disparity between this and the previous year's figures results from the completion of a more intensive survey, using additional and wider-ranging criteria for condition classification. The properties nevertheless all fall into categories A & B as before.							

**Rushcliffe Borough Council (UK)**      **APPENDIX 8**

LOCAL PERFORMANCE INDICATORS

Local Performance indicators relating to Rent/Lease Reviews and Property

Ref	Short Description	2001/02	2002/03	Target 2002/03	Target 2003/04	Type	Collection
AM7-1174	Percentage of rent review notices served on time	80%	100%	100%	100%	Outcomes	PPU
AM8-1175	Percentage of lease rent review/renewals agreed prior to review/renewal date	80%	64.0%	100%	100%	Outcomes	PPU
AM9-1101	Energy consumption per m2 of local authority operational property, compared with comparable buildings in the UK as a whole (BV180)	New 2002/03	Electric 90.1% Fossil 82.3%	-	Electric 89.2% Fossil 81.4%	Cost & Efficiency	P&D
AM10a	Percentage of relevant Asset Management Portfolio Capital Programme completed in the year	New 2002/03	47.0%	100%	100%	Outcomes	PPU (P&D) Accountancy
AM10b	Percentage of Asset Management Portfolio Capital Programme variance carried forward in the year.	New 2002/03	98.7%	-	0%	Outcomes	PPU (P&D) Accountancy
AM10c	Percentage of relevant Asset Management Portfolio Capital Programme variance saved / (overspent) in the year	New 2002/03	1.3%	-	0%	Outcomes	PPU (P&D) Accountancy
AM11-1158	Net cost per space for car parks	£104.09	£120.71	-	£12.60	Cost & Efficiency	P&D
AM12	Average rate of return for "Other" Property	New 2002/03	7.65%	-	-	Cost & Efficiency	P&D
AM13-1100	The % of authority buildings open to the public in which all public areas are suitable for and accessible to disabled people (BV156)	67.7%	70.0%	70.0%	100%	Access	P&D
AM14-1436	Rate of return on all investment properties	New 2002/03	7.77%	-	7.8%	Cost & Efficiency	P&D
AM15	Percentage of property, based on value, surplus for more than 12 months	New 2002/03	1.01%	0%	0%	Strategic	P&D

### STEP 3. PROJECT GROWTH AND DEMAND

This section provides details of growth and demand forecasts that will affect both the need for, and the utilization of these assets. As well as overall population growth, this section must consider issues such as future changes in technology (which may alter the way in the service is delivered), changes in legislation (such as environmental standards), and changes to customer's expectations.

The following is an example of growth and demand projections from a Roads AMP.

#### Brimbank City Council (UK)

<p>4. Future Demand</p> <p>Key factors influencing the demand for new road infrastructure and changes to existing road network include:</p> <ul style="list-style-type: none"> <li>• Growth in industrial areas</li> <li>• Growth in commercial precincts</li> <li>• Growth in residential areas</li> <li>• Changes in land use</li> <li>• Population growth</li> <li>• Travel patterns</li> <li>• Car usage levels</li> <li>• Public transport use</li> <li>• Government policy</li> </ul>					
<p>4.1 Demand Forecasts</p> <p>4.1.1 Population Growth</p> <p>The 2001 Census recorded Brimbank total population at 162,933. Population projections indicate that over the next 15 years the population will increase by 34,000 (21%) to reach 196,900 as shown below.</p>					
	1999	2000	2001	2011	2016
Actual Population	158,032	164,500	162,933		
Forecast Population				190,800	196,900
Table 4.1 - Population Forecast					
<p>The Table below illustrates the changes in district populations expected between 2001 and 2016.</p>					
District	Population 2001 - 2016		% Increase/ (Decrease)		
District 1	34,304 - 41,836		22%		
District 2	20,917 - 21,936		5%		
District 3	48,102 - 46,016		(4%)		
District 4	19,003 - 38,058		100%		
District 5	40,671 - 49,101		21%		
Table 4.2 - Population Growth by District: 2001 - 2016					

## Brimbank City Council (UK)

### 4.1.2. Impact of Growth on Road Assets

Over the last ten years the growth in road assets have mainly occurred through vested assets from subdivisional developments. Over the next 25 years this growth rate is expected to slow as “greenfield” land is developed.

The majority of remaining “greenfield” land is in the Derrimut area and by 2030 the growth rate is expected to be negligible.

Asset Type	Increase in Total Assets	Total Value \$,000 (2004 values)
Pavements - Surface	190 km.	587
Pavements - Base	190 km.	3,830
Footpath incl. shared paths	265 km.	684
Kerb & Channel	370 km.	602
Bridges and Culverts	5 No.	79
Traffic Road Humps	440 No.	46
Traffic Roundabouts	285 No.	69
Traffic Speed Cushions	40 No.	10
Traffic Signals (Council owned)	25 No.	169
Traffic Islands	1,210 No.	174
Street Nameplates	2,360 No.	11
Directional/Information Signs	170 No.	8
Regulatory Signs	1,830	16
Bus Shelters	50 No.	23
Benches	40 No.	2
Bike Racks	45 No.	1
Street Trees	10,700 No.	43
Carparks — on road/off road	75 No.	180
Vehicle Crossings	6,950 No.	127
School Crossings	45 No.	3
Pedestrian Crossings	25 No.	90
Hydrants	600 No.	17
Total (25 years)		6,771

Table 4.3 - Predicted Road Assets from New Developments: 2004 - 2029

Following is another example to demonstrate how growth and demand are included in the AMP.

## West Berkshire Council (UK)

<p>The predicted increase in the asset base from subdivisional development has been assumed to decrease over the next 25 years from the current level (100%) to zero (0%).</p>
<p>Brimbank's approach to management of existing and newly vested road assets will continue to be refined. The immediate (up to 2006/07) and future (2007 to 2029) growth is both quantifiable and manageable.</p>
<p>The development of a 3 year Impact Maintenance Plan defines the new assets that will be vested in Council through subdivisional activity and the Capital Works Program, and the "impact" this will have on Council's maintenance and asset service delivery.</p>
<p>Council is currently reviewing its asset systems and anticipates introducing an integrated Asset Management Information System by December 2005.</p>
<p>4.1.2.1. Capital Works 4.1.2.1.1. Road Infrastructure</p> <p>The current levels of expenditure on road rehabilitation, periodic road maintenance, and installation of Traffic control items are anticipated to remain during the 2004/05 through to 2005/2006 budgets.</p> <p>Capital works funding in the area of traffic management has been assumed to be maintained at current levels (100%) for the next 10 years, decrease to 75% of the current level for the following 10 years and continue at 50% of current levels thereafter.</p>
<p>4.1.2.1.2. Footpath Infrastructure</p> <p>Levels of expenditure in the area of footpath rehabilitation have increased from approximately \$2.0m (2002/03 budget) to \$2.5m in Councils 2003/04 budget.</p> <p>The expansive basaltic clays found throughout the Brimbank municipality, combined with the current drought conditions, have resulted in significant ground movement which has lead to a sharp increase in footpath damage and hazards.</p> <p>The 2004/05 level of Council funding for footpath maintenance is anticipated to remain over the coming 3 years.</p> <p>In 2002/03, Council introduced a Code of Practice for building site management and increased footpath standards in an attempt to reduce the amount of footpath damage.</p>
<p>a) Code of Practice for Building Sites</p> <p>Introduced in January 2003, the Code of Practice requires all builders to comply by:</p> <ul style="list-style-type: none"> <li>• Providing perimeter fencing on the building site</li> <li>• Providing a \$500 bond for assets</li> <li>• Not placing any building material on road reserve (nature strip)</li> <li>• Providing a 1cubic metre bin.</li> </ul> <p>This has resulted in a marked reduction in the incident of footpath and nature strip damage around building sites.</p>
<p>b) Improved Standards</p> <p>The standard footpath has been increased from 75 mm thick (unreinforced) to 100 mm reinforced. This applies to all new footpaths in subdivisions and all replacements for 2 or more consecutive bays.</p> <p>A full condition survey of all road and footpath assets will be undertaken during the 2004/05 financial year.</p>



c) Utility Company Reinstatement

Damage of footpath and road assets by Utility companies continues to be of concern to Brimbank City Council.

Discussions have taken place during late 2003 with a number of these companies, including City West Water, to stress the importance of a “partnership” in relation to asset reinstatement.

It is anticipated that improvements in the areas of response times and quality of the reinstatements will be achieved during 2004/05.

#### STEP 4. IDENTIFY ASSET MANAGEMENT STRATEGIES

This section outlines the broad strategies or actions required to achieve the goals and standards outlined in Steps 1 and 2 above. The following West Berkshire Council example is based on improvement targets to ensure that goals and objectives are achieved.

#### West Berkshire Council (UK)

Improvement Targets August 2002					
3.0 Improvement Targets for 2002-2006					
<b>3.1 Introduction</b> This document contains the improvement targets relating to West Berkshire LEA's AMP. It states specific and measurable targets for improving the economic performance of our schools and indicates how this will contribute to the raising of standards. Our targets predominantly relate to the period 1 April 2002 to 31 March 2006 in order to reflect the three-year indicative allocations provided by the D/ES for a number of our main funding sources. The targets will be ratified by Members in September 2002 with the AMP Focus Group looking at how new targets can be developed as part of the next update. It is recognized that the educational outputs arising from the improvements require further development. We will work over the next year to identify how we can better demonstrate the links between capital investment in school buildings and raising educational standards and pupil attainment.					
<b>3.2 Condition</b> Target <b>That all priority I condition D&amp;C works will be addressed by 31 March 2004.</b>					
Baseline (April 2001)					
Priority 1 (D&C)	Priority 1 Other	Priority 2	Priority 3	Priority 4	Total
(£m)	(£m)	(£m)	(£m)	(£m)	(£m)
2.46	3.58	8.03	5.63	0.18	22.38
Although when we update the condition surveys during 2002/03 we anticipate a number of lower priority works will need to be upgraded, we are reasonably confident that we can achieve the target set.					

<p><b>Funding sources</b></p> <p>It is recognised that the amount of capital available to address the repairs backlog over the financial years 2002 to 2004 will be substantially more than in the past. We are committed to spending our NDS Condition allocation on reducing the backlog, but this is the only funding source that we can guarantee will be available for tackling outstanding repairs. The Council has a corporate repairs and maintenance programme funded from capital generated by the Authority but this has only been guaranteed up to 2002/03. Again, we guarantee that any funding that we receive from this source will be spent on repairs. Another issue relates to Devolved Formula Capital. It is difficult to accurately forecast the amount of Formula Capital that will be spent on repairs during the next two years because:</p> <ul style="list-style-type: none"> <li>• Schools have a certain amount of flexibility in deciding when they wish to spend their devolved capital, although we do require them to tackle urgent works now rather than deferring their expenditures.</li> <li>• We can not assume that 100% of Devolved Formula Capital spent each year will be on condition. We have identified suitability issues that have a high health &amp; safety risk as a priority for capital funding. It is inevitable that schools will chose to carry out suitability work rather than condition work, although they would have to make a justification for lower priority suitability work.</li> </ul> <p>It will take sustained investment over a relatively long period of time, whether through PPPs, through government funding or through both before we can significantly reduce or eliminate the backlog of maintenance.</p>
<p><b>Desirable outcomes</b></p> <p>All 81 schools will benefit from some form of capital investment to improve the condition of their buildings. This equates to some 25,000 pupils. Although it is difficult to identify the positive effect that a new boiler or a repaired roof will have on standards, it is clear that any improvements that result in a warmer, drier, safer environment must be welcomed and should encourage a more conducive environment for learning.</p>
<p><b>3.3 Suitability [Edited example]</b></p> <p><b>Desirable outcomes</b></p> <p>All 81 schools will benefit from some form of capital investment to improve the condition of their buildings. This equates to some 25,000 pupils. Although it is difficult to identify the positive effect that a new boiler or a repaired roof will have on standards, it is clear that any improvements that result in a warmer, drier, safer environment must be welcomed and should encourage a more conducive environment for learning.</p>
<p>It is important to add that we intend to carry out a curriculum analysis on all secondary schools during 2002/03 to more accurately determine the shortfall in spaces. This could affect the figures under the gradings A &amp; B, which could impact on the targets set.</p>
<p><b>Funding sources</b></p> <p>The NDS Modernisation funding allocations for 2002-2004 will be the major funding source for addressing suitability problems. It is also anticipated that a certain amount of suitability issues will be addressed by devolved formula capital.</p> <p>It is hoped that our funding to address sufficiency issues would also address a school's suitability problems if at all possible.</p>

<p>Desirable outcomes</p> <p>It is envisaged that approximately 35 schools will receive funding from the Modernisation program, basic need funding and other capital grants that will address suitability problems directly and indirectly. This means approximately 10,500 pupils will benefit directly from the additional capital funding that will help to provide a warm, dry, safe and secure environment allowing pupils and staff to concentrate on curriculum issues and go some way to improving staff morale and thus teacher retention.</p>
<p><b>3.4 Sufficiency [Edited example]</b></p>
<p>Target 1</p> <p>Provide a minimum of 526 additional 5-18 school places in areas of basic need (i.e. where there is a deficit of places in all schools within a two-mile radius for primary schools and a three-mile radius for secondary schools) by 31 March 2006.</p>
<p>Total of 526 additional places, 276 of which were approved by the D/ES in 2001/02 ACG, due to the forecast growth in certain areas within the district combined with an increase in staying on rate and the expansion of sixth form curriculum. Funding shown in the LEA's Statement of Priorities reflects the guaranteed funding available as well as the credit approvals given and expected. The estimated cost of these additional places is 4,000,000 and will be supplemented by other resources such as Capital Grants and Devolved Formula Capital.</p> <p>Desirable Outcomes</p> <p>A minimum of 526 additional pupils will be able to access the school of their choice, thereby ensuring parental choice and satisfaction.</p> <p>The LEA will also meet its statutory duty to provide sufficient school places.</p>

## STEP 5. IDENTIFY SPECIFIC ASSET MANAGEMENT TACTICS

This is the most important section of the asset management plan as it is essentially the life-cycle management plan for the asset portfolio. It should include:

- A description of the assets in physical and financial terms, and
- Detailed operations, maintenance, renewal, acquisitions, and disposal methods.

Following is an example of a property list for roads.

### Pitkin County (USA)

<p><b>3.08 PITKIN COUNTY BRIDGES</b></p> <p>Pitkin County uses the State mandated Bridge Inspection and Maintenance Report that is completed every other year. Inspections are performed on each bridge and capital repair and maintenance recommendations are made. The work is categorized and ranked for items most critical to the safety and the preservation of the integrity of each structure. The work is completed based on the inspection, prioritization and as budget allows.</p> <p>Table 3.08 lists bridges that are maintained by Pitkin County, and are part of the County's infrastructure.</p>
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<b>Table 3.08 PITKIN COUNTY BRIDGES</b>		
Thomasville Bridge Frying Pan River PIT-004-248A	Upper Snowmass Creek Bridge Campground Bridge Snowmass Creek PIT-011-10.8	Old Snowmass Bridge Roaring Fork River PIT-016-001.A
Lower Snowmass Creek Bridge Snowmass Creek PIT-011-01.2A	Maroon Creek Bridge Maroon Creek PIT-013-01.8A	Gerbaz Bridge Roaring Fork River PIT-O17-002A
North Fork Bridge North Fork Frying Pan River PIT-004-263A	Castle Creek Bridge (1st) Castle Creek PIT-015-03.5A	Smith Bridge (arch) Roaring Fork River PIT-019-003A
Lime Creek Bridge Lime Creek PIT-o4A-1.0	Castle Creek Bridge (2nd) CastleCreek PIT-015-09.0	Slaughterhouse Bridge Roaring Fork River PIT-019-01.A

## STEP 6. PERFORM FINANCIAL PROJECTIONS INCLUDING CASH-FLOW FORECASTS

This outlines the long-term financial requirements for management of the asset portfolio, based on the long-term strategies and tactics outlined earlier in the plan. This section should also include details on:

- The long-term cost streams for operations, maintenance, renewal, acquisition and disposal activities,
- How the asset management activities will be funded,
- Forecasts of future asset valuation and depreciation,
- A summary of the key assumptions made in the financial forecasts.

### Cheshire County Council (UK)

#### FUNDING

88. The level of capital work that can be undertaken in any one year will clearly be constrained by funding levels and the opportunities to take advantage of premises related capital budgets.

<p>89. As part of its annual budget setting exercise, the Authority will decide on the size of the centrally retained school premises budget for each year covered by the AMP. In Cheshire, the two budgets normally available for Community, Voluntary Controlled and Foundation Schools are :</p> <ul style="list-style-type: none"> <li>• the mainstream Education Capital Programme (traditionally funded by DfES approvals for the Authority to borrow money, capital grants such as NDS, Schools Access, Class Sizes and other Standards Fund grants, capital receipts, etc.); and</li> <li>• the planned Building Maintenance Programme (managed by the County Property Officer to meet the “landlord” retained capital repair responsibilities)</li> </ul>
<p>90. The traditional Annual Capital Guideline mechanism for Basic Need is retained for the moment, but Surplus Place Removal bids have been supplanted by the ‘Targeted Funding’ arrangements. Increasingly, DfES resources are being made to fund condition, suitability and sufficiency requirements as identified through AMP processes. Governing bodies of Aided schools will be eligible for increased levels of grant from the DfES in respect of their increased statutory responsibilities. The new grant aid arrangements introduced by the DfES will have implications for the respective roles of LEAs, Governors and Dioceses. Opportunities to generate capital receipts and to develop partnership projects will be taken where possible in order to fund projects relating to condition, suitability or sufficiency.</p>
<p><b>THE SINGLE CAPITAL POT</b></p>
<p>91. The traditional Annual Capital Guideline (ACG) mechanism for Basic Need and Surplus Place Removal has been subsumed within the new system of allocating capital funding known as the Single Capital Pot. The first allocations by this method was made in December 2001 for 2002/03. The Pot brings together those credit approvals that had previously been allocated to local authorities in separate service packages to enable borrowing to finance capital expenditure on Education, Transport, Housing and Social Services schemes.</p>
<p>92. The majority of the Pot is allocated on a “needs” basis and the balance on the basis of plans and performance. For the first year the needs-based proportion was 95% and the discretionary proportion was 5%. The discretionary element is awarded on the basis of an assessment of local authorities’ Capital Strategies, progress in developing Asset Management Planning and performance in service delivery. Sheshire, in effect, competes with other authorities in the North West for a share of this “challenge” element of the funding and more of the Pot i likely to be distributed in this way in the future. This emphasizes the importance of a robust AMP supported by clear planning and prioritisation processes, and delivery of planned outcomes.</p>
<p>93. The DfES contribution to the Pot nationally will be 600M in 2003/4, comprising 500M “basic need” and 100M through the Schools Access Initiative. Cheshire’s share of this amount, the Education ACG within the overall Single Capital Pot allocation, will be announced in December 2002, but is currently estimated at 3,962M.</p>
<p><b>Preliminary Categorisation of Capital Works</b></p>

94. In submitting capital bids for New Deal funding proposals were given a rating using the following categories established by DfES guidance:

Category D Urgent work  
 Category C Essential work  
 Category B Desirable work  
 Category A Long term work required within five years

95. Within the established categories, the following priority grades were used in the context of a five year AMP period:

Priority 1. Work required immediately  
 Priority 2. Essential work required within two years  
 Priority 3. Desirable work required within three to five years  
 Priority 4. Long term work required outside the five year planning period

96. The matrix below is a simple representation of this approach.

	Condition	Sufficiency	Suitability
Priority			
1	URGENT WORK <u>To prevent immediate closure of premises; and/or address an immediate high risk to the health and safety of occupants; and/or remedy a serious breach of legislation.</u>	BASIC NEED Pupil place deficit	UNABLE TO TEACH CURRICULUM Relates to numbers and sizes of teaching spaces. Should be enough appropriate spaces to accommodate all pupils for the whole curriculum.
2	ESSENTIAL WORK Required within two years to prevent serious deterioration of the fabric or services, and/or address a medium risk to the health and safety of occupants, and/or remedy a less serious breach of legislation.	SURPLUS SPACE Premises, both teaching and non-teaching, that exceed pupil needs	TEACHING METHODS INHIBITED Unsuitability of spaces may mean the schools' preferred teaching methods are inhibited. May relate to numbers and types of teaching spaces, or with the size and other aspects of spaces.
3	DESIRABLE WORK Required within three to five years to prevent deterioration of the fabric or services, and/or address a low risk to the health and safety of occupants and/or remedy a minor breach of legislation.	AREA ORGANISATION Extent of mismatch in premises location and size measured against pupil location and quantity.	MANAGEMENT OR ORGANISATION OF SCHOOL AFFECTED ADVERSELY Unsuitability of spaces and for the way they relate to each other may affect the organisation or management of the school

4	LONG-TERM WORK Required outside the five years planning period for AMPs to prevent deterioration of the fabric or services.	SCHOOL ORGANISATION Extent of mismatch in classroom sizes measured against class sizes.	PUPIL OR STAFF MORALE OR PUPIL BEHAVIOUR AFFECTED ADVERSELY Unsuitability of spaces may affect pupil or staff morale or pupil behaviour.
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97. At the present time, the main priority in the area of “condition” is to improve the quality of the assessment data so as to facilitate planning of repair/maintenance programmes at both School and LEA level. School development staff are being trained in use of the relevant software to allow for fuller integration of ‘condition’ data into the activities of School Development Officers. For “suitability”, the need is to ensure that meaningful assessments are made for all schools on an annual basis; the new arrangements for achieving this through closer working together by Heads and School Development staff are described above.

98. With regard to “sufficiency” needs, updated assessments using the new DfES capacity methodology may reveal additional capital spending needs; the re-assessment exercise will be completed in the Autumn 2002 in accordance with the DfES timetable. In addition, the Authority has a well-established mechanism for the review of school places known as the School Rationalisation Panel. The Panel, which comprises of County Councillors with teacher representatives, undertakes reviews of school places and makes recommendations to the Education Advisory Committee and Executive. Any capital implications of the Panel’s proposals will be submitted for consideration to the AMP Steering Group as part of the annual capital programme cycle.

**EXPENDITURE PRIORITIES - CENTRALLY RETAINED BUDGET**

99. The ‘Statement of Priorities for capital Expenditure’ which complements this local Policy Statement describes the approach to priorities in some detail. The categorization of works described above will be used to decide if particular projects fit the high priorities that will be used to determine programmes of capital work. In general, the highest priorities are: the elimination of serious health and safety concerns, satisfying the statutory duty with regard to the provision of school places, removing surplus places, providing support for schools causing concern and improving access for disabled pupils. Improving the fabric of the building stock, ensuring curriculum delivery and desirable accommodation improvements will follow, dependent on available funding. Some proposals will cover a wide range of priority areas and as such will be a high priority.

100. Having undertaken an initial categorization of identified needs, an assessment of the relative priorities of competing bids from schools may take account of the following additional factors:

- The extent to which the proposal meets the individual School Development Plan
- The extent to which the proposal is consistent with the Authority's strategic aims and takes account of its duty to manage the provision of school places
- The number of pupils whose learning is being adversely affected (and/or the number of pupils who will benefit from the improvement)
- The degree to which the school has deficiencies in some or all of the AMP elements of sufficiency, suitability, and condition which need to be addressed within a five year period
- The commitment that the school is making to raising educational standards
- The financial contribution which the school will make from either capital or revenue
- The anticipated value for money of the project, taking into account savings in running costs following completion of the project
- The School Organization Plan-proposals for the school

101. From an assessment of overall needs, and taking account of DfES funding priorities and other resources, we will use the criteria described above and detailed in the Statement of Priorities to develop an Authority-wide view on premises priorities. Voluntary Aided schools will be integrated into this approach. This can be used as the basis for identifying and prioritizing the most serious and urgent needs at specific establishments. As noted above, the aim is to invite the Steering Group to review this approach by identifying those specific areas of school accommodation where attention should be focused to achieve maximum improvement. In this way, the Group will also have the opportunity to review the effectiveness of the emphasis placed on previous priority areas in earlier programmes.

102. The preparation of capital programmes is acknowledged to be a difficult and sensitive area and draft programmes prepared by the LEA will be scrutinized by the Steering Group. It is hoped that this grouping representing all partners in our schools - Schools themselves, the LEA and Dioceses - will, through working together in the development of the Plan, arrive at decisions which avoid the charge of over-

Here is another example of financial information.

**Brimbank City Council (UK)**

**6. Financial Statement**

**6.1 Historical Expenditure**

Table 6.1 summarises road assets expenditure for the current and previous two financial years.

Activity	Actual 01/02	Actual 02/03	Budget 03/04
A. Operational			
Energy Costs (Streetlighting)	1,342,847	1,285,340	1,500,000
Street Sweeping		1,145,969	1,062,912



Sub-total	1,342,847	2,431,309	2,562,912
<b>B. Maintenance</b>			
Pavements (surface & base)	725,522	1,020,321	1,365,301
Footpaths Incl. shared pathways	2,065,942	2,624,121	3,321,049
Kerb and Channel			
Bridges and Culverts			
Signs/Street Furniture	176,658	247,920	466,978
Streetlighting	261,916	330,081	441,000
Vehicle Crossings			
Traffic Management			
Sub-total	3,230,038	4,141,593	5,686,848
<b>C. Capital Renewals</b>			
Pavements (surface & base)	4,990,632	7,309,909	7,357,650
Footpaths Incl. shared pathways			452,600
Kerb and Channel			
Bridges and Culverts			
Signs/Street Furniture			
Streetlighting			
Vehicle Crossings			
Traffic Management			
Sub-total	4,990,632	7,309,909	7,810,250
<b>D. Capital Upgrade</b>			
Pavements (surface & base)	160,459	135,902	
Footpaths Incl. shared pathways	140,816	232,713	154,000
Kerb and Channel			
Bridges and Culverts		82,620	
Signs/Street Furniture		133,180	245,000
Streetlighting			
Vehicle Crossings			
Traffic Management	1,033,193	949,412	858,500
Sub-total	1,334,468	1,533,827	1,257,500
<b>E. Developer Funded New Works (Vested)</b>			
Pavements (surface & base)	5,650,367	7,542,952	3,544,000
Footpaths Incl. shared pathways	966,730	1,410,929	663,000
Kerb and Channel	675,257	837,854	394,000
Bridges and Culverts			
Signs/Street Furniture			
Streetlighting			
Vehicle Crossings	430,859	623,029	293,000
Traffic Management			
Sub-total	7,723,213	10,414,764	4,894,000
<b>Total</b>	<b>18,621,198</b>	<b>25,912,252</b>	<b>22,118,990</b>

The figures in Table 6.1 reflect the current level of reporting in the General Ledger. Where no figures are shown, either no expenditure was incurred or expenditure figures cannot be obtained at this level of detail at this stage.

## 6.2 Assumed Lives and Unit Rates

Table 6.2 shows the useful lives assumed in calculation of lifecycle costs. Remaining lives are primarily based on asset condition surveys and have been mathematically calculated based on the actual remaining life of individual assets within each class.

Table 6.2 - Assumed Useful and Remaining Lives

Asset	Useful Life (Years)	Average Remaining Life (Years)
Pavement		
Road Surface	30	20
Road Vase	85	81
Bridges		
Concrete	80	57
Concrete/Steel	80	33
Culverts		
Precast Concrete	80	30
R C Pipe	80	56
Steel Pipe	50	25
Kerb and Channel	50	27
Regulatory Signs	12	5
Footpath incl. shared paths	50	22
Roundabouts < = 6m dia	50	21
Roundabouts > 6m <= 10m dia	50	21
Roundabouts > 10m dia	50	21
Road Humps - Watts	50	21
Road Humps - Flat Top	50	21
Splitter Islands > = 10m	50	21
Splitter Islands > 10m	50	21
Pedestrian Crossings	15	10
Vehicle Crossings	50	21
Bus Shelters	25	10
Traffic Signals (Council owned)	20	8

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Table 6.3 shows the assumed unit rates for each asset type.

Asset	Rate \$	Unit
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Road Surface — Local	11.70	per Sq m
Road Surface — Collector	11.70	per Sq m
Road Surface — Sub-arterial	11.70	per Sq m
Road Base — Local	57.00	per Sq m
Road Base — Collector	65.00	per Sq m
Road Base — Sub-arterial	85.50	per Sq m
Kerb & Channel	40.70	per lm (per side)
Footpath incl. shared paths	43.00	per Sq m (per side)
Regulatory Signs	225	each
Bridges	1,350	per Sq m of road surface
Culverts	Varies	face
Roundabouts <= 6m dia	5,625	individually
Roundabouts > 6m <= 10m dia	9,000	each
Roundabouts > 10 m dia	1,013 x Ø	each
Road Humps — Flat Top	2,363	per m dia
Splitter Islands <= 10 m	2,823	each
Splitter Islands > 10 m	3,375	each
Traffic Signals	5,625	each
Pedestrian Crossings	168,750	each
Vehicle Crossings — residential	90,000	each
Vehicle Crossings — commercial	48.00	each
School Crossings	75.00	per Sq m
Bus Shelters	1,900	per Sq m
Trees	11,250	each
Litter Bins	100	each
Bollards	1,200	each
Benches	40	each
Tables (+4 chairs)	1,100	each
Bicycle Racks	1,300	each
Planter Boxes	550	per set
Hydrants	750	each
	720	each
All unit rates have been provided by Council's Engineering Department.		

### 6.3. Confidence Levels

The Asset Management Plan is based upon the best available information that was available at the time the plan was written. In some cases asset quantities and condition have been estimated from incomplete asset inventories or asset records.

Table 6.4 summarises the confidence levels of information contained in the RAMP.

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Asset Category	Quantity	Condition	Age	Performance	Demand Forecast	Service Levels	Overall
Pavements	A	A	B	A	B	B	B+
Footpaths	A	A	B	B	B	B	B
Signs	C	B	C	B	B	B	B
Street Lighting	A	C	C	C	A	B	C+
Traffic Management	B	B	B	B	B	B	B
Bridges and Culverts	A	B	B	C	B	C	B
Kerb & Channel	A	A	B	B	B	B	B

Table 6.4 - Confidence Levels

All unit rates have been provided by Council's Engineering Department.

Confidence Grade	General Meaning
A	Highly Reliable < 2% uncertainty Data based on sound records, procedure, investigations and analysis which is properly documented and recognised as the best method of assessment
B	Reliable $\pm 2 - 10\%$ uncertainty Data based on sound records, procedures, investigations, and analysis which is properly documented but has minor shortcomings, for example, the data is old, some documentation is missing, and reliance is placed on unconfirmed reports or some extrapolation.
C	Reasonably Reliable $\pm 10 - 25\%$ uncertainty Data based on sound records, procedures, investigations, and analysis which is properly documented but has minor shortcomings, for example, the data is old, some documentation is missing, and reliance is placed on unconfirmed reports or significant extrapolation.
D	Uncertain $\pm 25 - 50\%$ uncertainty Data based on uncertain records, procedures, investigations, and analysis which is incomplete or unsupported, or extrapolation from a limited sample for which grade A or B data is available.
E	Very Uncertain > 50% uncertainty Data based on unconfirmed verbal reports and/or cursory inspection and analysis.

Note that uncertainty is cumulative. Therefore the uncertainty limits in financial forecasts will be the sum of the inaccuracies of the data and quality of assumptions that is used to produce it.

## STEP 7. ESTABLISH MONITORING, CONTROL AND REVIEW MECHANISMS

This section of your asset management program outlines the monitoring mechanisms required to:

- Assess the effectiveness of the strategies and tactics outlined in the plan, and
- Modify the strategies and tactics if necessary.

One way of establishing expectations and determining controls for an AMP is to use a Terms of Reference (ToR). ToRs are used to provide the framework within which a project should function. They may provide goals, objectives, roles and responsibilities, specific deliverables, etc. Following is a ToR that provides the framework of the Asset Management Plan Working Group.

### Rushcliffe Borough Council (UK)

CORPORATE ASSET MANAGEMENT PLAN WORKING GROUP - TERMS OF REFERENCE
• To implement and monitor the Asset Management Plan and associated work programme.
• To improve asset management at the Borough Council.
• To develop and advise on the Council's AMP and Capital Strategy (CS).
• To monitor the program and progress of the service and Corporate Asset Management process.
• To determine a program of reviews relating to the property estate.
• To advise and maintain a corporate overview on the development of the corporate property estate and to exchange information to provide cross-cutting and innovative outcomes.
• To promote the share use of buildings, both internally and with external partners.
• To ensure that internal and external stakeholders are consulted in property related issues and that feedback from satisfaction surveys are taken into account.
• To take an overview of the Council's Capital program, maintenance requirements and surplus property.
• To ensure that the AMP and the CS maintain adequate links with the Community Strategy, Best Value Performance Plan, and other corporate strategies, service plans, asset management plans.
• Consider the performance of both operational and non-operational property and make recommendations for improvements to the Executive Management Team for optimizing the utilization of assets in terms of service benefits and financial return.
• To audit and review the property assets of the Council through the preparation of an Asset Management Plan.]
• To review related internal procedures.
The following is another sample from Rushcliffe Borough Council of an audit (another form of monitoring and control) of the AMP.

The following is a another sample from Rushcliffe Borough Council of an audit (another form of monitoring and control) of the AMP.

### Rushcliffe Borough Council (UK)

Appendix 4
KPMG ESTERNAL AUDIT VALUE FOR MONEY STUDY OF ASSET MANAGEMENT DECEMBER 2000 Annotated list of Issues to Address identified in the Audit
<p>1. Developing the corporate approach to asset management by setting corporate objectives for property, and promoting the corporate approach through the Asset Management Working Group. The AMP demonstrates how asset management relates to the Council's corporate objectives (paras. 6-9) and how the work of the Asset Management Working Group contributes to the corporate management process (para 7).</p>
<p>2. Documenting roles and responsibilities for asset management and circulating to managers and officers. The roles and responsibilities relating to asset management are laid out in the plan (para. 10) and details of officer involvement in ongoing asset management are outlined in para. 11. Member involvement in approving and monitoring asset management issues is described in paras. 10-20.</p>
<p>3. Carrying out a condition survey and review of property holdings which will enable the authority to develop a long term strategy for retention/disposal. An initial condition survey of all property was carried out for the 2001/2002 AMP, this was followed up with more detailed surveys identifying future planned maintenance programmes (para. 24).</p>
<p>4. Developing a corporate maintenance plan. As described above, this was completed on a building by building basis as more detailed surveys were carried out.</p>
<p>5. Selecting and implementing the preferred integrated asset register and property information databases. The Uniform 7 property management system is currently being implemented as described in paras. 22-25.</p>
<p>6. Setting performance standards for the Estates Section which are incorporated in Service Level Agreements and monitored on a regular basis. Performance levels are currently monitored through local performance indicators which will in future be expanded to include the national indicators now included in the AMP (paras. 26-30). The Estates section does not have a Service Level Agreement with its clients at present but consideration will be given to whether one should be introduced in the future.</p>
<p>7. Introducing a range of performance indicators which will enable the Authority to benchmark assets and the Estates section. See item 6.</p>
<p>8. Developing a mechanism for seeking user and staff views on property.</p>

## STEP 8. IDENTIFY AN ASSET MANAGEMENT IMPROVEMENT PLAN

This section outlines an action plan or key tasks to improve the future level of confidence in the asset management plan and financial projections. It is essential that the key tasks, and the human and financial resources required to improve asset management activities are outlined in this section. This ensures that both are planned for and budgeted. The following sample is from Rushcliffe Borough Council.

### Rushcliffe Borough Council. (UK)

Appendix 10 ASSET MANAGEMENT ACTION PLAN					
Key tasks for Asset Management		Estimated Target 2003/2004	Actual Outturn 2003/4004	Revised Target 2004/5	Responsible Officer
1	Coordination with Council Objectives and Other Initiatives				
A	Ensure that all decisions relating to land and property meet the: i) Corporate Aims and Objectives of the Council; ii) The Community Strategy iii) Rushcliffe's Best Value Performance Management Framework iv) Service Performance Plans	Ongoing			CPO EMT; Cabinet
2	Organisational Arrangements				
A	Ensure that everyone involved in asset management planning are aware of their roles and responsibilities	Ongoing			CPO
B	CPO to make comment on all Cabinet reports relating to land/property issues	Ongoing			CPO
3	Consultation				

A	Ensure that a copy of the AMP is available for inspection on the Council's web-site; ensure that hard copies are available for those who do not have access to a computer	August 2003			CPO (Information Services)
B	Ensure consultation takes place with internal & external stakeholders/users regarding property related issues	Ongoing			Property & Design Team
C	After consultation, ensure stakeholders/users obtain feedback on outcomes	Ongoing			Property & Design Team
D	Ensure that Property and Design Management Team have been consulted regarding the impact of the AMP	June 2003			CPO
4	Data Management				
A	Develop AM software (CAPS)	Ongoing			Property & Design Team
B	Ensure DDA data is recorded	Oct 03			
C	Ensure Asbestos register is updated to meet statutory regulations	Oct 03			P Prescott
D	Ensure Legionella risk assessment and monitoring checks are carried out and records kept	Aug 03			P Prescott Service Managers
E	Ensure that records are kept relating to fire regulations: Civic Centre Other Buildings	Ongoing			M Perston Service Managers
F	Ensure that stock condition surveys data is recorded	Ongoing Biannually			P. Prescott



G	Ensure that all property related records are regularly updated	Ongoing			Property & Design Team System Users
H	Carry out annual property inspections to non-operational property to identify repairs	Ongoing			P. Prescott
I	Carry out further stock condition surveys to land	Jan 03			P. Prescott
5	Performance Monitoring and Measurement				
A	Monitor and review forward planning and the prioritisation of investment to Council assets	Ongoing			CPO & SAMWG
B	Review Capital Programme	Twice yearly			All Parties
C	Review comments from GO-EM regarding AMP submission	Autumn 2003			CPO & SAMWG
D	Conduct & review sufficiency surveys (adopt ODPM)	Jan 04			CPO & PP (and other Service Managers)
E	Collate and report on all national and local AM performance indicators, review results — carry out remedial actions to problem areas to ensure continuous improvement.	July 03 Sept 03 Ongoing			Property & Design Team
F	Further develop property performance indicators to ensure good management practices	Ongoing			Property & Design Team & PPU
G	Carry out project review (ODPM) on all capital projects	Ongoing			Property & Design Team

H	Report finding to EMT regarding option appraisal of: Civic Centre Public conveniences All weather pitch at BLC	Aug 03			CPO P. Prescott
I	Ensure ODM aims and objectives (value for money, Financial return; Service return) have been considered	Ongoing			Property & Design Team
6	Programme Development				
A	Ensure that the AMP feeds through to the Capital Programme	Ongoing			CPO; EMT; Cabinet
B	Ensure that other internal stakeholders are aware of the AMP and how they can contribute to the AMP	Ongoing			CPO
C	Review AMP on a quarterly basis, to ensure continuous improvement	Every 3 months			CPO
D	Keep up to date with new initiatives (use IPF website and attend AM seminars and workshops, etc.)	Ongoing			CPO
E	Where possible obtain grant/external funding. Liase with other Service.	Ongoing			Property & Design Team and Service Managers
F	When considering project design, take into account impact on: environmental issues, EMAS, DDA, Conservation and Preservation	Ongoing			Property & Design Team  Service Managers
G	Review asbestos surveys, and carry out necessary works	Aug 03 Mar 04			P Prescott

H	Review DDA data, coordinate and carry out necessary access works	Oct 04			CPO P Prescott
I	Continue energy management monitoring and improvement works. (Links to EMAS)	Twice yearly			P Prescott LCET
J	Ensure that stock condition surveys are monitored and updated (re-surveyed every 5 years)	Ongoing			P Prescott
K	Ensure Legionella risks assessments and monitoring works are carried to meet statutory requirements.	Weekly Monthly Six monthly Annually			P Prescott J S Service Managers
L	Ensure that Health & Safety risk assessments are reviewed and updated as and when required (at least annually)	Ongoing	Ongoing	Ongoing	Property & Design Team and Service Manager
7	Underuse and Disposal				
A	Carry out land/property leases/licences appraisals	Ongoing			CPO M Perston
B	Accommodation review (office space)	Ongoing			CPO P Prescott and Service Managers
C	Promote where possible shared use of facilities with other internal/external parties	Ongoing			Property & Design Team and Service Managers
8	Spending and Outputs/Outcomes				
A	Report on outcome of spending to EMT/Cabinet and external stakeholders	Twice-yearly			Property & Design Team and Service Managers

At a minimum, asset management plans should be prepared for specific infrastructure services or activities provided by a LG (e.g. water supply, sewage disposal or roads).

## LEARNING APPLICATION

ELECTED OFFICIAL  CEO  FINANCE MANAGER  DEPARTMENT HEAD

Consider the steps identified in establishing an asset management plan. Which of these steps has your LG already completed?

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Does your asset management plan need an overhaul or a minor tune-up?

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What steps need attention?

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Prepare a list of objectives you want to achieve.

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## *INTERNET RESOURCES FOR ASSET MANAGEMENT PLANS*

We have identified various asset management plans by specific infrastructure or asset activities that can be downloaded from the Internet:

Parks asset management plan

<http://www.rdc.govt.nz/NR/rdonlyres/6C500FF3-D54F-4C3E-ACE-6BEC2F8EBCDC7/0/ParksAssetManagementPlans2005.pdf>

Storm water asset management plan

<http://www.aucklandcity.govt.nz/council/documents/stormwater/default.asp>

School/college facilities asset management plan

[http://www.leics.gov.uk/index/education/going\\_to\\_school/leics\\_edu\\_auth/plans\\_policies/asset\\_mgmt\\_plan.htm](http://www.leics.gov.uk/index/education/going_to_school/leics_edu_auth/plans_policies/asset_mgmt_plan.htm)

Education facilities asset management plan

<http://www.westberks.gov.uk/WestBerkshire/education.nsf/pages/7BE380548B7D779380256A0300433199?opendocument>  
<http://www.cheshire.gov.uk/EducationAndLearning/ConsultationServicePlans/Downloads/DLAssetManagementPlanIntro.htm>

Road asset management plan

<http://www.brimbank.vic.gov.au/Files/RAMPadopted26.10.04.pdf>

Power point presentation on road asset management

[www.mrutc.org/outreach/workshop/program/Roohanirad.ppt](http://www.mrutc.org/outreach/workshop/program/Roohanirad.ppt)

Electrical facilities asset management plan

[http://www.electricity.co.nz/download/ASSET\\_MANAGEMENT\\_PLAN\\_2005-2015.pdf](http://www.electricity.co.nz/download/ASSET_MANAGEMENT_PLAN_2005-2015.pdf)

Local government asset management plans

<http://www.westdevon.gov.uk/doc.asp?doc=7235&cat=864>  
<http://www.aspenpitkin.com/pdfs/depts/24/2003-asset-mgmt-plan.pdf>  
<http://www.rushcliffe.gov.uk/upload/public/attachments/86/assetmanagementplan2003.pdf>  
<http://www.rushcliffe.gov.uk/upload/public/attachments/86/assetmanagementplan2003.pdf>

<http://irc.nrc-cnrc.gc.ca/fulltext/nrcc42665.pdf>

Guide to preparing a transit asset management plan

[http://www.wsdot.wa.gov/transit/asset\\_mgmt\\_plan/guide\\_to\\_preparing\\_your\\_TAMP.pdf](http://www.wsdot.wa.gov/transit/asset_mgmt_plan/guide_to_preparing_your_TAMP.pdf)

Croatia real property asset management plan

[http://isite23.isite.com.hr/Download/2005/01/26/Asset\\_Management\\_Manual\\_EN.pdf](http://isite23.isite.com.hr/Download/2005/01/26/Asset_Management_Manual_EN.pdf)

Water asset management plan

[http://www.metrowater.co.nz/pdfs/amp\\_water\(2004\).pdf](http://www.metrowater.co.nz/pdfs/amp_water(2004).pdf)

Wastewater asset management plan

[http://www.metrowater.co.nz/pdfs/amp\\_wastewater\(2004\).pdf](http://www.metrowater.co.nz/pdfs/amp_wastewater(2004).pdf)

World Bank report on strategic municipal asset management

[http://www-wds.worldbank.org/servlet/WDS\\_IBank\\_Servlet?pcont=details&ei=000094946\\_00102405574985](http://www-wds.worldbank.org/servlet/WDS_IBank_Servlet?pcont=details&ei=000094946_00102405574985)

## ASSET MANAGEMENT PLANS AND CAPITAL INVESTMENT PLANNING

West Devon Borough Council's AMP provides an excellent example of how the AMP is tied to the capital investment strategy. Note in particular Section 1.1 in the Capital Strategy discussion that specifically spells out the capital investment strategy is tied to the asset management plan. All of the examples in this section interrelate very well and demonstrate an excellent approach to capital strategy.

### WEST DEVON BOROUGH COUNCIL BACKGROUND INFORMATION (CONTEXT SHEET)

1. Gross and net revenue budget figures		
West Devon Borough Council has a gross revenue budget of £16,516 million in 2002/2003 and a net revenue budget of £6,140 million.		
2. Analysis of fixed assets as per the format of the consolidated Balance Sheet		
ASSET BASE	NUMBER	VALUE £'1000
Operational assets		
Other Land & Buildings		
- Office Buildings	2	606
- Swimming Pools	2	2,143
- Car Parks	16	2,369
- Public Conveniences	27	467
Vehicles, Plant & Equipment		
- Computer Software	1	5
- Corporate Information System	1	156
- Switchboard	1	58
- Electoral Registration System	1	18
- Whiddon Down TIC	1	25
Infrastructure		
- Flood Relief Scheme	3	124
Community Assets		
- Viaduct Works	1	3
Non Operational Assets		
- Industrial Units	5	707
- Commercial Properties and Land	11	882
- Land	16	414
- Miscellaneous Items	4	193
- Bus Station	10	2
- Allotments	10	2
- Non Operational Surplus	2	202

Note: The Council transferred its Council house stock in February 1999 to West Devon Homes Limited.

3. The number, gross floor area (GIA) and value of assets across the main service areas.

Service Areas	Number	Value £'1000	Gross Floor Area
Central Services & Accommodation	2	606	2,347.95
Economic & Community Development	64	4,481	1,064.5
Environmental and Housing Services	37	1,206	747.83
Leisure Facilities	2	2,143	1,672.2
<b>TOTAL</b>	<b>105</b>	<b>8,436</b>	<b>5,832.48</b>

4. The value of the assessed maintenance backlog across service areas

Service Areas	DETR Category				Total Backlog £'000
	1	2	3	4	
	£'000	£'000	£'000	£'000	
Central Services & Accommodation	20	44	50	0	114
Economic & Community Development	21	75	49	56	201
Environmental and Housing Services	20	54	461	137	672
Leisure Facilities	10	61	50	0	121
<b>TOTAL</b>	<b>71</b>	<b>234</b>	<b>610</b>	<b>193</b>	<b>1,108</b>
In percentage terms	6%	21%	55%	18%	100%

5. Summary of the Three Year Capital Programme 2002/2005

Service Area	2002/2003 £'000	2003/2004 £'000	2004/2005 £'000	TOTAL £'000
Central Services	216	200	0	416
Economic & Community Development	647	64	64	775
Environmental Services	937	0	0	937
Housing Services	1,015	1,015	1,415	3,445
Leisure Facilities	3,363	0	0	3,363
Planning and Development Services	27	37	37	101
<b>TOTAL</b>	<b>6,205</b>	<b>1,316</b>	<b>1,516</b>	<b>9,037</b>
Financed by:				
Capital Receipts*	2,076	917	818	3,811
Government Grants and European Funding	697	299	99	1,095
Borrowing Approvals	512	100	100	712
Lottery Grant and Other Contributions	2,920	0	0	2,920
Funding Gap identified**	0	0	499	499
<b>TOTAL</b>	<b>6,205</b>	<b>1,316</b>	<b>1,516</b>	<b>9,037</b>

\* The level of disposals forecasted for the three year period is £865,000 in total and is included in the Capital Receipts figure shown above. The Council will be reliant on the sale of these surplus assets to help to fund the Three Year Capital Programme.

\*\* There is a funding gap identified of £499,000 in 2004/05. The main consideration facing the Council after 2003/2004 will be whether the Council goes debt-free (see 2.4 of the Capital Strategy).

#### 6. Unsupported borrowing

The Council intends to make use of the flexibility to undertake borrowing that does not qualify for government grant under the proposed changes to the capital finance system in April 2004, subject to projects satisfying affordability criteria (see 2.4 and 2.9 of the Capital Strategy).

7. Brief background on area, population and characteristics of the Council West Devon is one of the largest and most sparsely populated districts in England, with a population of 48,659 (2001), spread across 458 square miles, extending from the northern outskirts of Plymouth to within 13 kilometres of Exeter. The western boundary for West Devon is the river Tamar, with the unitary authority of Plymouth lying to the south. From Plymouth, it stretches to the north and to the east encompassing a large area of the Dartmoor National Park (201 square miles) and the Tamar Valley Area of Outstanding Natural Beauty (32 square miles). A three tier system of local government operates, with services being provided by Devon County Council, West Devon Borough Council, Devon & Cornwall Police Authority and Town and Parish Councils.



The two main centres of population are Tavistock to the south and Okehampton to the north. Tavistock, with a population of about 11,077 owes much to its earlier monastic and mining history and the town itself is subject to strict planning and conservation policies to limit its growth to that essential to meet local needs. Okehampton on the other hand with a growing population of 5,557 and excellent communication links, is a primary focus for regeneration within Devon. The remainder of the Borough is predominantly rural in character, dominated by farmland, which has been traditionally cultivated for generations within the same family. West Devon has a relatively deprived economy. Agriculture and tourism are the main sources of employment for local people and these industries are notorious for contributing to the statistics associated with low wages for West Devon (20% below the UK average); high levels of self-employment and part-time employment and the prevalence of seasonal employment. There are a large proportion of small businesses with 90% of businesses employing fewer than 10 people. The traditional agricultural economy is also reflected in the fact that most of the large employers in the Borough are food producers.

Criteria Ref.	Primary Criteria	Capital Strategy Ref.
	The Capital Strategy	
1	Provides clear strategic guidance about the council's capital objectives, priorities, and spending plans and demonstrates that these are directly linked to and consistent with key corporate and service objectives as outlined in the authority's corporate documents. It should identify council wide cross-cutting activity and initiatives.	1.0 to 3.7 7.0 to 7.4 9.0 to 9.6
2	Describes the framework that the authority has put in place to ensure that the capital strategy is a corporate document.	1.1, 1.4 2.1, 2.3 7.0 - 7.4 4.0 - 4.4
3	Identifies all key aspects of capital expenditure within the authority and those areas where the authority is able to apply significant influence on others.	3.0 - 3.7 5.4 6.6 - 6.7 2.1, 2.3, 2.5, 2.7 5.1, 5.3, 5.5, 5.6 (Context Sheet, 5)
4	Explains the approach implemented in the prioritisation of capital project proposals.	4.4 - 4.5
5	Explains how the revenue implications of capital investment are taken into account.	3.7 4.4 - 4.5 7.1 - 7.3 (App. A - 7.2, 7.3)
6	Is informed by the outcomes of Best Value reviews and of other relevant reviews and improvement/development plans	6.7 7.1 - 7.4 10.3 11.1 4.4 (App. A 2.3.1)
7	Identifies how relevant stakeholders' and partners' views are sought and inform the working and development of the capital strategy.	6.0 - 6.8 (Appendix C) 7.1 - 7.4 5.0 - 5.7 3.0 - 3.6 1.14 2.3
8	Identifies key partners and describes partnership working.	5.0 - 5.7 3.1 - 3.6 6.2 8.5 8.1 9.0 - 9.6 11.1 4.2, 4.4, 4.8
NB - For the Secondary Criteria the original DTLR guidance contained two separate criteria with the same index number. For the purposes of this checklist they are included as 4a and 4b.		

Criteria Ref.	Secondary Criteria	Capital Strategy Ref.
	General Content	
1	Sets out sufficient information to inform all bidding for capital resources.	4.4 - 4.7 (Appendix A) 1.3, 2.1 - 2.9 7.1 - 7.4
2	Outlines the council's approach to PPP/PFI and to other means of alternative capital funding.	2.6 2.3 - 2.9, 11.1 9.6, 6.6 10.1 - 10.2
3	Addresses corporate policies on procurement strategies as envisaged in Best Value guidance (e.g. in the report of the Construction Task Force, chaired by Sir John Egan).	4.8 4.1 - 4.3
	Partnership Working	
4a	The strategy identifies how partnership working is being further progressed by steps being taken to work with other councils and relevant organisations (for example, capital projects in co-operation with neighbouring councils, local primary care trusts, voluntary sector and private sector).	5.1 - 5.7 3.1 - 3.6 9.1 - 9.6 1.14 2.5, 8.1
	Performance Measurement and Monitoring There is evidence that:	
4b	Performance measures and benchmarking are being used to describe and evaluate how the deployment of capital resources contributes to the achievement of corporate and service objectives.	8.0 - 8.6 4.1 - 4.5 5.6 (Apps A, D & G)
5	The results of performance measurement and benchmarking are being communicated to Stakeholders where relevant.	8.0 - 8.6 4.1 - 4.3 4.6 (Apps D & G)
6	The results of performance measurement and benchmarking are being used to seek service improvements and target service delivery.	8.0 - 8.6 4.1 - 4.3 4.6 (Apps D & G)
7	Performance measurement activities relate to capital projects and to the influence of grants and partnerships.	8.0 - 8.6 4.1 - 4.3 4.6 2.5 (Apps D & G)
8	There is a corporately agreed 3-year strategy explaining the council's approach regarding the effective management, measurement and monitoring of the council's capital programme.	4.1 - 4.3 2.3 8.3 - 8.4 (Appendix G)
	Cross-cutting Activity	
9	There is evidence of the development and/or delivery of key priorities and targets to achieve cross-cutting objectives such as regeneration and sustainable development.	9.0 - 9.6 3.2 - 3.6 5.3
10	There is evidence of cross-cutting activity leading to improved outcomes, including consideration of and where appropriate adoption of innovative solutions (for example, in the use of new technology; in the shared use of accommodation; in the provision of more customer focused service delivery.)	9.0 - 9.6 5.7 3.2 - 3.6

1.0 Introduction

1.1 This is a corporate document which sets out the Borough Council's Capital Strategy, outlining the approach to capital investment and ensuring that capital investment is directed to the Council's corporate priorities. It was developed by the Asset Management Group which meets once a month (see 4.1) and corporately approved (see 1.4 of the Asset Management Plan for details).

1.2 The Council's Vision for West Devon is:

"West Devon Borough Council aims to promote the well being of the Borough by delivering high quality services, making best possible use of resources and listening to and working with others."

1.3 This Vision summarises what the Council is trying to achieve for the Borough. In support of this vision, four corporate priorities have been developed. Members of the Council have agreed that all its activities and services should be able to contribute to one or more of its four Corporate Priorities, which are listed below:

- The Council will promote the economic prosperity of the Borough and tackle poverty and exclusion issues within West Devon
- The Council will seek to achieve a Borough where all residents are satisfactorily housed
- The Council will strive to make the Borough an attractive, healthy and safe place to live and work
- The Council will enable and support public and community facilities

Underpinning these corporate priorities are agreed Committee Considerations, acting as general objectives and principles around which all services will be delivered. These are shown in 4.4.

1.4 The West Devon Community Planning Forum issued its first Community Plan in Spring 2002, which is very much issue based. Four local studies have been undertaken at Buckland Monochorum, Hatherleigh, Princetown and Spreyton and many community concerns, often from differing perspectives, have emerged in each community study. Coupled with the Market Town Initiative work based in the Tavistock, Okehampton and Hatherleigh areas, the knowledge base of both needs and concerns across the Borough is being strengthened and enlarged. Ongoing consultation work should result in a need based and targeted plan emerging early next year. By 2003, the Community Plan will drive the Capital Strategy (as shown in 7.1) and the Council's future direction. West Devon's corporate priorities have both influenced and have been influenced by the objectives of the Community Plan which is available on [www.westdevon.gov.uk/council/wdcp/WDCP.pdf](http://www.westdevon.gov.uk/council/wdcp/WDCP.pdf).

2.0 THREE YEAR CAPITAL PROGRAMME, MAXIMIZING CAPITAL RESOURCES AND APPROACH TO ALTERNATIVE FUNDING OPPORTUNITIES.

2.1 The Council's capital spending is managed as a corporate responsibilities so that the council's priorities (see 1.3) take precedence over individual service needs. This approach is essential in a Borough that has two quite distance centres of population with differing needs and a large rural population that can be difficult to access. Our capital projects are based on the principles of "Modern Local Government" of providing strong leadership, separation of roles, transparency and increased accountability.

2.2 in 1999, the Council undertook a large-scale voluntary transfer (LSVT) of its housing stock, producing an investment portfolio of £13 million. Due to the size of this portfolio, the Council does not currently qualify for any significant Basic Credit Approval (BCA), receiving a BCA of only £75,000 in 2002/2003. However, all of the usable receipt of £3.2 million, generated by the sale of the housing stock, was earmarked to fund the provision of new social housing within the Borough and therefore it is not available to fund the Capital Programme in general.

2.3 The Council has developed a detailed Capital Programme covering the next 3 years, along with a strategy of how it will be measured and monitored. It was approved by the Full Council in July 2002 and is summarised in the "Context Sheet" associated with this document. The plan is currently developed based on the needs identified from the Council's corporate priorities which also inform the strategic service based plans contained within the Council's Best Value Performance Plan for 2002-03. We rely heavily on external funding to support any major capital projects as the Council has very little capital resources. We have been extremely successful in achieving the Council's corporate priorities in light of the lack of available funding and have found ways to overcome funding obstacles. We have less assets than any other Council and the least ability to generate capital receipts, yet the Council will be reliant on the sale of surplus assets to help to fund the Capital Programme for future years!

2.4 Longterm considerations / Going debt-free. The last tranche of ring-fenced funding for housing will be used in 2003-2004 and the Council is addressing the issue of future funding of capital projects after this date. Capital spending on social housing is reimbursed by the Housing Corporation but these amount are set-aside until the Council becomes debt-free. The main consideration facing the Council after 2003/2004 will be whether the Council goes debt-free. This will enable the Council to spend some of the set-aside funds from the sale of the houses, to fund future capital projects. Alternatively, early introduction of the new prudential capital finance system would enable the Council to accelerate key capital priorities without the financial cost of realising debt free status (i.e. the premia on debt repayment).

2.5 External funding. Any request from a service for capital funding is always examined to establish what other external funding might be drawn down by the project, so enhancing the total value of the project and fulfilling the requirement to encourage the economic prosperity of the region. The reliance of the Council on external funding is shown in the fact that the Gross Capital expenditure of schemes in 2002/03 is £6 million, with the Council's contribution being £2.5 million. The majority of the Council's projects would not be possible without external funding. An example of this is the £ 870,000 North Tawton flood relief scheme which is being 45% funded from a grant from DEFRA. A further example is the Okehampton Sport Centre project which is dependant on a large Lottery bid, which is budgeted to cover 74% of the total cost of the project.

2.6 The Private Finance Initiative (PFI) and public / private partnerships (PPP). PFI and PPP are major sources of funding for local authorities and consequently Council Officers keep well informed of developments in PFI and PPP. However, experience has shown that most schemes within the Council's Capital Programme are too small scale (i.e., less than £100,000) to interest PFI funding organisations and lead in times can be long, resulting in a potential for incurring abortive costs. Despite these drawbacks, when major schemes are being developed, PFI and PPP are considered as funding options.

2.7 European and economic development funding / match funding. The Council is also aware of the need to provide match funding and plans to seek every opportunity to take advantage of the funding available through the Objective 2 Programme for the South West. Initial indications show that there is potentially £9 million of European funding available for the West Devon area, subject to good projects and match funding coming forward.

2.8 Revenue support for capital investment. The Council's revenue budgets are under unrelenting strain and hence, since 1999/2000, the Council has been unable to make a revenue contribution to capital outlay (RCCO).

<p>2.9 Unsupported borrowing approvals. The Council intends to make use of the flexibility to undertake borrowing that does not qualify for government grant under the proposed changes to the capital finance system in April 2004, subject to projects satisfying affordability criteria. Under this system, we will be able to borrow money on the strength of our resources, to pay for capital projects and be able to spend more on schemes that through effective consultation have been proved to really matter to local people and help improve quality of life.</p>
<p>3.0 KEY AREAS OF CAPITAL EXPENDITURE  3.1 Key areas of Capital Expenditure are controlled by the following corporate priorities (see 1.3)</p>
<p>3.2 Delivering on our Economic Prosperity Priority</p> <ul style="list-style-type: none"> <li>• Objective 2 schemes and Okehampton employment land</li> </ul> <p>The Council has earmarked £270,000 of its Capital Programme to the Objective 2 scheme, £85,000 of this is being allocated to develop managed work-space in Tavistock, to provide 15 starter business units, for new and developing businesses. The total cost of this scheme is £600, 000, with match funding from SWERDA and Objective 2. In addition to the £327,000, £50,000 has been earmarked to secure employment land in Okehampton. There is a partnership proposal with the South West of England Regional Development Agency (SWERDA) to acquire and service a 26 acre site at Okehampton. This employment land is a key site to ensure the balanced development of Okehampton and to create additional job opportunities. By committing a small proportion of funding to the Okehampton Employment Land project, the Council has been able to influence the project leader (SWERDA). The Council worked hard to maintain momentum in this acquisition, offering the potential backup of its compulsory purchase powers, ensuring that the scheme has not been replaced by an “easier” project elsewhere in the region.</p>
<p>3.3 Delivering on our Housing Priority (as stated in the Council’s Housing Strategy)</p> <ul style="list-style-type: none"> <li>• Social Housing Grant</li> </ul> <p>This scheme forms part of the commitment to increase the amount of social housing within the Borough and results from the sale of the Council’s housing stock in 1999. This is the fourth year of the five year commitment to spend £3.2 million. In the fourth year, the Council’s contribution from the Capital Programme is £600,000. The Council works in partnership with the Housing Corporation and Registered Social Landlords to provide quality, social housing in the Borough. This partnership will enable the Council to provide over 160 additional homes by 2004, a significant figure since there are only 20,000 homes in West Devon.</p> <ul style="list-style-type: none"> <li>• Disabled Facilities Grants and Private Sector Renewal Grants</li> </ul> <p>The Council contributes £165,000 annually towards funding adaptations to the homes of people with disabilities. It also contributes £250,000 annually towards finding repairs, modifications and improvements to privately owned and privately rented accommodation.</p>
<p>3.4 Delivering on our Public and Community Facilities Priority</p> <ul style="list-style-type: none"> <li>• Okehampton Sports Centre</li> </ul> <p>This ambitious project seeks to provide a new swimming pool, a fitness suite and a new Sports Hall in Okehampton. The cost of the overall scheme is £3.4 million with a Borough contribution of £440,000. The scheme is dependent on a large Lottery bid. The Council is working in partnership with key partners and Sport England.</p>

3.5	<p>Delivering on our Health and Safety Priority</p> <ul style="list-style-type: none"> <li>North Tawton Flood Relief Scheme</li> </ul> <p>The Council is committed to resolving the extensive flooding problems in North Tawton and in 2001, the Council commissioned a feasibility study for a flood relief scheme. The scheme has particular importance in forms of regeneration as it assists with reducing flooding in North Tawton and allows further sustainable development of the town. The overall cost of the scheme is £870,000. The Government will contribute £340,000 towards the scheme by a grant from the Department of Environment Food and Rural Affairs (DEFRA). The Council will contribute the remaining £530,000 and has applied for Supplementary Credit Approval for the project.</p>
3.6	<p>Looking to the future of service delivery / cross cutting activity</p> <ul style="list-style-type: none"> <li>Implementing E-Government - Information and Communications Technology</li> </ul> <p>This scheme represents a significant investment to implement the Council's Implementing Electronic Government (IEG) statement and achieve the Council's vision for modern service delivery and E-Government. £200,000 in the form of a capital cash grant from the Government is pump priming the Council's delivery of E-Government. Significant extra resources will need to be inputted by the Council, by the pursuit of additional funding, in particular by partnership projects, to achieve E-Government by 2005.</p>
3.7	<p>Revenue implications of the Capital Strategy Proposal</p> <p>A key element of our option appraisal system is to ensure that longer term life cycle costing of projects is undertaken. Any revenue costs of capital projects are identified at the Project Approval stage (PAR) process (see Appendix A — 7.0 to 7.3) and are also shown in service plans (see 7.2). The revenue implications as stated in the PARs are used to inform the revenue budget planning process and are shown in the Council's Five Year Financial Plan as commitments against the revenue budget (see 7.1). Therefore when a new capital project is assessed, any impact on revenue expenditure is anticipated, costed and a financial risk assessment of the project is undertaken.</p>
<p>4.0 THE FRAMEWORK FOR MANAGING AND MONITORING THE CAPITAL PROGRAMME</p>	
4.1	<p>The Council's robust procedures for managing and monitoring its Capital Programme, are set out in the Three Year Capital Programme. This was approved by Full Council in July 2002. Detailed monitoring and review of both the delivery of the Service outcomes and objectives and financial performance is undertaken by the Capital Monitoring Group (CMG) This is a subset of the Asset Management Group (AMG), see 1.4 of the Asset Management Plan. The CMG meets quarterly to review the Capital Schemes and manage and monitor the overall development of the Capital programme. It is attended by the Council's Chief Executive Deputy Chief Executive, the Chief Accountant leaders who then report to the CMG. The CMG aims to ensure that projects are delivered promptly and that maximum use is made of available capital resources. Quarterly monitoring reports are made to the Council's Policy and Resources Committee on the progress of the Capital projects, incorporating any recommended variations. Committee Minutes from these monitoring reports are shown in Appendix G. The criteria upon which projects are monitored and evaluated are agreed at the Project Approval stage, with some criteria being specific to each project (see 4.3 of Appendix A). The monitoring reports include an assessment of how the project is proceeding with regards to budget and timescale and includes forecasts of any anticipated variations to target outcomes.</p>
4.2	<p>Particular care is taken in monitoring joint funded and partnership projects to ensure that they remain within budget and the original objectives of the scheme are met. Regular internal project meetings are held with representatives of the key partners involved to monitor the progress of the project, reporting back to the Council's CMG.</p>



<p>4.3 At the end of a project, monitoring reports summarise project outcomes and state the reasons for any variations. Comparisons are made between the budget and actual expenditure and a project assessment is made, e.g., Did we achieve our strategic objectives? Was the project delivered on time, to budget and to specification? Were the service outcomes and outputs as predicted? Future capital strategies are informed by the knowledge and experience gained from the detailed monitoring and outcome reviews (Project Implementation Reviews).</p>
<p>4.4 Approach to Prioritisation of Capital Expenditure</p> <p>The Council has developed a method of ranking and prioritising capital bids, being the completion of Project Approval Reports (the PAR process). This process is set out in detail in Appendix A. The underlying principle is that capital resources are directed only to those projects which achieve our corporate priorities (which are stated in 1.3). All capital bids are scored with reference to their conformance against the following criteria:</p> <ul style="list-style-type: none"> <li>Effectiveness in achieving key corporate priorities (as per 1.3) <ul style="list-style-type: none"> <li>• Economic Prosperity</li> <li>• Housing</li> <li>• Health and Safety</li> <li>• Public and Community Facilities</li> </ul> </li> <li>Meeting Committee Considerations <ul style="list-style-type: none"> <li>• Community Safety</li> <li>• Partnership</li> <li>• Regeneration</li> <li>• Sustainability</li> <li>• Risk Management</li> <li>• Financial Implications</li> </ul> </li> <li>Meeting Other Considerations <ul style="list-style-type: none"> <li>• Best Value</li> <li>• Asset Management</li> <li>• Timescale</li> <li>• Democracy</li> <li>• Consultation</li> </ul> </li> </ul> <p>With regards to financial implications, higher scores are given to projects which generate income, attract external finance or generate revenue savings. The option appraisal system concentrates on long term, life cycle costing.</p> <p>In order to set the Capital Programme, each Service Committee has to first consider the schemes which have been put forward for funding. A Project Approval Report (PAR) is prepared for each scheme, which identifies the aim of each project and how it fits with the Council's corporate priorities, how it is to be funded and the benefits that the scheme will bring to the Borough. The Service Committees then prioritise the projects using the criteria model and rank them in order of priority by allocating a score to each project. Recommendations are made to the Policy and Resources Committee which evaluates and prioritises all the PAR reports of all Service Committees. The Capital Programme is set by the Policy and Resources Committee with reference to the limited capital resources available.</p>
<p>4.5 New bids for capital expenditure — method of option appraisal</p> <p>Project Approval Reports are completed and assessed for all new capital bids via a criteria model and are used as a project justification process. The PAR system takes account of the Best Value objectives, asset considerations and service aims, along with the ongoing revenue implications of the proposed scheme. PAR reports are initially scored by the Service Committees, who make a recommendation to the Members of the Policy and Resources Committee. Approved projects are monitored by the capital project leader, who reports to the Capital Monitoring Group.</p>
<p>4.6 Slippage — At the end of the financial year, a full review of unspent capital is carried out. Project Leaders have to complete reports detailing the case for any "slippage" to be rolled forward. This is presented to Members of the Policy and Resources Committee who approve the amount of slippage rolled forward. The Borough Council's heavy reliance on external funding (as stated in 2.5) makes the Council's slippage levels higher than some other Authorities. Funds not rolled forward become available to fund future capital expenditure.</p>
<p>4.7 Additional capital resources — inform bidding</p> <p>Bids for additional resources are only considered if they accord with the Capital Strategy and where the Authority has taken into account ongoing commitments and current strategies in relation to its capital needs and resources.</p>

4.8 Procurement — Best Value Procurement Limited are undertaking a comprehensive review of the purchasing processes in the County, Unitary and District Councils, the County Fire Service and Dartmoor National Park of Devon. The output of this review will be a series of recommendations for the implementation and development of an E-Procurement solution for Devon. West Devon is part of this project and the Council's purchasing policy will be audited in September to provide a baseline for the project. The process will create a blueprint for the adoption of E-Procurement by each local authority in Devon, within a consistent cross-authority procurement strategy.

## 5.0 KEY PARTNERS

5.1 The Council recognises the importance of partnership working in delivering its own corporate priorities as well as those of many organisations, public and private, which serve the community of West Devon. Due to the limited capital funding available to the Council, most capital projects could not progress without partnership working.

5.2 Local Strategic Partnership — The West Devon Community Planning Forum meets four times a year and has representatives from over twenty public, private, community and voluntary organisations. Representatives are from Devon County Council, the Police, West Devon Borough Council, Dartmoor National Park, Market Town Initiatives, Government Agencies, Businesses, Parish Councils, Primary Care Trusts and Tavistock Community College. The forum worked together to produce a Community Plan for West Devon which is referred to in 1.4.

### 5.3 Focusing on our Economic Prosperity Priority

- Economic Development — Partnership working is essential to the way the Council works in economic development and regeneration. The Council is part of the Plymouth Sub regional and North West Devon Economic Partnerships, both of which have had economic development plans to deliver an improved economy which reflect the Regional Economic Strategy. The Objective 2 single programming document is another key strategy. Serviced employment land has been provided by the Council, with funding from the EU and a development agreement with SWERDA. The Council is looking to invest further in this land by providing factory units and is working to develop managed workspace for new and developing businesses. (See 3.2)

### 5.4 Focusing on our Housing Priority

- Housing needs in West Devon — The Council works in partnership with the Housing Corporation and Registered Social Landlords (mainly West Devon Homes Limited) to provide quality, social housing in the Borough. Through this partnership, last year we committed to provide at least 130 additional affordable homes by 2004. We can now say that we will provide at least 160. We have done this by attracting additional resources from the Housing Corporation and by negotiating some units through the planning process this year.

- Health related initiatives — The Council also has extensive partnerships with both Primary Care Trusts (Mid Devon and South Harris & West Devon) and Devon Social Services, working towards health improvement programmes and joint investment plans where we are able to have a significant influence on the spending plans of other bodies, whilst minimising our own financial contribution.



5.5	<p>Focusing on our Health and Safety Priority</p> <ul style="list-style-type: none"> <li>Community Safety — The West Devon Community Safety Partnership is a statutory partnership; convened to ensure the requirements and objectives of the Crime and Disorder Act 1998 are met in the Borough. The partnership includes representatives from Devon County Council, the Police, Health Authorities, Probation and Fire Services, Youth Offending Team as well as the voluntary sector and local councillors, working together to reduce crime and the fear of crime in the Borough.</li> <li>North Tawton Flooding — The Council is working in partnership with Devon County Council, North Tawton Town Council, the Environment Agency, South West Water limited and DEFRA to alleviate the flooding problems in North Tawton. The scheme has particular importance in terms of regeneration as it assists with reducing flooding in North Tawton and allows further sustainable development of the town.</li> <li>Waste Management — The Council works with the County Council and other Districts on recycling initiatives and recently, a successful joint application has been made to the Government to fund a Devon-wide initiative to encourage recycling. Despite being the poorest Council in the South West, West Devon is the only authority in Devon with a District wide recycling scheme.</li> </ul>
5.6	<p>Focusing on our Public and Community Facilities Priority</p> <ul style="list-style-type: none"> <li>Okehampton Sports Centre — The Council is further progressing partnership working by working with various parties to build a new sports centre in Okehampton at a cost of £3.4 million, opening in early 2004. The centre will be funded mainly with grant from the Sports council for England, with contributions from West Devon Borough Council, Devon County Council, Okehampton Town Council, Okehampton College, Mid Devon Primary Care Trust, Okehampton Community Recreation Association and the private sector to provide a new community facility.</li> </ul>
5.7	<p>Reducing the costs of services through partnership working</p> <ul style="list-style-type: none"> <li>Office Accommodation — The Council has been innovative with partnership working by carrying out joint reviews of office accommodation needs with Devon County Council and Devon and Cornwall Police. This has resulted in Devon County's Local Services Group sharing the Council's offices at Kilworthy Park, Tavistock. In the near future, the Council is looking to share offices with the Police in Okehampton. This has achieved greater operating efficiency across a range of public services by ensuring services are delivered locally from one base and has improved public access to services.</li> </ul>
6.0	CONSULTATION
6.1	<p>The Council is committed to putting the views and interests of local people to the forefront in its decision making processes. Appendix C shows the consultation undertaken in 2002/03. Consultation informs the Council's corporate priorities and capital investment programme.</p>
6.2	<p>Community Action Planning — In 2002/03 the Council implemented a pilot project of action planning in four diverse communities, funded by the Invest to Save budget. The Council and its partners in the Community Planning Forum will seek to respond to the action plans developed in the communities. There are currently four areas, giving coverage across the Borough, included in the Market and Coastal Towns Initiative. Communities are assisted in preparing a "Community Strategic Plan" setting out issues and projects to meet their needs and aspirations. The programme is based around widespread consultation and community involvement. The outcomes of this process will feed into decision making on the Council's capital programme, ensuring that future capital spending takes account of community need and that capital strategies are influenced by local people through the Community planning process. This will need to happen within the context of finite resources.</p>

<p>6.3 The Okehampton Sports Centre — The project was the subject of an exhibition with three potential sites being canvassed. Questionnaires were given out and the public were asked to comment on the proposal, the location and the style. The project has proceeded largely in accordance with the most popular public comments. The exhibition therefore determined project content, the site of the Sports Centre and the architectural approach taken.</p>
<p>6.4 North Tawton Flood Relief Scheme — Consultation was carried out to obtain residents' views on the scheme. The project will now progress to alleviate the flooding problem.</p> <p>6.5 Housing services — Consultation has been carried out to inform the Council's Housing Strategy. This is detailed in the Strategy which is available on <a href="http://www.westdevon.gov.uk">www.westdevon.gov.uk</a>.</p>
<p>6.6 Local Plan — S106 agreements — Consultation on the Local Plan is set out in Appendix C. The Council can seek to negotiate S106 agreements with developers, ensuring the requirements arising from new housing developments (e.g., a play area) are recognised in the contributions in cash and in-kind (provision of new assets) by developers.</p>
<p>6.7 Best value reviews — Consultation exercises with stakeholders and the community are also undertaken through Best Value reviews and Service reviews. A pro-forma for considering capital and property issues has been built into the Best Value Toolkit to ensure that the Best Value reviews take account of these issues. It is the task of the Asset Management Group to ensure that results from consultation exercises are considered and the capital implications identified, appraised and fed into the capital prioritisation process. Consultation will continue to be used to inform the development of the Council's Capital Programme and disposal programmes. For example, as part of the Best Value Review of Waste Management, results from consultation were used to determine the current arrangements for an enhanced recycling scheme. Customised vehicles had been purchased by the contractor to allow kerbside sorting of recyclable material. This resulted in the contractor making a significant external capital outlay. The Council also disposed of a depot following a Best Value review of Waste management (see 10.3).</p>
<p>7.0 STRATEGIC PLANNING AND LINKS TO OTHER STRATEGIES</p>
<p>7.1 By 2003, the Community Plan will drive the Capital Strategy (see 1.4) and the Council's future direction. The link between the Community Plan and the Council's own Best Value Performance Plan (BVPP) is clear and positive and the Council recognises the importance of partnership working in delivering its own corporate priorities, as well as those of many organisations, public and private, which serve the communities of West Devon. A strong emphasis has been placed on the development of the Council's planning framework with respect to capital investment.</p>
<p>7.2 Service Plans are influenced by corporate priorities, financial and legal constraints, statutory requirements and other Council plans and strategies. Some major services have their own strategy for service delivery, for example the Housing Strategy. These strategies include both revenue and capital considerations and are used to form the basis of subsequent capital bids. They are updated and reviewed annually to address the results of ongoing consultation, changes in corporate priorities and resources available to the Council and the recommendations of Best Value Reviews (a major source for identifying future capital needs).</p>

<p>7.3 Fundamental to the effectiveness of this planning framework is the need to ensure that the Capital Strategy adopts a corporate approach to capital spending that is consistent with the Council's corporate objectives and the Council's key planning documents. The overall planning framework ensures that the capital strategy is a corporate document by ensuring consistency and compatibility in the coordination and preparation of strategies. There is a clear hierarchy of strategies and plans in the framework, which address our corporate priorities and they are brought together within the Council's Best Value Performance Plan. The Council's elected Members take the final decisions on the Best Value Performance Plan and on all of the strategies and Plans listed on the right hand side.</p>
<p>7.4 The Asset Management Group (AMG) relies heavily on individual service plans and strategies to develop a Borough Asset Management Plan and ensure that appropriate input from the AMG is fed back into service strategies. The Asset Management Plan is used both to inform needs and to set specific targets for capital and corporate priorities, flowing through to the Council's annual Best Value Performance Plan, as well as the development of the Council's Capital Programme.</p>
<p>8.0 PERFORMANCE MEASUREMENT AND INNOVATIONS</p>
<p>8.1 Benchmarking — The Council has adopted the National property Performance Indicators and have informally benchmarked with similar sized authorities through the IPF Asset Management Planning Network, with a view to improving its own performance (see 4.3 and 4.6 of the Council's Asset Management Plan). The National Performance Indicators 5A and 5B measure how well the Authority is managing their Capital programme. The Council did not have any projects in 2001/02 that satisfied the criteria for being included in these indicators. Appendix B shows the results of the Performance Indicators which have been communicated to Members.</p>
<p>8.2 In addition a range of local performance indicators have been developed (e.g., The percentage of Council Office floor space that is used by our partners, etc) and these are stated in the Property Performance report in Appendix B</p>
<p>8.3 Monitoring and reporting to stakeholders — the Council has a systematic process of monitoring and reporting against its performance targets, internally by managers within departments and corporately through quarterly reporting on key performance indicators to the Management Board and the Policy and Resources Committee. Performance information is shared with stakeholders via the Council's website and by formal reporting in the Best Value Performance Plan and other documents. This is shown in Appendix D. Quarterly monitoring reports are also provided to the Policy and Resources Committee on the progress of the Capital Programme (see 4.1 - 4.3) and the results of performance measurement on output targets, including performance of the Council's property assets. Appendix D shows indicators from the Best Value Performance Plan which inform the Capital Programme.</p>
<p>8.4 Exception reporting — The Overview and Scrutiny Committee has responsibility for the overall effectiveness of the Council's performance management and receives exception reports, focusing on areas of deteriorating performance. It has the power to call to account other Committees and senior officers for poor performance.</p>
<p>8.5 Partnership arrangements/output targets — Objective 5B and Objective 2 funded schemes are subject to quarterly and end of year reports to Service Committees and the Policy and Resources Committee. The achievement of outputs and milestones (both financial and non-financial) and key indicators are all contained in these reports and inform interested parties in respect of performance. European claim submissions require performance against output targets to be monitored and the Council is audited on them.</p>

8.6	Improving service delivery — The results of performance measurement are used for making improvements to service delivery. Where poor performance is highlighted, a timescale is set within which to rectify the work.
9.0	COUNCIL WIDE CROSSCUTTING ACTIVITY AND INITIATIVES
9.1	Social Exclusion —The Council's Leisure Strategy 2000 - 2005 addresses the cross-cutting demands of economic regeneration, health, youth, sustainability, social inclusion and life-long learning, whilst its Housing Strategy takes into account the needs of the vulnerable and socially excluded, as well as families.
9.2	Regeneration — This is recognised as a cross-cutting theme, to which many services contribute. Regeneration is a committee Consideration (see 1.3) and all Committee reports address how the subject of the report contributes to it. It is reviewed as part of the appraisal process of all potential capital projects (see 4.4). An example would be the way the Council works with local suppliers where possible, with 73% of Council purchases being made locally.
9.3	Sustainable development strategy — sustainability is a Council Committee Consideration (see 1.3) and is considered in all Committee reports. It is reviewed as part of the appraisal process of all potential capital projects (see 4.4). The Council involves other agencies and groups in the mission for sustainable development, through the sustainable development strategy and through a commitment to partnership working. The Council is engaged in an environmental audit process which reviews the Council's actions against identified issues. Auditing is carried out by working with an acclaimed and internationally respected local charity and identifies opportunities for improving the Council's performance.
9.4	Best Value — The results of Best Value reviews and consultation will be used to inform cross-cutting activity. A joint best value review of Economic Development is being undertaken, by working in partnership with the County Council and a number of Devon District Councils. This will allow opportunities for joint working to be identified and developed. The Council has agreed for several cross-cutting Best Value reviews such as Community Safety, Sustainability and an access to service review to be undertaken in the future.
9.5	Information and Communications Technology — The Council recognises the need to modernise our services by further investment in ICT (see 3.6). It is becoming essential to the delivery of integrated services through the e-Government revolution and is a cross-cutting issue, underpinning all other corporate priorities.
9.6	Accommodation review — For the last two years in an innovative move towards streamlining services to the public by means of several partnership initiatives has been successfully completed. West Devon also undertook a review of its accommodation needs right across all departments of the Council, along with other key partners. The detail of this is given in 5.7. The project delivered the shared use of Council accommodation.
10.0	DISPOSAL STRATEGY
10.1	It is the Council's policy to maximise capital receipts through a review of existing property use. A rigorous approach has been adopted to the identification and disposal of surplus assets that are no longer required to meet the corporate priorities of the Council and its strategic partners. The Asset Management Group review on a continuing basis the property portfolio and identify surplus land, which will be sold to raise a capital receipt.
10.2	Capital receipts from the sale of Council assets have provided a significant source of funding over the last few years and the Council is highly dependent on them to fund the Capital Programme (see 2.3) The Council's asset base is very small and the Council now has a diminishing number of properties that are suitable for disposal. The level of disposals forecasted for the three year period 2002/03 to 2004/05 is £865,000 in total (See Context Sheet).

10.3 Best Value Reviews — The reviews will inform utilisation of Council's assets and the level of customer satisfaction. The success of this process for reviewing the effective use of assets can be seen from the very first review carried out on the Waste Management service. The review identified that the current depot site in Tavistock was not suitable to cope with the expanding recycling contract required under new legislation. As a result this site has now been declared surplus and a new depot leased from the County Council.

#### 11.0 SUMMARY

11.1 The Council will continue to prioritise its capital spending in line with its corporate priorities, recognising that a commitment to partnership working will play a part in the Council's overall approach. New and innovative ways of increasing capital finance will continue to be explored in the light of the new prudential system for Capital Finance that is due to be introduced. The Council will annually review its approach to capital expenditure having regard to the issue of the Council going debt-free, outcomes of Best Value Performance Reviews and Inspections, outcomes of the corporate Performance Assessment which will be undertaken in 2003 and the Capital Allocations made to West Devon from the Single Capital Pot for 2003/04.

## BENEFITS

The benefits of establishing an asset management system include:

- Correcting possibly misleading financial statements—statements that reflect an artificially low investment in assets and corresponding low overall net equity as a result of: failure to record historical investments in assets or failure to record current period assets financed from proceeds of debt security offerings, capital grants or the LG's own resources. Because capital assets are generally a LG's single largest asset, the omitted assets from inappropriately recorded capital asset expenditures can be very significant on a cumulative basis. Conversely, failure to record known asset retirements (when an asset is disposed of) could result in overstatement of assets. Either of these problems can and should be avoided by establishing an appropriate asset management system.
- Strengthening stewardship—inadequate or nonexistent asset management systems jeopardize stewardship of the assets for which management is responsible. This weakened stewardship occurs when assets records cannot be compared to periodic annual physical counts of assets, or there are missing assets, assets at inappropriate locations, or mismanagement of these fixed assets.
- Identify major unrecorded assets—where management is not continually concerned with assets, major asset categories can be inadvertently omitted from financial statements. These would include the following:
  - Assets owned by joint ventures such as airports, solid waste treatment plants and other enterprise activities frequently undertaken on a joint venture basis,

- Assets subject to capital leases under which the LG, in effect, is financing acquisition of assets by means of a deferred purchase agreement, and
  - Assets, for which the LG is responsible, are leased for periods of time of less than the life of the asset. Even though these are under operating leases and properly (according to generally accepted accounting principles) not recorded on the books, management nonetheless is responsible for physical security and maintenance.
- Adequate maintenance management—lack of data concerning buildings, building improvements, furniture and equipment, and other assets usually will prevent LGs from planning for and actually conducting scheduled preventative maintenance. Accordingly, some types of maintenance may be inadvertently omitted, while other types occur more frequently than necessary.
  - Strengthened risk management—most LGs base their risk management programs on comprehensive asset cost data. Obviously, if certain assets are omitted or other record inadequacies exist, it is possible that inappropriate risk management decisions will be made. This could result in over-insuring certain risks and underinsuring, or perhaps not insuring at all, other risks. For example, this might occur if an automotive fleet is partially owned outright, partially financed by capital leases, and partially acquired under operating leases.
  - Better capital budgeting—a LG that does not have adequate information about the assets it owns and uses, their age and condition, and other factors such as type of roofing materials used, cannot properly plan for asset replacement or enhancement in the capital budgeting process. The asset system can be utilized to maintain asset replacement cost for risk management and to supply realistic cost estimates during the capital budgeting process.
  - Reduced possibility of purchasing unneeded assets—an asset system usually summarizes data about assets that are owned but not in use. This data should be consulted when LG agencies seek to purchase an asset. If information concerning temporarily idle surplus property is not available, unneeded purchases can be made. Information concerning partially utilized assets can help to avoid unneeded purchases by identifying an asset that can be shared by two departments. In this way, a new purchase can be avoided and both departments have part-time use of the asset.
  - Disposal of surplus property—without adequate asset records and resultant controls over the physical existence of assets, surplus property will not be disposed of promptly or sold for an appropriate price.
  - Increased public scrutiny—there is a public trust inherent with the collection and expenditure of taxes. A well maintained asset system demonstrates to the public the legitimacy of the expenditures as well as the LG's sense of responsibility for the proper care and maintenance of assets purchased with public funds.



## LEARNING APPLICATION

ELECTED OFFICIAL   X   CEO   X   FINANCE MANAGER   X   DEPARTMENT HEAD   X  

We've been talking about the various benefits of asset management systems. Another way to look at asset management is through the lens of the good governance policies we discussed in the *Introduction* chapter.

Select two or three of these principles and write down one or more policies regarding asset management that your local government has in effect that assures citizens that this principle is being fulfilled. Then give your assessment of how effective each of these policies is in achieving the principle.

Principle 1: \_\_\_\_\_

Policies that relate to this principle are:

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

Principle 2: \_\_\_\_\_

Policies that relate to this principle are:

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

Principle 3: \_\_\_\_\_

Policies that relate to this principle are:

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

Now, return to each policy you listed and assess how well you think it performs in achieving the intent of the principle. Assign a percentage to its success. 100% of course would be totally successful and 0% a total failure. In between you have an abundance of choices—99 to be exact.

## OBSTACLES, LIMITATIONS, RISKS AND OTHER CONSIDERATIONS

There are several obstacles to overcome when implementing an asset management program. These include:

- Perceived non-priority of specific asset management practices to the particular LG,
- Lack of knowledge, awareness and senior staff acceptance of asset management methodologies and benefits,
- Lack of resources to initiate and implement asset management activities,
- Corrupt and unsound business practices,
- Lack of regulatory requirement or other incentives to undertake asset management planning, and
- Difficulty developing a long-term focus or vision when short-term asset development activities and/or crisis management activities are stretching current resources.

Five ways to overcome these barriers are outlined below.

- Structural and supporting legislative reforms that require prudent and sustainable long-term financial planning.
- Support systems to improve understanding and the ability to quantify the long-term benefits of asset management such as:
  - Development of planning guidelines,
  - Training and awareness raising, and
  - Development of computerized asset registers and decision making tools.
- Resources to undertake appropriate asset management planning activities.
- Effective short-term incentives for achieving asset management improvements (given that the benefits of longer-term planning may take some years to be realized.)
- Regular monitoring of asset management performance to ensure improvements are achieved.

### *OTHER CONSIDERATIONS*

Another consideration is the possible use of the LG surplus property portfolio to achieve community objectives other than simply maximizing direct revenues to the LG from its properties. The following topics are briefly discussed:



## HOUSING AND COMMUNITY DEVELOPMENT:

Some LGs are interested in using land or buildings they own as sites for the construction of new housing, or the attraction of new commercial and industrial development. If a LG happens to own one or more sites that could satisfy these objectives it may be in an advantageous position to: 1) Augment its current revenues, directly through sale or rental of the property and indirectly through increased taxes; and 2) benefit its citizens through the provision of more housing or jobs.

This can be done by offering the site(s) for development to the private sector. The municipality provides the site, and the private sector the funding and the development expertise and entrepreneurship (design, marketing, construction, management, risk taking) to complete the project.

## HISTORIC PRESERVATION AND CULTURAL FACILITIES:

Some LGs may own commercial properties that are of architectural or historical significance. Many LGs feel they cannot sell these buildings, even if they wanted to, because of concern over assuring the preservation, restoration, or enhancement of their historical and architectural character and integrity.

These concerns are typically addressed by the use of a variety of mechanisms including:

1. Restoring the building to the desired state before sale.
2. Placing restrictive covenants and guidelines in the sale agreement regarding the preservation of the building, including provisions for the LG to “take back” the building if the conditions are violated.
3. Placing legal “easements” over parts of the building that the LG wants preserved in a specific manner (such as “facade easements.”)
4. LG leasing back parts of the building that are of architectural/cultural significance or to which it wants public access.

One or more of these techniques can be considered depending upon the specifics of the situation. Since laws and conditions in your country may not be supportive of routine use of these methods, each situation would need to be reviewed carefully in its local context by appropriate local legal counsel. The situation may also change over the near term.

## SUBSIDIZING TENANTS

Often, LG property is found to be leased at extremely low rental rates to tenants who are supposedly providing a valuable social service or even mandated by national law. In other cases the tenants may be ordinary commercial businesses (or even households) but the LG feels constrained in raising rents to their true market value because of political pressure from specific tenants, i.e. the risk of putting them out of business, or laws restricting ability to evict or raise rent on residential tenants.

LGs, in such cases, are still vulnerable if they continue to hold these properties and charge artificially low rents. If they do nothing, they are conferring distinct

economic benefits on a very small group of favoured people at the expense of higher revenues that could be returned to the treasury to the benefit of all citizens. It should be the objective of the LG to seek to extricate itself from these no-win situations as quickly and cleanly as possible.

Sometimes the only way to do this and realize some value from the property is for the LG to sell the property “as-is” to the private sector. Sometimes the private sector can see opportunities and take on battles that are not possible or politically possible for local governments, i.e. massive rent increases or even evictions of tenants. The sale of such properties, even at less than the optimum “theoretical value,” is a better option for the LG than a continued indefinite hold at little or no net revenue contribution from the properties. The LG avoids the management headaches, possibly negative cash flow, makes a one-time gain on the sale of the property, and collects future taxes from the new owner.

### LEARNING APPLICATION

ELECTED OFFICIAL  CEO  FINANCE MANAGER  DEPARTMENT HEAD

We have identified some but not all obstacles to the development of an asset management system.

List other obstacles, which you can imagine or have experienced.

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What works and what does not work in overcoming these obstacles?

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# STEPS FOR DEVELOPING ASSET INVENTORIES

Establishing asset inventory records can be a costly and time consuming task, so proper planning is essential to minimizing the costs and time involved. It is especially important to adequately address areas such as user needs, policy decisions, and data element requirements. Adequate planning will eliminate the possibility of having to redo such major tasks as inventorying and valuing assets. When considering establishing an asset inventory, the following questions should be considered:

- How will the records be used?
- What data is needed to meet the needs and proposed uses?
- How will the data be classified (e.g. land, buildings, machinery and equipment, office equipment, automotive)
- Who will be responsible for administering the system?
- Will the system be manual or automated?
- How will existing assets be valued?
  - Use of original cost records
  - Use of index
  - Estimated

With these questions establishing the framework, following are the steps we recommend for inventorying assets.

## ***STEP 1: DEVELOP A WORK PLAN TO ESTABLISH ASSET RECORDS***

The work plan should list all tasks required to establish the records. For each task the work plan should indicate the responsible party, an estimate of required resources, and the timeframe for performing the task.

Areas to address in the work plan are:

- Project administration,
- Software selection, modification and installation (if software is to be used),
- Development of inventory procedures,
- Development of valuation procedures,
- Development of ongoing user procedures,
- Development and delivery of training,
- Physical inventory,
- Valuation of physical inventory, and
- Implementation follow up.

## ***STEP 2: SURVEY USER NEEDS***

It is important to survey all departments or agencies to determine their needs for asset information, including all needs for internal and external reporting. Examples of departmental information needs may include:

- Cost accounting,
- Financial reporting and disclosure,
- Asset accountability and use,
- Maintenance and scheduling,
- Audit compliance,
- Asset replacement budgeting,
- Insurance,
- Identifying excess assets,
- Construction-in-progress accounting, and
- Lease accounting.

A questionnaire can be an effective and efficient mechanism to survey these information needs. The questionnaire should be designed to gather information such as:

- Quantities and codes of assets by category,
- Type of asset records currently maintained,
- Reporting requirements,
- Property control policies,
- Grant accounting,
- Asset computer software and hardware in use, and
- Features desired in a new asset system (data elements, reports and uses).

For major departments, the questionnaire should be completed using personal interviews, while for others having them complete the questionnaire should be enough.

Another approach is to use a committee approach to determining needs. Each department can send a representative to the design meetings

## ***STEP 3: DETERMINE WHAT DATA ELEMENTS CAN SATISFY USER NEEDS***

It is important to determine what data elements are needed to satisfy both internal and external users. One way to do this is to conduct a survey of user needs and required reports as described above.

Following are elements that you may want to consider for the asset records:

## Possible Elements in an asset Data Base

Location and use	Description	Financial
LG unit	Asset description	Account
Fund	Quantity	Source of revenue
Site	Asset number	Purchase authority
Building	Class code	Date acquired
Department	Manufacturer	Useful life
Grant/Project	Model	Expected replacement year
Active/Inactive	Serial number	Acquisition cost
	Vendor	Depreciation allowance
		Unrecovered cost
		Current period depreciation
		Reproduction cost – new
		Insurable reproduction cost
		Depreciated reproduction cost
		Depreciated insurable value
		Salvage value
		Fair market value

### Step 4: Identify/establish asset accounting policies

It is important to identify asset policies already in use by the LG. Then recommend additional policies for adoption. It is better to start with a comprehensive policy framework than to establish one piece meal.

A senior manager-level steering committee is a good group to draft a capital asset policy framework for governing body review and approval.

Questions the committee should consider include:

- Which asset types should be included?
- Which assets should be accounted for individually and which should be grouped? For example, should the cost of a fire engine include hoses, ladders, and other associated equipment?
- What should the capitalization policy be? This sets the requirements for minimum costs to be accounted for and useful lives.
- What should be the policy for reporting additions and betterments to existing assets? Major additions, including those that significantly prolong an asset's economic life or expand in its usefulness, should be capitalized. Normal repairs that merely maintain the asset in its present condition should be recorded as expenditures and should not be capitalized.
- What are the expected useful lives for the different kinds of assets?
- Will depreciation be recorded?
- If so, what depreciation method is best?
- When should depreciation begin for assets acquired during the year? For example, depreciation can begin the month the asset is put into service, or a full year's depreciation can be reported for assets received in the first six months and one for those received during the balance of the year.
- What information is needed to begin and maintain the system? Determine data base requirements, the coding system and required reports.

- What forms are needed to secure the required information? Their design must ensure complete information and efficient processing.
- How will the system be established? A work plan should fix responsibilities and establish time estimates. In particular, the initial inventory must be planned thoroughly.
- What other policy decisions should be established? All policy decisions should be made before beginning work on the asset management system.

Answers to these questions directly affect the effort required to establish asset records. A higher capitalization limit reduces the number of assets recorded in the system and thus reduces the records necessary for establishing and controlling asset costs. Setting the capitalization too high, however, reduces the amount of control.

### ***STEP 5: DETERMINE THE CODING SYSTEM***

The coding system should allow information to be gathered, measured, and disseminated easily. Reports and input forms should reflect the adopted coding system. It should be built based on the survey of user needs and the final determination of necessary data elements.

### ***STEP 6: DETERMINE REQUIRED REPORTS***

Reports should be identified during the planning process to assure that the asset system contains the information necessary to produce the reports. Required reports include those needs for external financing reporting and internal management reporting.

Some departments may require immediate access to data contained in the asset system. Property managers may not have time to wait for hard-copy reports to perform certain job-related activities. If your LG computerizes its asset system, then on-line inquiries should be available which permits users to view the current status of asset records.

### ***STEP 7: DETERMINE REQUIRED INPUT FORMS***

In order to establish and maintain asset records, the following standardized input forms may be needed:

- Asset inventory,
- Information on new acquisitions,
- Additions or adjustments to a previously recorded asset,
- Transfer of an asset from one department to another, and
- All retirements.

Well designed forms ensure that all needed information will be available to process transactions easily. The forms design process should take into account the format of any computer screens that may be used to input the data to the asset system. It is usually less expensive and less time consuming to redesign forms than screens.

### ***STEP 8: SELECT ASSET SOFTWARE (IF USED)***

For all except the smallest LG it is advisable to maintain asset records in a computerized format, generally using commercially available software. The basic steps for selecting a software package include:

- Prepare an asset system concept defining the LG's requirements. The system concept will be based on the survey of user needs, policy decision and the results of other planning steps.
- Convert the requirements into a series of checklists to be used to evaluate the ability of software packages to meet the LG's needs. The checklists should address the following areas:
  - Application features / capabilities
  - Technical structure / environment
  - Implementation and user support
- The checklists should define each requirement as essential, desirable, or optional. In addition, each identified computer software package should be evaluated against each defined requirement as:
  - Able to meet the requirements without change,
  - Able to meet the requirements with modification, and
  - Unable to meet the requirement.
- Identify available software packages,
- Develop a "short list" of software packages by eliminating those that fail to meet critical requirements (i.e. do not operate on your computer hardware).
- Evaluate remaining packages using checklists as described above.
- Conduct site visits as necessary to vendor installations.

### ***STEP 9: INVENTORY THE ASSETS***

Inventorying is generally the most time consuming step in establishing and maintaining an asset system. For the most efficient collection of information, it is very important that all policy decisions are made before beginning the actual physical inventory. During this initial physical inventory, all appropriate assets should be identified and permanently tagged if tagging is appropriate.

Taking a complete physical inventory requires extensive planning. A written plan and timetable should identify the inventory teams, departments, locations and inventory times. The teams should know about existing departmental asset records and how the identification and tagging of assets should be conducted. Also they should be aware of potential problems (e.g., locating specific assets). Issues to be addressed in developing the inventory plan include:

- Who should take the initial physical inventory?
- How should the inventory be taken?
- How much and what type of training is appropriate for inventory personnel? Proper training is essential.
- What types of inventory tags should be used if tagging is to be done?
- How should asset numbers be assigned?
- How should the inventory be phased?

### ***STEP 10: ASSIGN VALUES AND LIVES TO THE ASSETS***

Once the physical inventory is completed, the next step is to assign values and lives to the assets. This step can be the most difficult part of establishing an asset accounting and reporting system. It is important that you determine your country's generally accepted accounting principles for recording cost of assets before performing this step. For example, the principles used in many countries require that assets be recorded at actual or estimated historical cost or for contributed assets at fair market value on the acquisition date.

If historical cost is used, LGs need to estimate historical cost data from a number of sources: vendor invoices, purchase orders, cancelled checks, vouchers, contracts, governing body minutes, ledgers, inventory cards, maintenance records, annual and capital budgets, offering circulars, manufacturer's catalogues, insurance policies, price lists and independent appraisers. The valuation effort, while difficult, will not become overwhelming if it is planned properly.

### ***STEP 11: MAINTAIN THE ASSET RECORDS***

A critical step in establishing asset accounting and reporting system is to establish procedures that will keep the records current. All previous efforts will become outdated and useless unless the information can be updated. Most importantly, LGs need to prepare a detailed and comprehensive property manual that documents the entire system. It should include specifications and illustrations of all asset accounting policies, information flows, codes, forms, reports, and processing instructions. This manual, which also should describe the proper procedures for all transactions, is essential for a useful, current, and efficient system.



## LEARNING APPLICATION

ELECTED OFFICIAL  CEO  FINANCE MANAGER  DEPARTMENT HEAD

Consider the steps identified in establishing an assets inventory. Which of these steps has your LG already completed?

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Does your asset management inventory methodology need an overhaul or a minor tune-up?

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What areas need attention?

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Prepare a list of objectives you want to achieve.

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## ASSET (PROPERTY) MANUAL

The basic goals and objectives of the manual should be to define and describe standard procedures and policies required to record and control the changes in the asset system (i.e. whether it be a manual or automated system) in accordance with generally accepted accounting principles.

When formulating a comprehensive asset manual (may be called a property manual in some countries) the following questions should be answered. These questions are not inclusive, however they highlight areas that tend to go unattended or overlooked.

- Are equipment management policies and procedures formalized and incorporated as part of the general administrative policy manual?
- Has the position of property manager been established, or has an existing position been given the property management responsibility?
- Has an approval process for the acquisition of major capital items been established?
- Has a capitalization policy been established?
- Has a policy covering surplus equipment been established?
- Is there a policy or procedure in place to value donated property?
- Is the acquisition date and cost of all property documented satisfactorily?
- Where applicable, is the manufacturer's model and serial number documented?
- Has a procedure to account for transfers within and between departments been developed?
- Has a procedure been established to account for disposals through loss, theft, or trade-in?
- Is there a policy for periodic re-inventories?
- Are there periodic internal audits of the property system?

In general, the manual should cover the LG's normal day-to-day asset management activity. It should include specific examples for treating the various changes in the property accounts, such as recording additions, disposals, transfers, and changes to the assets contained within the system. This helps to ensure that LG staff has a clear understanding of how the system works.

A clear definition of who has the authority, accountability and responsibility for maintenance of the property issued to the various departments needs to be outlined

in the manual. The following procedures represent a typical policy involving multiple departments, and can be modified or adapted to a LG's specific needs.

- The department director or other authorized person should be responsible for all property purchased for, assigned to, or otherwise provided to his/her department. The person responsible for the custody and control of the property should be designated as department property manager.
- The procurement department should provide two copies of the asset file listing to the department property manager. This listing should include all property for which the department is responsible. The department property manager should verify the listing, reconcile any discrepancies, sign, date, and return the original to the procurement department. The copy should be retained by the department property manager for departmental files.
- Not less than annually, the director of procurement or property officer (if this position has been established) should provide to the department property manager a current asset list and require that an inventory of the listed property be conducted, discrepancies be resolved and the listing be signed by the property manager verifying the property on hand. Once completed, the original signed copy should be returned to the procurement department. All previous asset listings then can be destroyed.
- When a departmental property manager is to be replaced for any reason, the department director should notify the director of procurement or the property manager to provide a current asset listing so that a joint inventory may be conducted by the outgoing and incoming property manager. The completed and verified joint inventory should be forwarded to the appropriate authority within a short period of time (e.g. 10 days) after the appointment of the new property manager.

Policies and procedures change from time to time; therefore, it is important to schedule periodic reviews of the property manual to ensure that current policies and procedures are being addressed.

Following is a sample table of contents for a property manual:

Property Manual	
I. INTRODUCTION	
II. PROPERTY ACCOUNTING SYSTEM	
Function and benefit	
How the system operates	
Source documents	
Programs and reports	
Report distribution	
Process flow charts	

<p>III. POLICIES AND PROCEDURES</p> <ul style="list-style-type: none"> <li>User responsibilities</li> <li>General accounting division responsibilities</li> <li>Data processing division responsibilities</li> <li>Cut-off schedule</li> <li>Expenditure accounts</li> <li>Equipment cost</li> <li>Treatment of costs subsequent to acquisition</li> <li>Donated assets</li> <li>Capitalization</li> <li>Tag locations</li> <li>Operation identification</li> <li>Total life assignment by account</li> </ul>
<p>IV. FORMS —CODING INSTRUCTIONS FOR INPUT FORM</p> <ul style="list-style-type: none"> <li>Current year addition of an asset</li> <li>Prior year addition of an asset</li> <li>Addition to original cost of an asset</li> <li>Deletion of an asset</li> <li>Transfer of an asset</li> <li>Change of an asset</li> <li>Cost of reproduction and insurable value</li> <li>Maintenance expense</li> <li>ADJUSTMENT / RETIREMENT FORM: <ul style="list-style-type: none"> <li>Adjustment to original cost</li> <li>Complete retirement</li> <li>Partial retirement</li> </ul> </li> <li>ADDITIONAL DESCRIPTION FORM</li> </ul>
<p>V. MASTER FILE CODES</p> <ul style="list-style-type: none"> <li>Record codes</li> <li>Transaction codes</li> <li>Location codes</li> <li>Class codes</li> <li>Indicator codes</li> </ul>
<p>VI. PROGRAM NARRATIVES</p> <ul style="list-style-type: none"> <li>Asset validate</li> <li>Asset master file update</li> <li>Asset detail inventory</li> <li>Asset general ledger</li> <li>Asset additions</li> <li>Asset transfers</li> <li>Asset retirements</li> <li>Asset original cost</li> <li>Asset depreciation</li> <li>Asset detail inventory by asset number</li> <li>Asset deletions</li> <li>Asset prior year additions</li> <li>Asset adjustments</li> </ul>
<p>VII. DETAIL PROGRAM SPECIFICATIONS</p>

VIII. EXHIBITS

- Asset account numbers
- Location codes
- Class codes
- Forms – Example of:
  - Current year addition
  - Multiple additions
  - Donated asset
  - Addition of surplus asset
  - Prior year addition
  - Addition to cost
  - Deletion of an asset
  - Transfer of an asset
  - Multiple transfers
  - Change of an asset
  - Cost of reproduction and insurable value
  - Maintenance expense
  - Adjustment to original cost
  - Complete retirement
  - Multiple retirements
  - Partial retirements
  - Additional description

LEARNING APPLICATION

ELECTED OFFICIAL  CEO  FINANCE MANAGER  DEPARTMENT HEAD

Does your LG have an asset manual? If so, is it regularly used by LG staff in the day-to-day activities of asset management?

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What areas need attention?

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Prepare a list of objectives you want to achieve.

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## SURPLUS REAL PROPERTY

A LG often finds itself owning real estate that it is not using for either housing or traditional LG purposes. These properties may be of a wide variety of types such as shopping centres, hotels, industrial buildings (or even whole industrial areas), office buildings, spaces in apartment buildings used for shops or commercial uses, abandoned or unused public facilities such as old boiler plants and greenhouses; vacant sites served by streets and utilities; or undeveloped lands on the edge of town.

Because these particular properties are not needed to directly fulfil any of the specific functions of the LG, they are considered "surplus." Decisions need to be made about what to do with these assets, both in terms of determining whether the LG should continue to own them, and while it does own them, how best to manage them on a day-to-day basis.

Collectively, these properties comprise your "portfolio" of non-residential LG real estate now being managed primarily for income producing, economic gain as opposed to social or public purpose uses. Understanding the size, nature, and financial potentials of the portfolio is important for budgetary, financing and planning purposes. If the portfolio is large, it can have a major impact on LG financial performance and potential.

Having the entire portfolio inventoried and the information centralized opens up possibilities of using it as collateral for borrowings, or for sale into a LG/private joint venture (say, with a large bank or insurance company); or for a complete privatization. Properties, once they are privatized, can be evaluated for their financial potential.

While having this centralized inventory and database may seem a rather obvious and simple task to complete, your LG may not have yet completed it. In some countries, its development may be more complicated than initially meets the eye for the following reasons:

- Your LG's legal right to ownership of specific properties may still be obscure and difficult to verify.
- Information may be scattered among many different departments and organizations that are involved in managing or controlling the various properties over the years.
- Organizations or departments in your community (not necessarily directly part of your LG but presently controlling, managing or using the property) may feel threatened by offering any information on such properties. At the least, they view themselves as potentially losing management responsibility (and hence funds, power and/or influence) and, at worst, they may lose use of the property or its revenue stream.

Because of these types of factors, efforts to fully inventory LG-owned property is important for the key LG decision makers to have sufficient information to make decisions regarding the properties.

Regardless of how or why the property was originally acquired, the question becomes, "why continue to hold it?" For example, some of the surplus property portfolio may represent significant burdens to the LG in terms of day-to-day management responsibilities and even cash expenditures. Sales of real estate may free up substantial sums of money that could be used to directly pay for new capital facilities or used to pay off LG debt.

Alternatively, you will hear the argument that the LG can make more money by holding onto the properties than by selling. After all, they are generating rents and increasing in value, aren't they? If sold, they are gone and the LG gets a one time benefit, but if kept, they produce money year after year, and the LG still owns them.

How should a LG evaluate these arguments? Which applies in any specific case? And....what do we do in terms of managing the properties in the interim, even if we decide to sell them?

## ***ANALYZING THE SURPLUS PROPERTY PORTFOLIO***

As you establish and refine your surplus property inventory system, the next task is to fully understand the present condition and potential of each property in the portfolio. This is essential to develop an overall strategy plan for the portfolio's future and specific action plans for each property within it.

Focus at first on collecting the following information for all properties in the portfolio:

- Identify them—create the property list,
- Locate them—create the master map,
- Collect, evaluate and enter certain basic data into a spreadsheet computer program on each property including: sizes (land and building(s) areas), value (cost, appraisal or initial approximate market value estimate), present revenues, revenue potential, percent occupied, location ("rent" zone), type of property, and
- Verify LG ownership if necessary.

When this basic information is computerized and presented in a summary table format you can quickly see the totals for the portfolio. This enables decision makers to get a sense of:

- The potential importance of the portfolio in terms of LG wealth and budgeting issues overall—both as an asset base and in terms of actual and potential operating revenues, and
- The number, scale, variety, and distribution of the properties in the LG.

By performing simple sorts on this information (and perhaps adding columns showing percentage of total portfolio for key variables) decision makers can quickly identify the importance of particular properties in terms of their size, value, revenues, revenue potential and so on and use this information in determining priorities on courses of action with regard to individual properties.

Similarly, the amount of money a potential buyer of a property would be willing to pay to purchase it is only coincidentally likely to bear any relationship to the amount the LG originally paid for it, or spent in repairing it, or at which it carries the property on its books.

So a central issue becomes a determination of market rents and values. This ultimately is key to the LG's decision as to its best course of action relative to each property in the future. After all, these surplus properties represent a potential store of value and/or ongoing revenue streams that the LG is seeking to maximize.

This initial “pass through” allows you to identify and then focus on which properties should be worked on in more detail: for example, are there large properties with unclear title, low occupancy, or low current rent relative to potential value?

After the initial pass through, go back, as time and resources permit and circumstances require, and develop and fill in more data and detail on specific properties. The system allows for evolutionary development over time; yet is operational almost from the beginning.

## **CAN THE PROPERTY'S FINANCIAL "PERFORMANCE" BE IMPROVED?**

First, determine and compare the performance of each property based on the following three conditions:

As is—The property is first evaluated in its present status: details on rent, condition, tenants, repair costs, value estimates are summarized from the property spreadsheet for the property. The effort here is to present what the property is “worth,” i.e. sell for today, and how much net revenue does it actually produce right now per year after all operating costs are considered?

Fully leased at market rents—This analysis estimates what the annual revenue stream from the property would be if all rentable spaces in it were occupied in their “as-is” condition and the tenants were paying market rents, rather than present rents, and the municipality was actually collecting them on time. A corresponding sales value for the building with a stabilized tenancy, regularly paying its rent, is estimated using a market based multiplier of net or gross income.



Property in best condition and fully leased at market rents—This is an estimate of the annual rent revenue stream for the property if all spaces were physically improved to contemporary standards and leased out at maximum fair market rents. It includes factoring in the repair and rehabilitation costs. It estimates what the property would sell for after such repairs and full occupancy by a stable rent paying tenancy, and specifically how much the municipality would net, after subtracting out the costs of the repair/reconstruction work.

This basic analytical framework enables one to: examine the potential of a range of actions to increase revenues and net sale proceeds; determine which properties merit the most immediate attention; and the potential importance of different types of actions and the magnitudes of results that can be expected.

## SHOULD THE PROPERTY BE HELD; OR SOLD, AND WHEN?

The analyses described thus far do not address the basic issue of whether the property should be held or sold, or when. To fully answer the question of whether and when to sell individual properties (and in what condition), several other variables must be introduced besides the basic costs of repair, operation, rents and values discussed above.

The two additional variables to consider are:

- The value to the LG of available funds (“cost of money”) —being expressed as an interest or investment rate, and
- The LG’s forecasts/expectations as to the rate of general appreciation in property values in the next few years.

These factors can significantly influence the merits of holding or selling a property, other factors being held constant. When the cost of money is high (high interest rates) and the rate of expected property price appreciation achievable is low (e.g. because the owner of the property is taking no action to actively improve the value of his property, and is instead simply relying on market trends to increase over time), the municipality is better off selling the property and using the proceeds to pay down LG debt or earn interest in a bank as short term deposits. The reverse may be true when interest rates are low and annual property price appreciation high.

The rate used in the analysis for anticipated price appreciation should reflect current and near future economic and market conditions and is generally best obtained from neutral, national economic or real estate trade related sources. It may be supplemented by any local information on sales trends available to the municipality.

Each property is run through a straightforward analysis that determines:

- How much money can be made by “moving” to the next “performance level” (e.g. moving from “As-is” to “fully leased up at market rents” to “fully leased up at fixed up market rents.” (Factoring in cost of money and price appreciation factors), and
- Comparing the result with selling now.

Once this analysis has been completed for each property, the city will have a sense of which properties in its portfolio should be sold right away, and which are worth keeping because of clear potential for higher revenues through further lease up and management of rents towards market rates. It will also have a sense of which buildings may be financially worth repairing and which are worth studying in further depth for more subtle value enhancements.

Up to this point, the discussion has focused on reaching a decision regarding the whole property: is it worthwhile to improve it or not; or how much more income can be generated from all the tenants in the property? The same approach can be used to evaluate the potential impact of actions on specific parts of the property or tenants. This is done by varying the input assumptions in the property spreadsheet with regard to particular sub-areas of the property (that is occupancy, rents and costs of particular rooms) and comparing the resulting impacts on total net revenue and value for the building using the different assumptions.

In some countries, the properties may be old buildings in the heart of town and have so much space in substantial disrepair that they are not leaseable in its present condition. When the cost of reconstructing the entire building is analyzed, it does not pay to restore it. However, when examined on a micro level (room by room) it is often found that for some spaces, the amount of rent realizable is worth the costs of repairs. It is the large amount of other space in the back of the building, which costs the same or even more to fix up than the shop space yet rents for much less, that is dragging down the results for the building as a whole. In these cases, re-examine the property spreadsheet for the building, showing the rooms unrepaired and unrented. This may produce higher net values and revenues for the building than a total repair project. This allows the analyst to quantify and test the extent to which it makes sense to rehabilitate only a portion of the space and leave the rest vacant (or even demolish it) and come out ahead.

## LEARNING APPLICATION

ELECTED OFFICIAL \_X\_ CEO \_X\_ FINANCE MANAGER \_X\_ DEPARTMENT HEAD \_X\_

Does your LG have a surplus property portfolio and an asset management plan for dealing with surplus property?

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What areas need attention?

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Prepare a list of objectives you want to achieve.

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Asset management is one of the most important functions of any LG. It is important for each LG to have an asset management plan that is based on community priorities. These priorities should be demonstrated in the plan by defined service levels and performance standards. These service levels and performance standards should be directly tied to the strategic planning and budgeting decision making processes of the LG. Using this method, scarce financial resources can be properly allocated and managed to ensure that community priorities are achieved.

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## BRIMBANK CITY COUNCIL ROAD ASSET MANAGEMENT PLAN, UK

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# PART TWO—MANAGEMENT TOOLS

## PURPOSE

Finding the best ways to maximize the use of LG assets requires managers to assist elected leaders to translate strategic goals into programmes and services. The governing body's asset management policies are demonstrated annually in the operating and capital budgets. Allocations for maintenance and preventative maintenance are as critical as new capital investments in providing adequate services to the community. Asset management is a critical juncture between the way local government officials have decided to utilize a LG's programmes and services (goals and purposes), and how these financial intentions can be implemented (strategies and plans).

*Don't forget to look back at the Learning Applications! Many of them can be easily adapted for group exercises and may be more appropriate for persons who are just being introduced to the concepts of asset management.*

## CONTENTS

This workshop is designed to broaden the understanding about the nature and importance of asset management in local government. It also provides skills to develop and implement a policy framework suitable for managing the financial affairs of your local governments.

A brief description of each learning activity is shown below with an approximation of the amount of time required. To conduct a workshop that includes all of the components described below will take approximately 1 1/2 days. If you wish to change the order, to omit something, or to add training material of your own, feel free to do so.

### 11.1 WARM-UP EXERCISE: INTERRELATIONSHIPS OF CAPITAL INVESTMENT PLANNING AND ASSET MANAGEMENT PLANS

Participants, identify the similarities and differences of capital investment planning and asset management plans (45 minutes)

### 11.2 TRAINER PRESENTATION

Brief concept presentation based on the preceding essay that focuses on developing an asset management plan, inventorying capital assets and the policies for, obstacles and benefits of asset management (60 minutes)

### 11.3 EXERCISE: THE ASSET MANAGEMENT POLICY FRAMEWORK

Participants review a set of policy statements on asset management and analyze the appropriateness of each statement for adoption by their own local governments. (45 minutes)

### 11.4 EXERCISE: MAINTENANCE DECISIONS

Participants compare the costs of two proposals for contracting out a service with the cost to perform the service in-house. (60 minutes)

### 11.5 EXERCISE: ASSET MANAGEMENT REPORTS FOR THE POLICY MAKERS

Participants, working individually and in small groups identify the asset management reports that would be most helpful to policy makers. (60 minutes)

### 11.6 EXERCISE: SURPLUS REAL PROPERTY

Participants working in small groups evaluate implement guidelines for their LG's asset management plan. (60 minutes)

### 11.7 CLOSING EXERCISE: LEARNING TRANSFER

Participants reflect individually on what they have learned and make commitments to put it to use back home after the workshop. (30 minutes)

# 11.1 WARM-UP EXERCISE: INTERRELATIONSHIPS

## TIME REQUIRED

45 minutes

## PURPOSE

Use a compare and contrast example to help participants understand the similarities and differences of capital investment planning and asset management plans. Also shows the integration of the two.

## PROCESS

Before the workshop begins, write the following template on a flip chart pad or overhead transparency:

Capital Investment Planning		Asset Management Plan
	Definition	
	Description	
Similarities		
Differences		
1. 2. 3. 4. 5. 6.		1. 2. 3. 4. 5. 6.

Participants can work alone, in pairs or in a small group on this exercise. The following instructions are for small groups.

Explain to participants that they are going to compare their understanding of capital investment planning and asset management plans to see where the two overlap and where they are different, and then to answer some questions about the conclusions they draw.

Participants should complete the template by placing the answers in the response boxes: If they need help getting started, use some of the following questions. These are based on asking who, what, when, where, why and how. You may have more appropriate questions based on knowledge of the participants.

#### **DEFINITION:**

What is capital investment planning (an asset management plan)?

#### **DESCRIPTION:**

Capital investment planning (an asset management plan) is used to \_\_\_\_\_.  
The results of using capital investment planning (an asset management plan) benefit \_\_\_\_\_.

Capital investment planning (an asset management plan) is important because \_\_\_\_\_.  
Capital investment planning (an asset management plan) is important to elected officials (staff) (citizens) because \_\_\_\_\_

Capital investment planning (an asset management plan) decision-making / priority-setting is based on \_\_\_\_\_.

#### **SIMILARITIES AND DIFFERENCES:**

Use the answers written down in the description box to look for similarities and differences between capital investment planning and asset management plans.

At the end of 20 minutes, ask the group to answer the following questions:

1. Do all LGs have an asset management plan (whether formal or informal)?
2. How does capital investment planning and asset management plans inter-relate?

## 11.2 EXERCISE: TRAINER PRESENTATION

### TIME REQUIRED

60 minutes

### PURPOSE

This presentation is to provide participants with information on the concept of asset management systems and how to make practical use of information from the system to improve management analysis and decision-making.

### PROCESS

Prepare the presentation based on information covered by the preceding essay on asset management. Explain the concepts and definitions of asset management. Especially focus on the importance of asset management plans, providing information on the typical contents with the various examples provided or you may have samples from your own or a neighbouring country. Also be sure to cover policies, obstacles and benefits and the steps to developing capital asset inventories and a property manual. The section on surplus real property may or may not be applicable in your country.

Outlined information on note cards may help you cover the information systematically and stay on schedule. Ask questions from time to time during the presentation as a check on participant comprehension and to hold their attention. Augment the presentation with visual aids including pre-printed newsprint sheets and overhead transparencies as a further aid to comprehension.



## 11.3 EXERCISE: THE ASSET MANAGEMENT POLICY FRAMEWORK

### TIME REQUIRED

45 minutes

### PURPOSE

This exercise is to help participants recognize the importance of adopting management-oriented asset management policies.

### PROCESS

Tell participants the purpose of the exercise is to evaluate a set of asset management policies for use by the LGs participating in the workshop. Tell participants they are to identify which of the five policies listed on the attached handout are actually in use, in one form or another, by their own LGs. Participants are to complete this task individually. Then, in small groups, ask participants to discuss the general use of policies like these by the LGs represented in the group and to indicate which of the policies should be considered for adoption by their LGs and why.

Give participants about 30 minutes for the individual task and group discussion. Then, reconvene the participants and ask for reports from each small group. Look for similarities and differences in the reports and discuss the results.

# HANDOUT

## ASSET MANAGEMENT POLICIES

Put an “X” on the line to the far left for each policy statement that already has been adopted, in some form or another, by your LG. Then join with other participants to share and discuss the results. On the lines on the right of the handout, indicate which of the five policies participants believe should be adopted by their LGs. Do this by describing in a few words opposite the statement what led members of your group to reach this conclusion.

	Policy Statement	Group Rationale for Policy Adoption
_____	The LG will optimize utilization of LG land and property in the provision of good quality services.	_____ _____ _____
_____	The LG will ensure that the LG’s assets do not deteriorate in value due to neglect or lack of maintenance.	_____ _____ _____
_____	The LG will ensure that the governing body’s priorities are reflected in the land and property holdings.	_____ _____ _____
_____	The LG will conduct an annual inventory of all assets.	_____ _____ _____
_____	The LG will conduct an annual auction of surplus and obsolete assets, including surplus real property.	_____ _____ _____

## 11.4 EXERCISE: MAINTENANCE DECISIONS

### TIME REQUIRED

60 minutes

### PURPOSE

This exercise is to develop participant skill in evaluating the comparative costs of in-house provision of a service with two proposals for contracting out the service.

*[Note: It is recommended that you convert the monetary unit into the local currency and square feet into meters if meters are the common measurement standard in your country. Just be sure that, in your conversions, the numbers you come up with are realistic! And make any other changes that will make the exercise more relevant to the learner's experience. These exercises are only as effective as the trainer's ability to alter them to meet his or her client's learning needs.]*

### PROCESS

Describe the exercise as an evaluation of two proposals for a LG to contract out building cleaning services to a private vendor. The task in each case is to determine if the costs avoided by the LG through contracting out are sufficient to justify a decision to accept the vendor's proposal.

Divide the participants into small groups. Give each group several pieces of information (see three reproducible handouts that follow the trainer notes) including:

- Background information on financial aspects of the “do it” or “have it done” decision with which the LG is faced;
- Financial details on cleaning one 10,000 square foot building that houses the local animal shelter (Proposal 1); and,
- Financial details on cleaning the entire 1,691,500 square feet of floor space used for LG operations (Proposal 2).

When participants have read the material, tell them they have thirty minutes to answer the questions at the bottom of HANDOUT NO. 1. They will be asked to reconvene after thirty minutes to discuss their answers and reasoning.

*Trainers note. This clarifying information may be helpful in the discussion that follows the small group reports.*

*In-house cleaning of the 10,000 square foot animal shelter at \$4.67 per square foot is considerably more than the amount bid by the vendor. However, none of the indirect costs that the LG calculates as applicable to cleaning this building can be avoided. As a result, the LG would incur a new cost of \$3.25 per square foot and would save only*

*\$2.63 per square foot (\$26,250 in avoidable cost divided by 10,000 square feet). Therefore, it would not be in the LG's financial best interest to accept the vendor's proposal.*

#### OTHER CONSIDERATIONS ABOUT PROPOSAL 1.

Factors that might cause reconsideration of the decision include: (1) the possible use of labour saving devices by the vendor; and, (2) the need for the LG to make a significant cash investment in fixed assets in the near future if the service continues to be provided in-house.

Contracting out the cleaning of all LG floor space (1,691,500 square feet) would make it possible to gain greater savings since, unlike Proposal 1, a considerable amount of the overhead support cost can be avoided. The avoidable cost in this proposal is \$6,001,970 or \$3.55 per square foot ( $\$6,001,960 / 1,691,500$  square feet). This figures compares favourably with the cost of contracting out the service (\$3.25 per square foot) and would result in an estimated savings of \$507,450 ( $\$0.30$  per square foot savings times 1,691,500 square feet). Under these circumstances, serious consideration should be given to a recommendation for acceptance of Proposal 2.

#### OTHER CONSIDERATIONS ABOUT PROPOSAL 2.

Other factors that should be taken into account in reaching a final decision about contracting out include: (1) the vendor's reputation and experience in work of this kind; and, (2) the capacity of the LG to perform the service should the vendor fail to live up to its contractual obligations.<sup>1</sup>

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<sup>1</sup> Adapted from cases for evaluating contracting out in Kelley, Joseph T. *Costing Government Services: A Guide for Decision Making* (Washington, D.C.: Government Finance Research Center, 1984).

## Handout No. 1

### Contracting Out Building Cleaning Services

Your LG has received two proposals from the same vendor for contracting out building cleaning services for \$3.25 per square foot.

One of the proposals is to clean the 10,000 square foot animal shelter that currently is being maintained by two full time custodians who are employees of the LG. The present total cost (including direct and indirect costs) for the LG to clean this building is \$4.67 per square foot).

The second proposal is to clean the entire 1,691,500 square feet of floor space used for LG operations for the same charge of \$3.25 per square foot.

A decision to accept either or both of the proposals depends on the amount of money the LG will save. This determination can be made by calculating how much of the total cost in each case can be avoided by contracting out and how much of the cost cannot be avoided. Tables showing full and avoidable amounts for the types of cost relevant to each proposal are shown on the next two pages.

### Questions

1. Would it be in the LG's financial interest to seriously consider accepting Proposal 1? What about Proposal 2? Explain your answers in each case.
2. What factors other than cost should be taken into account by the LG before making a final decision on Proposal 1? What about Proposal 2?

Handout No. 2

Proposal 1 (clean 10,000 square feet)			
Type of Costs		Full Cost	Avoidable Cost
Direct Cost:			
	Salaries and Wages	\$20,000	\$20,000
	Employee Benefits @21.25%	\$4,250	\$4,250
	Services and Supplies	\$2,000	\$2,000
		\$26,250	\$26,250
Indirect Cost:			
	Division Overhead @57.508%	\$11,502	0
	Branch Overhead @8.413%	\$1,683	0
	Department Overhead @22.259%	\$4,452	0
	LG-wide Overhead @13.958%	\$2,792	0
		\$20,429	0
Total Cost		\$46,679	\$26,250
Cost Per Square Foot		\$4.67	\$2.63

Handout No. 3

Proposal 2 (clean 1,691,500 square feet)			
Type of Costs		Full Cost	Avoidable Cost
Direct Cost:			
	Service Provision		
	Salaries and Wages	\$2,145,817	\$2,145,817
	Employee Benefits @21.25%	\$455,986	\$455,986
	Services and Supplies	\$950,000	\$950,000
	Subtotal	\$3,551,803	\$3,551,803
Division Costs			
	Salaries and Wages	\$1,017,745	\$1,017,745
	Employee Benefits @21.25%	\$216,271	\$216,271
	Services and Supplies	0	0
	Subtotal	\$1,234,016	\$1,234,016
Branch Costs			
	Salaries and Wages	\$219,506	\$219,506
	Employee Benefits @21.25%	\$46,645	\$46,645
	Services and Supplies	0	0
	Subtotal	\$266,151	\$266,151
	Direct Cost Subtotal	\$5,051,970	\$5,051,970
Indirect Cost:			
	Department Overhead @22.259%	\$753,057	\$600,000
	LG-wide Overhead @13.958%	\$472,209	\$350,000
	Indirect Cost Subtotal	\$1,225,266	\$950,000
Total Cost		\$6,277,236	\$6,001,970
Cost Per Square Foot		\$3.71	\$3.55

## 11.5 EXERCISE: ASSET MANAGEMENT REPORTS

### TIME REQUIRED

60 minutes

### PURPOSE

This exercise is designed to provide an opportunity for policy makers (elected officials) to think about the kinds of asset management reports that they would like to get from the local management staff on a routine basis.

*[Note to trainer: This exercise has been added to the original series based on the recommendations of the expert group who reviewed materials before their revisions. It is recommended that you use this exercise as an opportunity to work with elected officials on their financial management responsibilities. For example, you might put on a short (1-2 hours) workshop at an annual meeting of local elected officials. In addition, we encourage you to adapt this exercise so it can also be used when conducting a workshop with finance officers.]*

### PROCESS

Explain the purpose of the exercise and break them into teams of 4-6 participants. If you have several elected officials-policy makers from the same LG, encourage them to form their own team. Give the teams about 30 minutes to develop a list of asset management reports that they would like to get from the management staff of their LGs on a routine basis and the basic rationale for wanting the reports. Ask them to prepare their list on newsprint or whatever approach is most common for making group reports.

After they have generated their lists, ask them to prioritize the list from most important to least important: 1 = most important; 2 = next most important; etc.

After about 30 minutes reconvene the teams and have them, report their lists. Good discussion questions for concluding this exercise might be:

- What similarities and differences are there among the various team reports, particularly in those rated the most important?
- How realistic is it to ask the staff to generate many of these reports?
- Were you surprised by any of the items on the list of the other teams?



## 11.6 EXERCISE: SURPLUS REAL PROPERTY

### TIME REQUIRED

60 minutes

### PURPOSE

This exercise is designed to provide an opportunity for local government staff to evaluate their current asset management policy and the implementing guidelines regarding surplus real property.

### PROCESS

Explain the purpose of the exercise and break them into teams of 4-6 participants. If you have several elected officials-policy makers from the same LG, encourage them to form their own team. Give the teams about 30 minutes check the appropriate column for each statement on the handout. If the LG currently has implemented a guideline similar to the one given, then they should place a check mark in the box labelled "LG has." If their LG has not done the above, then they should place a check mark in "LG has not." If they do not know, they should check the "Do not know" column.

After about 30 minutes reconvene the teams. Good discussion questions for concluding this exercise might be:

1. Look at all guidelines with a check mark in the "LG has not" column. Do you believe that your LG should implement any of these guidelines? Why or Why not?
2. Look at all guidelines with a check mark in the "LG has" column. Should any of these guidelines be changed? If so how and why?

Handout #1

Guidelines for implementing an asset management policy	LG has	LG has not	Do not know
1. The LG will specify who is responsible for managing the real property portfolio (ongoing operations as well as disposition) and how they should do it.			
2. The LG will divest itself within the next three years of all non-residential real properties that are unlikely to be needed by the LG for community purposes or community development goals.			
3. The LG will review its facility needs at least once a year and update this list accordingly.			
4. While still held by the LG, properties declared "surplus" shall be managed for the maximum benefit of all of the citizens by selling or leasing said properties to optimize revenue available for general civic purposes over time.			
5. Once a property is declared surplus, the LG shall, following a staff analysis of the property, adopt a plan calling for either the preparation of the property for early sale or for the management of the property for maximum net revenue production, if early sale is not justified.			
6. The LG will proceed with immediate sale of those surplus properties where the analysis shows that further holding or management actions on the property are unlikely to increase the net disposition proceeds of the property by the lesser of (i) ___% over the next year or (ii) \$_____ compared to what could be obtained by an immediate sale.			
7. Properties to be sold must be offered for sale by competitive bidding process supported by adequate advance public notification.			
8. The LG shall take all prudent steps possible to achieve maximum current market rents for properties being retained.			
9. The City shall adopt and annually update a strategic plan for the surplus property portfolio.			

## 11.7 CLOSING EXERCISE: LEARNING TRANSFER

### TIME REQUIRED

30-45 minutes

### PURPOSE

This exercise is to help participants transfer the learning experiences of the workshop into their real-world activities. The focus of this exercise is on raising expectations, engaging in realistic planning and making personal commitments. Most of the work is done on a personal basis with some interpersonal sharing.

### PROCESS

Spend at least half an hour at the end of the workshop to focus the attention of participants on important ideas and encourage them to continue experimenting with these ideas in their LG activities. Begin by giving participants about fifteen minutes to work independently on a simple learning transfer questionnaire.

When participants have completed the questionnaire, ask them to share quickly with the group two or three things they intend to do differently in their roles with respect to asset management to close the workshop.

*Trainers note. It is generally agreed that the purpose of training is to improve the way people do things by showing them a better way. In fact, the success of a training experience can be measured by the amount of personal growth and change that takes place both during training and after the training is over.*

*Commitments to learning and change made at the close of a workshop can help participants overcome learning resistance in themselves and in the work environment. A trainer can help learners make a successful transition from the world of learning to the world of doing through a few simple planning exercises.*

## A Learning Transfer Questionnaire

Take a few minutes to reflect on asset management, the new ideas you encountered in this workshop, and how you feel about them. Then, in the space below, write a sentence or two to describe something interesting you have learned about yourself during this workshop.

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Based on what you have learned about yourself and the many possibilities for change presented by this workshop, what two or three things do you intend to do differently in efforts to make better use of asset management information in evaluating and managing LG operations?

1. 

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2. 

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3. 

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Finally, what obstacles in yourself or in your work environment do you expect to experience during your efforts to implement these changes? What will you do to remove or minimize these obstacles?

Expected Obstacle

1. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Action to Remove It

1. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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3.

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# Procurement

## *PART ONE: CONCEPTS, PRINCIPLES, AND STRATEGIES*

### SUMMARY

This essay is divided into a basic and advanced sections. The basic section examines the process of procurement in local government with emphasis on procurement planning, legal procedures for the acquisition of goods, services and public facilities, and details of procurement administration. It also includes policies, benefits and obstacles in the procurement process. Steps for a comprehensive procurement process for goods, services and public works are also included. The advanced section deals with construction contract administration, store operations, procurement and e-Government, and procurement and economic development issues.

### RELATIONSHIPS BETWEEN CHAPTERS OF THE SERIES

The following matrix shows the interrelationships between *Procurement* and other chapters in the series.

	Procurement
<i>Introduction</i>	The Introduction provides the framework for using the entire series.
<i>Trainer's Guide</i>	Provides guidelines for using the chapters to provide training.
<i>Financial Policy Making</i>	Financial policy making provides the framework for the procurement process.
<i>Financial Planning</i>	Financial planning prioritizes and projects LG revenues and expenditures. Procurement is the process for actually following through and making the expenditures of the plan and acquiring the goods, services or assets.
<i>Citizen Participation</i>	LG transparency and accountability are essential areas for citizens. Since the procurement process is one of the primary means for spending monies, it is essential that the citizens require a transparent and accountable procurement process to minimize corruption.
<i>Evaluating Financial Condition</i>	There is no strong interrelationship between financial condition and procurement.

<i>Operating Budget</i>	The procurement process is used to acquire the goods, services, and materials so that departments can accomplish their goals and objectives.
<i>Financing the Operating Budget</i>	Procurement is more directly related to the expenditure side of the operating budget. However, if assets are sold, the revenues from the disposition may be used in the operating budget. This will depend on the country's laws and regulations.
<i>Capital investment plan (CIP)</i>	Procurement is the primary process for acquiring or building the capital investments of the LG.
<i>Financing the Capital investment plan</i>	Procurement is more directly related to the expenditure side of the operating budget. However, if assets are sold, the revenues from the disposition may be used in the operating budget. This will depend on the country's laws and regulations.
<i>Accounting</i>	Accounting is the financial foundation for the annual budget. One of the primary ways the budget and its priorities and goals are accomplished is through the procurement process.
<i>Performance Measures</i>	Performance measures help the LG ensure that its procurement process is effective and efficient and accomplishing the goals of the LG.
<i>Asset Management</i>	Procurement is the process of acquiring goods, services and assets. Asset management helps the LG best utilize those assets once acquired. At times good asset management requires that a LG dispose of assets. Usually disposition is handled by the Procurement department.

## INTRODUCTION

We recognize that basic or introductory concepts are relative—depending upon your background and frame of reference for both finance, procurement and local government. Users of this material will range from those who have no knowledge of procurement principles or concepts to those who have a very sophisticated understanding. The following are our ideas of what represents the most fundamental principles and concepts needed to understand procurement at a beginning level. An advanced section is included for those interested in additional concepts.

## BASIC CONCEPTS AND DEFINITIONS

The following definitions, basic concepts and ideas are provided to give a frame of reference for this chapter. These are the basics of procurement that every elected or appointed public official should be familiar with.

## PROCUREMENT VERSUS PURCHASING

The term “procurement” is a much broader term than “purchasing.” **Procurement**, as used in this chapter, is the combined functions of purchasing, inventory control, traffic and transportation, receiving, inspection, store keeping, and salvage and disposal



operations including terms like supply chain management, logistics management and materials management. So in this chapter we use the term “procurement” to mean the broader context of all of the functions, and use the term “purchasing” when we are referring specifically to purchasing goods, services or construction.

A sound procurement system inspires a willingness-to-compete by well-qualified vendors. This directly and concretely benefits the LG and its constituents, contractors and suppliers.

Conversely, an unsound procurement system is marked by hesitation of well-qualified vendors to compete, submission of inflated bids, or submission of deflated bids followed by delayed or defective performance. Other direct results of an unsound system include: collusion and bribery by frustrated or unscrupulous vendors and purchasing entities, bad value for money for those entities and their constituents, and betrayal and abuse of the public trust for personal gain.

## WHAT IS PUBLIC PROCUREMENT?

Public procurement is the process of obtaining goods and services for public purposes following procedures implemented to protect public funds from being expended extravagantly or capriciously.

A technical definition of *procurement* is “the process in which one party, usually called ‘the principal’ or in this case, ‘the LG,’ seeks to acquire services, goods, or public works by competitive bidding with the intent of entering into a contract with the successful bidder.”

Procurement has also been defined as buying the *right quality*, in the *right quantity*, at the *right price*, from the *right source*. The key word here is “*right*.”

### Definition of Procurement

Right quality	Right quantity	Right price	Right time	Right source
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The *right quality*, for instance, is not always the best quality, nor is it always the cheapest. The *right quality* is the one that fulfils all necessary requirements for a particular item, whether it is supplies or a building, at the lowest overall cost.

Buying the *right quantity* is usually thought about in the context of materials and supplies and assures that the LG has an adequate inventory available at the most reasonable cost. Consider the following examples of resurfacing materials for filling potholes in streets, and of vaccines for malaria. When quantities ordered are too small or too large, the following can happen:

### Quantities Ordered are Too Small

Impact	Resurfacing materials	Vaccines
The price per unit is usually higher.	In both cases the impact is a reduction in the volume (number of units) that limited budget dollars will buy.	
More time must be spent on paperwork.	Time spent on paperwork may take a staff person away from more important tasks.	

The risk of running out of materials /supplies increases.	While running out of vaccines may have a more serious health impact, not having the materials on hand to accomplish the goals and objectives of any department results in staff being nonproductive and basic community services not being provided.
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### Quantities Ordered are Too Large

Impact	Resurfacing materials	Vaccines
Overall inventory costs are higher.	This impacts the amount of cash in the LG's banking account. If the cash is used to make too large a purchase of inventory items, then that cash is not available for payroll or purchasing other needed materials or supplies.	
Extra warehouse space is often necessary.	If too large a volume is ordered there may be no place to store the materials / vaccines. Storage space is especially important for resurfacing materials since they may use a lot of outside yard storage space. Vaccines may require being refrigerated.	
Expensive stock may become obsolete on the shelf.	This impact is not as applicable to resurfacing materials or malaria vaccines. A better example is repair parts for water pumps for drinking water. Water pump repair parts are expensive to just keep on hand in inventory storage. But if a drinking water supply pump breaks, it is important to repair the pump and restore the service as quickly as possible. At times, the pump may need to be completely replaced and the repair parts never used thus becoming obsolete.	

Also, when determining the *right quantity*, consideration should be given to price breaks offered by some suppliers for larger orders (bulk orders), and to the overall trends in market prices. For instance, when the market price of a necessary item is rising (like vaccines), larger than usual quantities should be ordered if possible; when the trend is downward, smaller quantities are justified.

The concept of *right quantity* also applies to constructing infrastructure or buildings. In this case *right quantity* is based on engineering or design specifications required to complete the project. Well thought out projects that identify needed quantities for materials, labour, equipment usage, etc., provide a way to put boundaries on and monitor construction costs as the project progresses. Many times this will allow you to anticipate potential problems with cost overruns before they happen.

The *right price* in procurement is one that is fair and reasonable to both buyer and seller. Competitive bidding may be used to encourage competition among suppliers and thus gain more favourable prices for a LG.

The *right time* refers to the need to obtain and make available materials, services or public works at the time they are needed for use. This requires proper synchronisation of the user demands and availability from suppliers or construction contractors.

Finally, buying from the *right source* means selecting the supplier who can provide the optimum combination of the right quality, in the right quantity, at the right price, at the proper time.

Factors like:

- delays in delivery or construction,
- lost time due to malfunctioning equipment, and

- inadequate service

all contribute to higher departmental operating costs or capital construction costs, and can be as important in determining the lowest and best bid as is the original purchase price.

These factors suggest that certain information should be required from suppliers or contractors before they are added to a LG's bidders' list. Such a requirement enables you to determine, with some degree of assurance, the firm's ability to perform. When a firm is found to be deficient in meeting requirements, it should not be placed on the bidders' list until the deficiency is cleared.

## WHY IS PUBLIC PROCUREMENT IMPORTANT?

One of the major considerations of any local government (LG), regardless of size, is the problem of securing materials, equipment, and supplies for day-to-day operations as well as constructing or contracting for the construction of buildings, roads, water lines and many other types of infrastructure. Since purchases and/or contracts account for a significant portion of your budget, sound procurement and materials management procedures are important to the financial integrity of the LG and its managers. Wise purchasing decisions and economies of scale in what you purchase can help you get the most from your budget allocations.

Public procurement is important for several reasons.

- Procurement is one of the main expenditure components in most public budgets. It is the financial management vehicle used to acquire the resources needed to accomplish community goals and objectives.
- Second, it assures that public funds are being used in an efficient way by encouraging a broad base of qualified bidders to submit proposals and bids that are responsive to LG user requirements and provide the best value for specific public investments.
- Third, effective public procurement will demonstrate to the community that the acquisition of goods, services and the construction of public projects will take place under fair and open conditions. It provides assurance that procurement will be non-discriminatory, highlights the local government's attention to accountability, and in most cases supports local business development and employment.
- Fourth, procurement plays a support role (i.e. by timely provision of required quality and quantity of materials and services, to facilitate the operation of the LG and thus ensuring delivery of quality services to the public.
- Finally, a well-defined procurement process will attract business investors to a community by demonstrating a LG's willingness to trade in a fair and reasonable way and distribute business risks in an equitable manner.

## WHAT ARE THE OBJECTIVES OF PUBLIC PROCUREMENT?

The objectives of public procurement are to use public monies in such a way that:

- Acquisitions are obtained at the lowest possible price consistent with function, quality and schedule requirements.
- All qualified bidders are encouraged to participate in the bidding process.
- The bidding program is generally recognized as governed by a fair set of rules that give bidders an equal opportunity.
- Those responsible for the procurement function have responsibility to manage it in an open manner and can be held accountable for their actions.
- Local business and employment are promoted while ensuring open competition. [*Author's Note: some countries may view this as discriminatory or biased and not a worthwhile objective.*]

## PROCUREMENT TERMINOLOGY

The process of public procurement is governed by its own set of unique terms. To assure a common frame of reference keep the following definitions in mind as you read this chapter.

**Advertise** is to make a public announcement of the intention to purchase goods, services or construction with the intention of increasing the response and enlarging the competition. The announcement must conform to the legal requirements imposed by established laws, rules, policies and procedures to inform the public.

**Bid or tender** is the offer received from a vendor in response to a solicitation. A response includes submissions commonly referred to as "offers," "bids," "tenders," "quotes," or "proposals."

**Cooperative Purchasing** is the combining of requirements of two or more governmental units to obtain the benefits of volume purchases and/or reduction in administrative expense.

**Emergency acquisition** is the term used to purchase when there is a threat to public health, welfare, or safety that threatens the functioning of government. It can be for the protection of property or the health or safety of people. Normal laws, rules, policies and procedures do not apply for this type of purchase. There are usually specific laws that govern these types of purchases.

**Formal solicitation** is a solicitation for bids that requires a sealed response. **Informal solicitation** does not require a sealed response.

**Invitation to Bid or Request for Bids** is a solicitation in which the terms, conditions, and specifications are described and responses are not subject to negotiation.

**Invoice** is a list of goods or services sent to a purchaser showing information including prices, quantities and shipping charges for payment.

**Lowest responsible vendor** is the vendor with the lowest price whose past performance, reputation and financial capability is deemed acceptable.

**No bid** is a response to a solicitation for bids stating that respondent does not wish to submit an offer. It usually operates as a procedure to prevent suspension from the vendor's list for failure to submit a response.

**Performance bond** is a contract of guarantee, executed subsequent to award by a successful vendor to protect the procurer (LG) from loss due to the vendor's inability to complete the contract as agreed.

**Prequalification of vendors** is the screening of potential vendors in which such factors as financial capability, reputation and management are considered when developing a list of qualified vendors.

**Procurement** is the combined functions of purchasing, inventory control, traffic and transportation, receiving, inspection, store keeping, and salvage and disposal operations.

**Purchase Order** is the signed written acceptance of the offer from the vendor. A purchase order serves as the legal and binding contract between both parties.

**Purchase Requisition** is an internal document that an operating department, i.e., Finance, Public Works, Streets, sends to the Procurement department containing details of materials needed to meet its needs, replenish stocks or obtain materials for specific jobs or contracts.

**Request for Proposal (RFP)** is a solicitation in which it is not advantageous to set forth all the actual detailed requirements at the time of solicitation and responses are subject to negotiation. Price must be a factor in the award but not the sole factor.

**Response** is the offer received from a vendor in response to a solicitation. A response includes submissions commonly referred to as "offers," "bids," "quotes" "tenders," or "proposals."

**Retainage** is an amount of the total contract (usually 10-15%) that is held by the LG until the contract is satisfactorily executed.

**Sealed bids** is a method of receiving bids to prevent the contents being revealed or known before the deadline for submission of responses.

**Solicitation** is the process used to communicate procurement requirements and to request responses from interested vendors.

**Specification** is a concise statement of a set of requirements to be satisfied by a product, material or process that indicates whenever appropriate the procedures to determine whether the requirements are satisfied. As far as practicable, the requirements should be expressed numerically in terms of appropriate units, together with their limits. A specification may be a standard, a part of a standard, or independent of a standard.

**Standard** is an item's characteristic or set of characteristics generally accepted by the manufacturers and users of the items as a required characteristic for all such items.

**Terms and Conditions** is a phrase generally applied to the rules under which all bids must be submitted and the stipulations included in most purchase contracts; often published by the purchasing authorities for the information of all potential vendors.

**Vendor** is someone who sells something; a "seller."

**Vendor's list** is a list of names and addresses of suppliers from whom bids, proposals and quotations might be expected. The list, maintained by the purchasing

department, should include all suppliers who have expressed interest in doing business with the LG.

## ESTABLISHING PROCUREMENT AUTHORITY

The procurement manager must have the delegated authority from top management in the LG before that person can start any procurement activity. Procurement authority must always be given in writing. The authority should include:

- The name of the person to whom authority is being granted
- The name of the person granting the authority and the source of his/her authority
- The limit of the authority being granted and its financial threshold; and
- The period for which it is valid.

Typically, this authority is awarded at several levels. For example, authority might be awarded for certain persons for the acquisition of small purchases with a specified financial threshold. Increased authority can then be granted for a higher level of acquisitions to additional persons, and so on, until the highest level, the procurement manager is reached.

Additionally, LGs may choose to make procurement policies that establish dollar limits for various tendering methods. For example, this policy could define the conditions under which the procurement manager could procure through “quotations” rather than a public tender like in emergencies or small dollar amount purchases.

## ETHICAL STANDARDS, CORRUPTION AND PROCUREMENT

Each and every country must deal with corruption and the perception of corruption in the procurement process. Since public procurement involves the use of public funds, there is an added responsibility for the procurement function to be accountable for the fair, efficient and transparent manner in which acquisitions are made.

Opportunity for corruption and personal gain exists in every aspect of the procurement function. It is incumbent upon all government officials to ensure that the highest levels of ethical behaviour are maintained and that eliminating corruption is made a top priority within their LG. Persons who disburse public funds should be selected with the utmost care, be fully trained in their responsibilities, and be aware of their liability and accountability.

Officials who are responsible for procurement, or are in a position to influence decisions, must never allow themselves to be put in a position where it might be perceived by the public that they are using the procurement process for financial or political gain. In most countries, there are provisions in the public procurement law for criminal action against officials who misuse their public trust.

The following are some suggestions for LGs to consider as they deal with the issue of corruption in the procurement system — especially in the construction of capital projects.

- Advocate for strong central government, provincial, or local laws that establish a code of ethics for procurement managers and that discourage corruption. Included in this should be definition of what , if anything is permissible as a gift, and when it becomes corruption. The definitions should apply to the procurement manager as well as to policy or decision makers.
- Reduce opportunities for corruption in new projects through strengthened requirements for project design and citizen input.
- Pay close attention to the public procurement and financial management capacity of LG and build in adequate safeguards (including actions to strengthen capacity and finalize procurement arrangements at an early stage) in the design of new projects to match fiduciary risks.
- Establish, as a priority for new projects, requirements that demonstrate concerns for economy, efficiency and transparency in the use of public funds.
- Install planning, budgeting, and project management reporting systems that support the procurement process.
- Provide greater beneficiary and civil society involvement in the design, implementation and monitoring of projects to enhance transparency, prevent misuse of funds, and assure third party verification as a feature of new projects.
- Strengthen existing mechanisms of fiduciary monitoring and supervision of ongoing procurement projects.
- Intensify efforts by requiring updated and satisfactory annual procurement and financial plans and insist that they are used for guiding implementation and supervision.
- Carry out regular ex-post procurement and statement of expenditure (SOE) reviews.
- Strengthen capacity of the implementing departments.
- Install and strengthen strict internal control systems which includes internal audit and separation or segregation of duties (i.e. different persons to handle separate aspects of a procurement transaction).
- Provision of stiff penalties for corrupt actions such as prosecution, dismissal, blacklisting, etc.
- Enhancement of remuneration for LG procurement personnel that handle procurement activities in order to reduce temptations to steal.
- Provision for “whistle blowing” protection where LG employees or others can report suspected corruption without fear of reprisal.
- Follow up on procurement complaints and audit findings.
- Engage civil society in monitoring of project implementation.

Transparency International ([www.transparency.org](http://www.transparency.org)) has a corruption fighter’s toolkit that may be useful. It includes such examples as: an integrity pact from Ne-



pal, an aid to public accountability for India, and training for dealing with corruption from Argentina, as well as sample memos of understanding. For example there is a Memo of Understanding between Transparency International Pakistan and Karachi City Government. One of the products of that agreement was a comprehensive Procurement Manual. Several examples from that manual are used in this chapter. The procurement manual can be found at [www.karachicity.gov.pk/prm2.htm](http://www.karachicity.gov.pk/prm2.htm)

## PROCUREMENT MANAGEMENT TEAM FOR CONSTRUCTION PROCUREMENT

A procurement management team should be assembled to support the procurement manager when preparing capital construction bids or contracts. The following functions must always be represented: Procurement, Requesting Department, Legal, Finance, and Budget.

Teamwork is important since each of these disciplines represent key aspects of the capital construction procurement activity and are, therefore, interdependent. In addition, the team approach also establishes a system for checks and balances that helps to keep the entire process transparent. The following is a brief description of the team's primary responsibilities.

**Procurement specialist / manager.** This person will be in complete charge of the procurement activity, and is responsible for ensuring that the events throughout the total procurement cycle are carried out in accordance with the Public Procurement Law and associated regulations. The procurement manager must have the clear delegated authority from the top management of the procuring entity to undertake this action, and he/she must be fully aware of the important responsibility assumed in this role. Associated with this responsibility is the accountability and legal liability placed upon the procurement manager under the provisions of the Public Procurement Law. It therefore follows that the procurement manager must be fully trained and qualified in all aspects of procurement before that person can be appointed to carry out this function.

**Program specialist.** This person will be in charge of the specific subject of the procurement action. He/she will be responsible for establishing the terms of reference for the acquisition, and planning the overall schedule for each associated procurement action. For example, in a public works project, there will be several procurement activities over its life cycle. These could include contracts for: services, i.e. design; public works, i.e. construction; and goods, i.e. furniture and equipment. Each activity must be scheduled so that there are no delays in the completion of the project. This person will be the technical manager.

**Legal specialist.** The legal officer will provide legal counsel on all aspects of the law as they relate to the specific acquisition. This is particularly important not only with regard to the Public Procurement Law, but also to the effect that other laws might have on the specific procurement. The legal officer will also play a very important role in assuring the transparency and high level of ethics throughout the entire project cycle. In addition, the legal officer will be responsible for reviewing and approving such things as Conditions of Contract, and any other contractual issues that might arise.



**Finance specialist.** This person will ensure that proper accounts are established for the acquisition and funds are transferred to the designated account. This person will have complete responsibility for ensuring prompt payment to contractors and vendors throughout the entire contract period, and ensuring that proper accounting and auditing mechanisms are put in place.

**Budget specialist.** This person must ensure that the procurement activity is within the framework of the approved budget and that funds have actually been designated for this purpose. It is good practice to have the budget officer officially authorize that the acquisition has budget approval and that funds are available for its purpose. This should be a mandatory prerequisite to any procurement action.

Of course, in small organizations some of these functions will be vested in one person.

## PROCUREMENT MANUAL

An essential document in any LG is a procurement manual, containing the policies governing the “how to” of public procurement. The manual can contain a variety of topics, from basic instructions on how to prepare a purchase order to the procedures used to take telephone quotations, submit a sole source justification, make an emergency purchase, or negotiate a contract. A manual makes it easier to enforce procurement policy.

If your LG does not have a procurement manual of its own, obtain copies of manuals from several LGs in your area. Because most LGs are subject to the same public procurement guidelines, most procurement manuals contain elements copied from another LG.

## Partial contents of a procurement manual

Principles of procurement  
Responsibilities of the procurement manager  
Procurement policy  
Department responsibilities  
Business relations with suppliers  
Unauthorized purchases  
Preparing purchase orders  
Blanket purchase orders  
The purchase order return form  
Purchase order changes  
Cancellation of purchase orders  
Areas exempt from competitive bidding  
Follow-up and expediting  
Telephone quotation procedures  
Telephone quotation procedures for rental items  
Informal bidding process  
Formal bidding process  
Specifications  
The contract and its use  
Establishing new contracts  
How to use state contracts  
Personal service agreement  
Sole source procurement  
Emergency purchases  
Disposal of surplus material  
The payment process  
The receiving process  
Procuring professional and consultant services

## PROCUREMENT FRAMEWORK FOR LGS IN A DECENTRALIZING SITUATION

One of the greatest challenges to local governments in countries that are experiencing a transition economy is learning to “do business” in a competitive market. “Doing business” includes the public procurement of goods and services needed to carry out the goals and objectives of LG. In many developing and decentralizing countries, the procurement learning process may require the adoption of new laws, the preparation of standardized bidding documents, and the development of implementing procedures to ensure that procurement is carried out in an open, transparent and ethical manner.

If managed well, decentralization can achieve substantial efficiency gains because decisions will be made at a lower level of government, which has better information, and is more accountable to the local public. But decentralization runs the risk of exacerbating any existing weaknesses in the national procurement system as well. Here are some of the types of issues that newly decentralized LGs may face:

- *Limited capacity.* Usually the capacity to manage procurement is limited in LGs due to a lack of experience. The same is true for the capacity of

small and medium size suppliers and contractors in LGs and of consulting firms.

- *Limited competition.* In many countries, current procurement regulations and practices effectively limit bidding, in particular for small and medium value contracts, to those suppliers and contractors who operate in the geographical area of the LG. Also, local regulations on business licensing can further limit competition.
- *Limited accountability.* Political accountability, financial management, and audit arrangements for many newly decentralized LGs are yet to be established. Moreover, the limited own source revenue base of LGs, absence of working mechanisms for an appropriate handling of procurement complaints, and inexperience of local legislative councils can further undermine the accountability of LGs. If combined with the lobbying powers of the local business community, the limited accountability could significantly increase the risk of corruption.

## TYPES OF BIDS AND OTHER PROCUREMENT METHODS

*Please refer to your country's public procurement laws, in relation to the following discussion, since they may prescribe specific types of procurement and the various conditions under which these types may be used.*

The following table identifies the types of procurement available within the framework of most countries' public procurement laws. These types can be used for the purchase of materials, equipment and supplies as well as for construction and consulting contracts.

Type	Description	Recommended Uses
Competitive bidding	<p>The most desirable type of procurement is “open competition” where as many qualified bidders as is practical will be encouraged to submit bids.</p> <p>Informal requests for quotations or bids may be used for small, low-cost purchases. Replies to such informal requests may be submitted under a supplier’s letterhead or on standard forms commonly available from commercial printers or office supply stores.</p> <p>Closed (Sealed) bids should be used for larger, more expensive purchases and may, in fact, be required by law or granting agencies.</p>	<p>For most LG acquisition of materials, supplies, consulting or construction contracts.</p> <p>For certain items (office supplies, gasoline, etc.) it is unnecessarily cumbersome to take bids each time they are needed. These items, therefore, can be purchased under an “open contract” whereby a competitive bid may be awarded once a year, and the items are purchased as needed throughout the year under the contract terms.</p> <p>Procurement costs should have a reasonable relationship to the value of the item being purchased. An excessive number of small purchases can significantly increase procurement costs, and procedures should be worked out to control and minimize such orders.</p>
Restricted bidding	<p>This method may only be used when the subject for procurement is: a matter of state security; there is justifiably insufficient time to prepare for competitive bidding; there is no apparent cost benefit in arranging for a public procurement; or the previous public procurement did not fulfil its purpose.</p> <p>Great care must be taken in ensuring that the reasons for selecting this type of procurement are valid. Once again, the legal advisor should be consulted before making such a determination.</p>	<p>Please check your country’s public procurement laws as they relate to restricted bidding.</p>

<p>Negotiated proceedings</p>	<p>This method also must be carefully reviewed and justified before it is used. It should only be used when the previous public procurement has not been fulfilled or the procuring entity is unable to specify in detail the nature of the proposed procurement. When using negotiated bidding, procuring entities should always invite at least three firms to participate in the negotiations and each firm must be provided with the same information regarding the procurement.</p>	<p>One example is a situation in which emergency repairs are to be carried out and it is impossible to precisely define their extent. Another is where the procurement is of such a nature that it would not be possible to fulfil the requirements of either competitive or restricted bidding.</p>
<p>Price offer, may also be called Request for quotations since it is not just price which is requested but additional information such as delivery period, quantity, quality/brand, etc. which help in the evaluation of such offers.</p>	<p>This method may be used for the acquisition of services and serially produced goods, which are commonly available on the market and have a recognized or standard price. The LG should invite at least three bidders to submit prices.</p>	<p>This method should be used if the value of goods or services does not exceed a specified amount in any calendar year based on any current public procurement laws</p>
<p>Direct set up (Sole source)</p>	<p>This form of bidding should be used only when there appears to be only one source available to fulfil the requirements of the procurement. Public procurement laws may set the maximum value of a contract award.</p>	<p>Examples include:</p> <ul style="list-style-type: none"> <li>• Where a copyright is involved</li> <li>• Where the procurement is of such a nature that it would not be possible to fulfil the requirements of either public procurement or restricted bidding</li> <li>• Where the proposed contract supplements an existing contract but is not more than 50% of the existing contract value</li> <li>• The subject of the procurement is a state secret</li> <li>• The procurement is as a result of a natural disaster when time available for competitive sourcing is limited. It is also used for extremely low value requirements.</li> </ul>

Purchasing cards	Procurement cards are charge cards which work in a similar way to credit cards and can be used to purchase goods or services. They can be treated like traditional charge cards and can be open to use with any suppliers or they can have controls placed upon them by the employer, limiting them to use with only certain commodities or certain suppliers.	The use of procurement cards is a well established procedure in many local governments. For example, procurement cards are offered free of charge under the core Government Procurement Card (GPC) contract to UK public sector organisations. They are used to process low value, high volume transactions.
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## BID SPECIFICATIONS

All procurement is based on some standard or specification. A *standard* is any measure of extent, quality or value of any type, model, or example for comparison; a *specification* is a description of dimensions and types of materials, performance, and functions. When procurement is centralized, types, sizes, and grades of products used by programs can be surveyed and reduced to the minimum actually needed. Following this process of simplification, standard specifications describing the products can be developed. The simplification process should begin with the most commonly used items, and need not include items used in small quantities by only one or two departments.

- The first rule in preparing a specification is to keep the description simple and concise—reference to a catalogue number may suffice.
- Specifications should include a description of intended use, as well as any functional, material, or performance requirements.
- Keep the specifications for certain equipment, trucks, and cars, broad enough to allow for at least three bids.
- Encourage the use of generic brands rather than a specific name brand.
- Keep one copy for the procurement file, send one to each possible vendor, one to the department requesting the merchandise, and one to the accounting department.
- When the bids are received, they should be examined to determine the lowest and best or “right” bid given.

### Checklist for specifications from Department of Trade & Industry of the United Kingdom

- \_\_\_\_\_ Is the specification presented in performance terms rather than a detailed design?
- \_\_\_\_\_ Do the specifications contain enough information for potential suppliers to design and cost the products or services they will offer?

- \_\_\_\_\_ Are limits, tolerances or performance targets reasonable and easy to check? Are they written in such a way that they define the criteria for acceptance of offered products or services as well as permitting them to be evaluated by examination, trial, test or documentation?
- \_\_\_\_\_ If appropriate, do specifications conform to European, international or national standards and comply with any legal obligations?
- \_\_\_\_\_ Do specifications provide equal opportunity for all potential suppliers to offer a product or service which satisfies the needs of the user and which may incorporate alternative technical solutions?
- \_\_\_\_\_ Ensure that specifications do not contain features that directly or indirectly discriminate in favour of, or against, any supplier, product, process or source.
- \_\_\_\_\_ Ensure that they do not over-specify requirements—i.e., specify performance that is more than “Fit for Purpose”.
- \_\_\_\_\_ Have you taken due account of the Department’s environmental policies?
- \_\_\_\_\_ Is variety reduction and simplification exercised?
- \_\_\_\_\_ Are site-specific requirements necessary?

## SAMPLE OF A REQUISITION TO PURCHASE ORDER PROCESS

Step 1. The department prepares a purchase requisition which is a request to purchase and authorization to the Procurement Department to proceed accordingly. The completed requisition form describes the item(s) needed in sufficient detail to specify the level of quality required, identify the quantity and packaging requirements, identify delivery constraints, identify any known vendors, and identify the source of funding in the form of the proper budgetary account and fund.

Step 2. Purchasing reviews the requisition for sufficient detail. Purchasing contacts the requesting department for: additional information, if needed; to recommend changes in the specifications, substitutions, or functional equivalents, etc. Purchasing will coordinate information with the user throughout the procurement process. Purchasing decides whether the purchase should be made by informal or formal solicitation.

Usually this decision is made based on the currency amount of the purchase to be made. For example, the LG’s policy may be that all purchases in excess of a pre-determined amount must be made through formal solicitation processes, but that a purchase for less than that amount may be made through the informal solicitation process. Each LG may be different depending upon whether there are central government procurement regulations. You will need to check in your country to see what your legal options are for procurement.

## INFORMAL SOLICITATION

- Purchasing reviews prices submitted by the department, if any, and may contact additional vendors if better prices are anticipated. This may be by “telephone quotations” or can be by written “quotations.”
- Upon determining the lowest responsive bidder, Purchasing issues a purchase order to the vendor, with copies to the requesting department (called the receiving copy) and Finance.
- The purchase order is sent to the vendor to authorize delivery of goods or services.
- The requesting department should review its copy of the purchase order for accuracy of the goods/services requested and immediately report discrepancies to Purchasing.
- The requesting department receives the goods/services from the vendor and verifies that quality and quantity are in accordance with the purchase order. The purchase order is a contract; the requesting department is not authorized to accept substitutions and should advise Purchasing immediately of any discrepancies.
- The requesting department records the date of receipt, the quantity received, verifies that items were received without substitutions, and document any damages on their copy of the purchase order. The receiving copy of the purchase order should be signed by the department head or his designee and be sent, with the supplier’s original invoice to Finance to be processed for payment.
- Finance reviews the receiving report (requesting department’s copy of the purchase order) and supplier’s invoice for accuracy, eligibility for discounts, and availability of budget funds. Discrepancies should be discussed with the requesting department and/or Purchasing as appropriate. Finance pays the invoice to the supplier.

## FORMAL SOLICITATION

**Competitive Sealed Bidding.** This is a much more formal method of contractor selection which includes the following elements (your country probably has very specific requirements for this process):

- Purchasing issues a written Invitation to Bid containing or incorporating by reference the specifications and contractual terms and conditions applicable to the procurement.
- Unless the Purchasing Manager has provided for prequalification of bidders, the Invitation to Bid includes a statement of any requisite qualifications of potential contractors. In addition, the LG reserves the right to reject any and all bids, and to accept the lowest responsive and responsible bid which may best serve the interest of the LG.
- Public notice of the Invitation to Bid should be given at least ten days prior to the date set for receipt of bids by posting on bid board maintained



- by Purchasing, the LG's website or other designated public area or publication in a newspaper of general circulation in the (name of LG), or both.
- Public opening and announcement of all bids received.
  - Evaluation of bids is based upon the requirements set forth in the invitation, which may include special qualifications of potential contractors, life cycle costing, value analysis, and any other criteria such as inspection, testing, quality, workmanship, delivery, and suitability for a particular purpose, which are helpful in determining acceptability.
  - If there is a technical evaluation of the bids, it should be done by the user in conjunction with technical experts relating to the goods/services being procured.
  - If there is a commercial evaluation (assessing the commercial viability of the proposal), it should be done by purchasing and include the following: analysis of bid prices, delivery period, quality/value, financial status of the proposer, etc.)
  - Many countries require a formal "tender committee" the formally evaluates and awards tenders as a way of demonstrating transparency and accountability. Typical membership might include: Chairman (CEO of LG), Vice Chairman (Deputy to CEO), Members (designated functional heads of departments and users), and Secretary (procurement manager of the LG).
  - If awarded, award should be given to the lowest responsive and responsible bidder.
  - Purchasing will ensure that pricing is obtained by the method required by law. Purchasing evaluates offers including pricing and compliance with specifications terms and conditions; the requesting department will be advised of any exceptions or viable substitutions prior to award. The requesting department will be the final authority as to whether or not a product is acceptable to its needs; Purchasing will be the final authority as to compliance with specifications, terms and conditions.
  - Upon determining the lowest responsive bidder, Purchasing issues a purchase order to the vendor, with copies to the requesting department (called the receiving copy) and Finance. In some cases, Purchasing may enter into a contract with the vendor rather than issuing a purchase order. Purchase orders are usually for goods and equipment where contracts are usually for services or construction.
  - The purchase order/contract is sent to the vendor to authorize delivery of goods or services or start construction.
  - The requesting department receives the goods/services from the vendor and verifies that quality and quantity are in accordance with the purchase order/contract. The purchase order is a contract; the requesting department is not authorized to accept substitutions and should advise Purchasing immediately of any discrepancies.
  - The requesting department records the date of receipt, the quantity received, verifies that items were received without substitutions, and document any damages on their copy of the purchase order. The receiving copy of the purchase order should be signed by the department head or his designee and be sent, with the supplier's original invoice to Finance to

**Sample Invitation to Bid Request**

Sample Bid Request			
Item	Quantity	Description	Total
1.	100	Plastic refuse bins—3 feet wide by 3 feet tall upon 4 inch rolling castors, with lid. Must conform in detail to sample for inspection in room 301, LG headquarters, 102 Dwyer Avenue.	
<b>DELIVERY:</b>		Delivery to be made within ___ days after receipt of Purchase Order, F.O.B., LG Headquarters, 102 Dwyer Avenue, _____.	
<b>TERMS:</b>		Discount ___ % ___ days.	
<b>NOTE:</b> Vendor to submit sample of item offered in bid. All or None _____ Low Item _____		<b>FIRM:</b> _____ <b>ADDRESS:</b> _____ <b>TELEPHONE NO.:</b> _____ <b>BY:</b> _____ <b>DATE:</b> _____	

be processed for payment. For contracts, there are usually “milestones” defined in the contract where the contractor can invoice the LG. Those invoices are processed similarly to the invoices received for matching to a purchase order.

- Finance reviews the receiving report (requesting department’s copy of the purchase order) and supplier’s invoice for accuracy, eligibility for discounts, and availability of budget funds. Discrepancies should be discussed with the requesting department and/or Purchasing as appropriate. Finance pays the invoice to the supplier. In the case of a construction contract, the project manager reviews the invoice and submits it to Finance for payment.

On the preceding page is a sample Invitation to Bid for the purchase of plastic refuse bins.

Following is a sample timeframe for the competitive bidding process described above. This sample is from the City District Government of Karachi, Pakistan. (<http://www.karachicity.gov.pk>)

#### Time Frame

This process shall be completed within the time prescribed below;

- Prequalification and notification in the press. 03 Days.
- Receipt of Prequalification from bidders 25 Days
- Evaluation of Prequalification. 07 Days
- Invitation to Bidders. 01 Day
- Receipt of Tenders (minimum) 21 Days
- Opening & Evaluation of tenders 07 Days
- Public Declaration of Evaluation Report 10 Days
- Evaluation Report (ER)
- Finalization of ER 03 Days
- Approval of ER by Project Award Committee. 02 Days
- Approval of Award of Contract by Nazim CDGK. 02 Days
- Issue of Letter of Award by EDO 02 Days

**Note:**

**Tender Opening & Evaluation Committee:** Comprised of EDO (Concerned group of officers), DO’s, Representatives of EDO (F&P), EDO (Law) and three Representatives from Civil Society / elected members. (Example from FPCCI, Institute of Chartered Accountants, Pakistan Engineering Council etc.)

**Project Award Committee.** Comprised of DCO, EDO ( Works & Services), EDO ( F & P), EDO (Law), EDO (Concerned group of officers), Representative of City Nazim.

## PROCUREMENT APPEALS BOARD

Different countries handle procurement appeals boards in different ways. Some countries have one appeals board for the entire country. These countries tend to have a very centralized procurement system with all local governments using the exact same regulations and forms. On the other end of the spectrum is the situation where a LG has its own appeals board.

Regardless of where the appeals board is located, it is responsible for fairly arbitrating any complaints brought against a procuring entity within its jurisdiction.

The board's authority to decide complaints brought against a procuring entity must be clearly established. Most boards have the authority to overturn a procurement award by awarding the contract to another vendor or to order that a "rebid" of the procurement take place. The board should be composed of at least three persons with a background in law or procurement. The appeals board may or may not be the final arbitrator for a complaint. These guidelines are established by law or local ordinance. In some countries, if a vendor is not satisfied with the verdict of the appeals board they may be able to take the matter to a court.

## OTHER BASIC CONCEPTS

### "GREEN" OR SUSTAINABLE PROCUREMENT

Local governments are major consumers around the world. In Europe, public authorities spend some 16 % of the EU's Gross Domestic Product (which is a sum equivalent to half the GDP of Germany). If LGs world-wide combined their purchasing power to opt for goods and services that also respect the environment they could make an important contribution towards sustainable development. Green public procurement covers areas such as the purchase of energy efficient computers and buildings, office equipment made of environmentally sustainable timber, recyclable paper, electric cars, environmental friendly public transport, organic food in canteens, electricity stemming from renewable energy sources, and air conditioning systems complying with state of the art environmental solutions.

Green purchasing is also about setting an example and influencing the marketplace. By promoting green procurement, local governments can provide industry with real incentives for developing green technologies. In some product, works and service sectors the impact can be particularly significant, as public purchasers command a large share of the market (in computers, energy efficient buildings, public transport, and so on.)

Finally, if you consider life cycle costs of a contract, green public procurement allows you to save money and protect the environment at the same time. By purchasing wisely, you can save materials and energy, reduce waste and pollution, and encourage sustainable patterns of behaviour.

### DONATIONS

Donations can come in several forms: revenues, materials, equipment, or property. Many times private businesses will donate materials, equipment or property that they no longer need. Gifts of revenues are made occasionally, but sometimes the gifts are restricted to specific use.

### BARTERING

Bartering is when an organization exchanges goods and services for another organization's good and services. No monies are exchanged. Exchanging goods in this manner can be very beneficial for small NGOs.

## PROCUREMENT AND THE SMALL LG

You may assume that smaller LGs do not require special public procurement expertise because of their much lower volume of purchases. This assumption could not be further from the truth. The relatively small size of the purchase or contract does not make specification writing, bid processing, or award evaluation any easier. In many cases, the smaller the bid size, the more difficult it is to complete the procurement process. Developing a specification for a utility billing system for 5,000 households is just as difficult and demanding as developing one for 100,000 households. The difference between the two is scale, not complexity.

## PURCHASING AND ACCOUNTING SHOULD BE SEPARATED

The procurement function should be separate and apart from the accounting function to discourage collusion with suppliers. The purchase order becomes a permanent record of any transaction involving merchandise purchased or services rendered, and payment thereof.

## COLLECTIVE (COOPERATIVE OR CONSORTIUM) PROCUREMENT

Consolidation of bidding and procurement procedures results in increased savings to all units involved. This type of procurement enhances the bargaining power of the members as well as lowering procurement costs.

There are two basic approaches to entering into cooperative procurement arrangements. Using the first method, two or more agencies, (e.g., a LG and a NGO) may combine their requests for bids from suppliers, and then place their orders either jointly or separately with the best bidder.

Under the second method, the largest of the cooperating agencies adds to its requirements the needs of smaller organizations, and then acts as ordering and billing agent for the group. Deliveries from the supplier may either be to each member of the group or to a central storage facility operated by the largest member. In the latter case, the large jurisdiction would then receive payments from the subdivisions and make all payments to suppliers.

## LEARNING APPLICATION

*In the first Learning Application in each of the chapters in this series we will be reminding the reader about how to get the most from each of these exercises. First, there is a box identifying the four key LG roles that most readers represent. These are Policy Makers (elected officials), CEOs (Chief Executive Officers such as mayors, city managers, etc.), Finance Managers (the chief finance official in the LG), and Department Heads (those individuals who are responsible for the management of specific LG departments such as public works, planning, and human resources). Second, we will indicate in the box those readers we believe will benefit most from completing the learning application task. Finally, when more than one official is listed, we see this as an opportunity for these individuals to get together and compare their responses. These Learning Application opportunities can also be modified to become training exercises for group learning. So, our advice is to make the most of these reflective interludes in the text.*

## LEARNING APPLICATION

POLICY MAKER \_\_\_ CEO X FINANCE MANAGER X DEPARTMENT HEAD X

Before we get too deeply into the steps in the procurement process, take a few moments and describe in a few words the procedures that your LG uses to purchase goods, services, and equipment. Include information on such things as who has authorisation to purchase what goods and services within what limits.

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How satisfied are you that your procurement system achieves the following procurement goals? Rate each on a five point scale: 1 = not at all satisfied; 3 = somewhat satisfied; and 5 = very satisfied.

1.	Acquisitions are obtained at the lowest possible price consistent with function, quality and schedule requirements.	1 2 3 4 5
2.	All qualified bidders are encouraged to participate in the process.	1 2 3 4 5
3.	The system is easy to administer.	1 2 3 4 5
4.	The rules of bidding are fair and give all qualified bidders equal opportunities to participate in the process.	1 2 3 4 5
5.	Those responsible for procurement are delegated the responsibility needed to manage the process in a professional and open manner.	1 2 3 4 5
6.	Those responsible for procurement are held accountable for their actions.	1 2 3 4 5
7.	The system, to your knowledge, is free of corruption.	1 2 3 4 5
8.	Local businesses and employment are promoted while ensuring open competition.	1 2 3 4 5
9.	Those who are responsible for procurement provide effective and efficient service to those individuals and units in the organisation who are required to use their services.	1 2 3 4 5

If you rated any of the above criteria at 3 or lower, what do you think could be done to improve these characteristics of your procurement system and procedures?

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## CITIZENS AND THE PROCUREMENT PROCESS

It is important that your citizens are comfortable with your LG's procurement process. The procurement system is one of the primary methods for implementing the budget, which in turn is the method for implementing community priorities. If you have an open procurement process, citizens will normally not be that concerned with the procurement system. If your procurement process is not as open, the citizens may have questions about the integrity of the system.

### WHY SHOULD CITIZENS BE CONCERNED ABOUT PROCUREMENT?

The process by which a LG decides from whom it will obtain goods, services or construction has important economic and political consequences. From an economic perspective, the design of the procurement process directly affects the efficiency with which an organization spends tax dollars. The more efficient the procurement process, the more goods and services can be purchased at a given level of funding. The procurement process also has important political consequences. Each procurement transaction places money from the collective coffer into a vendor's private account. Consequently, procurement presents an opportunity for government officials with the power to influence the procurement process to reward individuals and firms who have supported them in the past, or to curry favour with individuals and groups they hope will support them in the future. Similarly, a firm seeking to obtain a government contract has an incentive to maximize its economic return on political contributions by targeting county officials who can influence the procurement process.

If your country has an effective civil society structure in place, it's highly likely that there is also a National Chapter of Transparency International ([www.transparency.org](http://www.transparency.org)). Enlist their support to help provide an effective monitoring role – directly or through expert consultants – thus assuring greater transparency and credibility for your procurement process.

A government may also, either in addition to the involvement of Civil Society, or possibly in its place, adopt a policy of total transparency of the bidding, bid evaluation, award selection and contracting process, through outright publication of all the critical documents or by giving easy access to relevant documents and information to any interested party. An example of this type of document adopted by the City District Government, of Karachi, Pakistan, is in Appendix B.

As a way of encouraging interested citizens or vendors to provide suggestions or complaints regarding your procurement system, consider the following ideas:

- Put a suggestion box in the procurement office premises to encourage suggestions from concerned or other interested parties.
- Make arrangements for the analysis of and implementation of feasible suggestions on a routine basis.
- Designate someone to respond to the suggestions and complaints received. Complaints should be studied and addressed as soon as possible. Responses to complaints should be made public.

## PERFORMANCE MEASURES AND THE PROCUREMENT PROCESS

Performance measures are an important part of the procurement process. Without performance measures it is difficult to know how effectively and efficiently the process is operating.

Following are some examples of vision statements, goals, objectives and performance measures for Procurement.

### Sample Vision Statements for Procurement

#### Sample 1

To create a procurement system that obtains the best overall value for the taxpayers while achieving the City's social objectives in a realistic, economical manner.

To create a materials management system that obtains the best overall value for the taxpayers.

To create a procurement system that is open, fair, and streamlined so as to encourage vendor participation.

To create a procurement system that is accountable.

To create a procurement and materials management system that supports the missions of LG departments.

To create a procurement and materials management system that is efficient and effective, and provides for timely turnaround on orders, deliveries and payments.

To create a procurement environment that encourages continuous improvement.

To create a procurement and materials management system that provides enhanced management information, enabling procurement and materials management personnel to objectively evaluate, correct and improve performance.

#### Sample 2

To deliver on a timely basis the best value product or service to our citizens and customers while maintaining the public's trust and fulfilling public policy objectives.

### Sample Mission Statement for Procurement Mission

#### Sample 1

To provide acquisition and assistance services to support accomplishment of the City of XXXs programmatic goals and objectives.

Sample 2: Arlington County, VA, U.S.A

Arlington County's Procurement Professionals are committed to **meeting** and exceeding our customers' expectations.



We are **dedicated** to ensuring the timely acquisition of quality goods and services, at the right price, from qualified vendors.  
Excellent **service** is what our customers and clients expect and deserve.  
Excellent **service** is what our customers and clients get.

The following key goals are from a Report on Activities of the Public Procurement Office under the Government of the Republic of Lithuania in 2000.

### Key Goals of Lithuania's Procurement Program

- Drafting of enactments governing public procurement and submission thereof in the established procedure for the Government's approval;
- Drafting and adoption of enactments regulating public procurement pursuant to the authorities of the Office;
- Supervising adherence to Law on Public Procurement and requirements of secondary legislation with regard to implementation of the Law;
- Accumulation of information on expected and actual public procurement, procurement contracts and results of performance thereof as well as submission of the same to the state (LG) authorities and the public;
- Analysis and evaluation of the procurement system; preparation of recommendations with regard to improvements of such system;
- Arrangement of training and tutoring of officers of procuring authorities in charge for procurement;
- Consulting of the procuring entities and suppliers (contractors) or arrangement of such consultations on procurement-related issues;
- Contact keeping with relevant foreign authorities, EU organisations, WTO and other international organisations in dealing with procurement issues;
- Making and amending the lists of members to the Independent Committee for Public Procurement Complaint Review (ICRC),
- Arrangement of suppliers' (contractors') complaint review in the Independent Committee, provision of information to the Committee;
- Evaluation of draft laws, resolutions, other enactments on public procurement developed by ministries and other authorities, and presentation of the Office's comments in this regard;
- Taking of statutory measures to prevent infringements of laws, especially in cases when illegal acts of the procuring entities or suppliers (contractors) incur damage to the state, hinder publicity and fair competition among economic entities.

### Sample Objectives for Procurement

- Save 5% of total annual purchase costs in 2005-2006\*.
- Save 10% of total annual purchase costs in 2006-2007\*.
- Save 15% of annual recurring purchase costs each subsequent fiscal year\*.
- Reduce cycle times by at least 50% relative to 2003-2004 cycle times.
- Increase the productivity and morale of personnel by providing or identifying the enablers and empowerment authority needed to achieve the vision statement and quantitative objectives identified above.\* savings based on 2003-2004 baseline

### Sample Performance Measures for Procurement

Sample 1: Hampshire County Council, UK (<http://www.hants.gov.uk>)

Objective: To promote the development and use of performance measures for the procurement function.

- Identify recurring savings of at least £0.5m per annum by the end of 2005/06.
- Achieve 25% of purchase orders transmitted electronically by April 2004 and increase this by 20% per annum.
- Reduce the number of individual invoices processed by 10% by December 2004.
- Assess the current percentage of indirect purchasing under corporate framework agreements and increase this by 5% per annum.
- Rationalise the vendor base for indirect expenditure by 25% by March 2005.
- Complete implementation of the recommendations of the ODPM/LGA joint response to the Byatt Report: *'Towards a National Strategy for Local Government Procurement'* by March 2006.
- Develop a procurement improvement plan by December 2004 as part of the Best Value Review of Procurement.
- Undertake a biannual survey of a selected sample of suppliers to assess the County Council's procurement processes, skills, innovation and quality of documentation.
- Undertake an annual survey of a sample of procurement department's customers to evaluate performance.
- Develop targets to increase the number of staff with formal procurement training and to measure the number of staff who have attended procurement awareness sessions.
- The Corporate Procurement Network to undertake a contract management review of all contracts in excess of £500,000 by March 2004.
- Complete an assessment of PBRs (County Supplies) against the Procurement Excellence Model (PEM) by end of April 2003.
- Develop a programme of assessing departmental procurement teams against PEM during 2003/04.

#### **Sample 2 – Performance indicators – Oak Ridge Associated Universities, U.S.A**

- Percent of discount orders by consolidating requests
- Errors per purchase order
- Number of orders received with no purchase order
- Routing and trace errors per shipment
- Percent of supplies delivered on schedule
- Percent decrease in parts cost
- Expeditors per direct employees
- Number of items on the "hot" list
- Percent of suppliers with 100 percent lot acceptance for one year
- Labour hours per \$10,000 of purchases
- Purchase order cycle time
- Percent of parts with two or more suppliers
- Average time to fill emergency orders
- Average time to replace rejected lots with good parts
- Percent of lots received late
- Time to answer customer complaints
- Percent of purchase orders returned due to errors or incomplete description
- Percent of defect-free supplier model parts
- Percent projected cost reductions missed
- Time required to process equipment purchase orders
- Number of items billed but not received

- Stock costs
- Supplier parts scrapped due to engineering changes
- Parts costs per total costs
- Actual purchased materials cost per budgeted cost

## POLICIES

The chapter on *Financial Policy Making*<sup>1</sup> defines policies as “the principles and goals that guide the financial management practices of LG.” It continues saying “these policies influence financial decision making. They lead to the development of strategies to achieve goals. And they provide standards for evaluating and monitoring the performances of a LG’s financial management system.” Procurement policies are an important part of the financial management system.

### Sample Purchasing Policy

...to encourage competition among vendors and contractors, to provide for the fair and equitable treatment of all persons involved in public purchasing by this City, to maximize the purchasing value of public funds in procurement so that high quality goods and services may be obtained at the lowest possible price, and to increase public confidence in procurement practices by providing safeguards for maintaining a procurement system of quality and integrity.

It is important for your LG to go on record with written policies regarding its procurement procedures. Because the LG is responsible for the cost-efficient, legal and ethical management of public monies designated for procurement, managers must have a framework in place to ensure that funds are spent responsibly. Procurement policies provide this framework. The governing body as well as other elected public officials must convey the message that funds budgeted for the purchase of LG goods and services are a public trust and cannot be treated by public employees as their personal money to spend as they see fit. Some employees will have more trouble understanding this underlying principle than others.

Public procurement is one of the first stops for media searches for waste and corruption in LGs, and abuses can stop the careers of even the best managers. Adopting a realistic and sensible policy for the oversight of procurement responsibilities is an effort worth undertaking.

Each LG should base its policies and procedures for public procurement on the following four basic principles:

- Maximizing economy and efficiency— procuring the “right” goods or services at the “right” time at the “right” price from the “right” source.
- Promoting competition and encouraging maximum participation by suppliers and contractors for the supply of goods, construction or services to be procured.
- Ensuring fair and equitable treatment of all suppliers and contractors.
- Ensuring transparency in procedures and minimizing opportunities for corruption and collusive activities.

### Sample Procurement Policies that You May Want to Adopt

- The LG shall make every effort to maximize any discounts offered by creditors/vendors.
- The LG will use competitive bidding to attain the best possible price on goods, services and construction.
- The LG will centralize its procurement function.
- The LG will solicit competitive bids for all purchases over X amount.
- The LG will conduct an annual auction of surplus and obsolete personal property.
- The LG will conduct an annual inventory of all personal property.
- The LG will establish a program of delivery inspection to ensure that items delivered meet specifications.
- The LG will standardize all procurement regulations and they will be accessible to all interested parties.

## ***WHY LGS SHOULD ESTABLISH PROCUREMENT POLICIES EVEN IN A CENTRALIZED GOVERNMENT***

Since the central government may play a significant role in establishing the laws on procurement and regulations, why should a LG establish procurement policies? The simple answer is: local policies clarify how these laws and regulations are implemented in your LG. Also, you can supplement them as needed to promote high standards of LG financial management. Local officials should adopt formal written policies to provide general direction for the procurement process.

## **PROCUREMENT POLICIES FOR LGS IN DECENTRALIZING COUNTRIES**

Procurement in decentralizing countries needs to move towards a system based on the internationally accepted principles in which bidders compete against each other and provide an effective means of enforcement and checks and balances.

For central government money spent by LGs—whether earmarked grants or co-administered tasks—it is common policy in most countries that central government rules, regulations, and supervision apply. But there may not be guidelines in place for building the core accountability mechanisms of government. These mechanisms are the best guarantee against abuse of procurement. Details on financial management and reporting, accounting, internal control systems, audit, and accountability of governments to the local legislative body for the procurement process are essential. To achieve this, the central government should provide a minimum framework for LG procurement based on the following.

## Framework that Central Government Can Provide for LGs during Decentralization

**Legal Framework.** Any proposed or current national public procurement laws should apply to local, regional, provincial or state governments as well as to the central government. This ensures that basic principles, policies, rules and regulations, including the use of standard bidding and contract documents, and the mechanisms for effective complaints and review procedures and sanctions also apply to all levels of government.

**Supervision.** Uniformity in the application of a public procurement law at all levels of government is important to increase transparency. Any current or new national laws on public procurement should clearly specify the central government's authority over other levels of governments in supervising procurement.

**Publicity.** LGs should be required to publicize nationally all bid opportunities above an appropriate threshold size, as well as contract awards and sanctions. One way of doing this is through a "Procurement Bulletin" which is published through a centralized agency, like a National Public Procurement Office, with all local, regional, provincial and central government agencies participating.

**Capacity Building.** In the short run, the key to procurement capacity during decentralization is a smooth transfer of the civil servants from the central to LGs. In offices of central government where procurement has historically taken place, there is some capacity for managing procurement issues. In order for this capacity not to be lost, the central government should, together with LGs, draw up a plan for distributing this capacity among LGs.

### LEARNING APPLICATION

POLICY MAKER  CEO  FINANCE MANAGER  DEPARTMENT HEAD

What additional policies would you adopt to improve the effectiveness of your procurement system?

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### BENEFITS

An effective public procurement system is essential for good governance. Overall, it results in lower costs to the LG and thus to the public. The primary benefits of procurement using a fair, transparent and accountable bidding process are:

- **Economical.** It obtains maximum value for money by encouraging local, regional and national vendors to participate in bidding (increasing competition), thus helping the LG receive better prices and goods, construction and services of better quality.
- **Fair and transparent.** It decreases the chances for corruption. Good procurement is impartial, consistent, and therefore reliable. It offers all interested contractors, suppliers and consultants a level playing field on which to compete, and thereby directly expands the LG's options and opportunities. Good procurement establishes and then maintains rules and procedures that are accessible and unambiguous. It is not only fair, but should be *seen* to be fair, thus reducing overall complaints.
- **Efficient.** It provides a relatively simple and swift process, producing positive results without extensive delays.
- **Accountability.** It holds LG practitioners who are responsible for enforcing and obeying the rules accountable. It makes them subject to challenge and to sanction, if appropriate, for neglecting or bending those rules. Accountability is at once a key inducement to individual and institutional probity, a key deterrent to collusion and corruption, and a key prerequisite for procurement credibility.
- **Builds professional capacity.** By providing a sound procurement system, the LG develops a cadre of procurement practitioners and professional project managers who understand the basics of good, sound procurement which in turn builds strong institutional capacity at all levels of the LG.
- **Helps achieve community goals and objectives.** Procurement is one of the primary methods of implementing the LG's budget. It is through procuring goods, services, and construction that the community's long-term goals are achieved.
- **Stimulates community economy.** A good procurement system promotes a diverse and competitive market. It encourages a mixed range of suppliers to help stimulate a varied and competitive marketplace. A diverse and competitive supply base helps improve the LG's value for money. LG's have significant buying power. That buying power can be creatively used to stimulate innovation such as markets for recycled materials and better designed learning resources for schools. LGs should work with strategic partners to establish the contribution that small firms, ethnic minority businesses, social enterprises, and voluntary and community sector suppliers can play in providing goods and services. By working with suppliers, LGs can encourage the best to gear their business planning and research and development efforts to the needs of the LG.

## OBSTACLES, LIMITATIONS, RISKS AND OTHER CONSIDERATIONS

Public procurement systems, especially in developing countries are prone to misuse and abuse, and frequently reduce value for money for public funds. The following list

of obstacles may or may not apply to your country. Evaluate the list and identify any of the obstacles applicable to your LG or country. Then, decide what steps need to be taken to overcome the obstacles so that your public procurement system functions well.

- **Insufficient laws from central government.** Frequently, no single agency has a mandate for formulating procurement policy, monitoring compliance, and ensuring clear and enforceable sanctions and enforcement mechanisms.
- **Conflicting and unclear laws and regulations.** A multiplicity of laws and regulations regulating different aspects of public procurement creates confusion for those responsible for implementing them. Frequently the laws and regulations may include overlapping jurisdictional authority and lack clarity in establishing important policy and procedural requirements.
- **Limiting competition.** Existing regulations may have the effect of limiting competition even within the country, province or LG region, thus forgoing the benefits that arise from increased competition. This obstacle may be at the national, provincial or LG level. There may be insufficient advertising, especially for small and medium value contracts.
- **Weak compliance, oversight and enforcement.** There may be weak compliance of existing procurement rules and procedures, and a lack of oversight and enforcement from the LG or other levels of government. There may be a general lack of follow-up on procurement complaints, and virtually no systematic monitoring of compliance with the procurement principles, rules and procedures. There may be serious weaknesses in certification systems for contractors and consultants.
- **Lack of staff capacity.** LG staff and members of the bid committees and approving authorities may lack an understanding of the basics of public procurement objectives. There may not currently be a sufficient cadre of project managers and procurement practitioners, and no clear career stream in the civil service for project and procurement management to assure a sufficient cadre in the future.
- **Corruption, collusion and nepotism.** Corruption, collusive practices, and outside influence have become accepted norms of operation. There may be undue influence of business associations in the procurement process. Economic packaging of contracts may not be practiced, possibly because of lobbying efforts by interested groups, and collusive practices.

## LEARNING APPLICATION

POLICY MAKER \_\_\_ CEO X FINANCE MANAGER X DEPARTMENT HEAD X

Various obstacles to the procurement process have just been described. Which of these obstacles apply to your LG?

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Of the obstacles identified in your answer above, which are the two most important obstacles that need to be resolved in your LG?

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What steps can your LG take to overcome the first obstacle?

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What steps can your LG take to overcome the second obstacle?

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# COMPREHENSIVE PROCUREMENT PROCESS

We have identified 20 steps that can be used in a comprehensive purchasing process for goods, services or public works. If you are procuring goods and services then you may not use all of these steps. Evaluate your own country's purchasing requirements and then use the steps that are consistent with those requirements to guide you in your LG's procurement process.

For **capital or construction procurement**, there must be a realistic assessment of community needs and their associated capital costs. Budgets may be prepared on an annual basis or for longer periods of time. It is important to re-evaluate a long term budget on a regular basis. Needs change, but prices may change as well, and substantially (through inflation, for example). When this happens, plans may need to be changed to suit the funds available.

## *STEP 1: BUDGET EVALUATION*

The first and one of the most important steps in planning for procurement is determining what services, goods, and public works will be required in the future.

Budgets must be carefully formulated and based on the most reliable historical cost data available. It is necessary, therefore, for the LG to maintain accurate records of all types of acquisitions and their actual and final costs. This practice produces a valuable data base that can be used to formulate realistic budgets for future acquisitions.

Procurement actions should be planned with the objective of obtaining the best value for public monies. Where possible, acquisitions should be planned to take advantage of favourable market conditions and economies of scale.

When the budget process has been completed and the budget adopted, it is most important to let the community know what is projected for the future. These projections allow contractors and vendors to analyze the goods and services that are planned for procurement in the future and to plan procurement responses most suited to their type of business. Providing early information in this way is an important first step in ensuring that the procuring entity will attract the widest and most qualified range of bidders when the procurement is actually announced.

**Caveat:** Representatives from LGs in some countries believe that publishing the budget and letting the public know how much money is available may actually increase the possibility of corruption.

The annual budget, therefore, should be published and made available to the public as soon as possible after it has been approved. If any changes are made during the applicable fiscal year they should be published as soon as they are known.

Departments normally use a "purchase requisition" as a method for starting the procurement process. It is a document that identify the specific items the department needs procured. It must be signed and approved by a designated department person and then forwarded to the procurement department for processing.

## ***STEP 2: PREPARING BIDDER LISTS***

Along with publishing the budget, it is a good practice to develop lists of approved bidders in advance of procurement actions. Procurement notices should be placed in the approved journals or newspapers requesting contractors and vendors to pre-qualify for specified levels and types of procurement.

For goods and services potential suppliers can be obtained from:

- Records of previous suppliers
- Catalogues
- Advertisements
- Journals and brochures
- Contacts from sales persons and colleagues
- Market surveys
- Solicitation of bids

Approved bidders lists should be reviewed at least annually, with all contractors being required to submit current information at each review. Note that the preparation of an approved bidders list does not necessarily preclude other contractors from participating in individual procurement actions. Contractors/suppliers, who had not been previously rejected as unqualified, may submit a bid along with the appropriate qualification data, which then must be subject to review and approval prior to accepting any bid.

It is also acceptable practice to allow only bidders who have been accepted for inclusion on the approved list to submit bids. If this option is selected, however, it must be made clear in the Pre-qualification Notice that the bidders will be exclusive, and stipulate the period for which it will remain valid.

## ***STEP 3: CHOOSING THE TYPE OF PROCUREMENT***

The first choice that must be made in a proposed procurement activity is the type of procurement both legally and practically best suited for the acquisition under consideration. Reference your country's or province's public procurement laws since they may prescribe the various conditions under which certain procurement options may be used. The most desirable type of procurement is "open competition" where as many qualified bidders as is practical will be encouraged to submit bids. There are several other methods available. These should be carefully reviewed by the procurement manager and the entire procurement team. In this respect, particular guidance should be sought from the legal advisor. The section on Internet References in this chapter provides some URLs for organizations and governments that highlight procurement requirements.

## STEP 4: PROCUREMENT NOTICES AND ADVERTISING

Advertising bid opportunities is an important part of the public procurement process since it helps to attract as broad a base of qualified bidders to participate in the proposed bid. Different countries have different regulations for notices and advertising. You must first determine the framework for providing public notices and advertising based on the laws in your country.

For example, Slovakia has a requirement that procurement notices are to be published in the specific newspapers or in foreign periodical press journals as recommended by the Ministry of Construction and Public Works or Ministry of Finance as follows:

- Procurement for goods and services where the value exceeds ECU 130,000
- Procurement of public works construction contracts where the value exceeds ECU five million
- Other public works contracts where the value exceeds ECU 400,000 must also be advertised in the approved regional authority journals

Timely notification of bidding opportunities is essential in competitive bidding, and the procurement notice should be advertised in the required journals a minimum of thirty (30) days prior to documents being available. The notice should contain all the relevant information about the procurement, and provide bidders with sufficient detail to permit them to assess fully their interest in submitting a bid. A sample notice is shown below.

### Notice of Bid City of St. Martin, Slovakia

The Department of Public Works of the LG of St. Martin intends to place orders for the renovation of public housing developments throughout the entire township during fiscal year 1997-1998. The total value of contracts to be placed will be in the order of SK 1200-1500 million, and typical individual contract size will not exceed SK 15 million. The work to be carried out within this program will include, but will not necessarily be limited to, the following:

- Repair and replacement of roof coverings and provision of new insulation
- Replacement of exterior windows and doors
- Exterior paintwork
- Repair of metal gutters and downspouts
- Repair of concrete paths and walkways

It is the intention of the Department of Public Works to prepare an approved bidders list of contractors who are qualified to carry out this work. Contractors who wish to be pre-qualified and included on this list are invited to complete the pre-qualification forms which are available at the Contracts Office at the Department of Public Works during normal working hours.

Completed pre-qualification forms must be submitted to this office no later than 30 days after the date of this notice. Successful contractors will be advised within 30 days of the final date for submission of pre-qualification data.

Contractors who are included on the approved bidders list will be advised of individual procurement actions as they occur, although procurement notices will also be placed in the public press.

Please note that this is only a pre-qualification notice and the Department of Public Works does not guarantee that any or all contracts will be placed. Further information may be obtained from the Municipal Engineer, Department of Public Works, The Town Hall, St. Martin. Tel: 123-4567 Fax: 123-7856

## **STEP 5: QUALIFICATION OF CONTRACTORS AND VENDORS**

Pre-qualification of contractors is usually necessary only for large complex construction contracts. Examples are industrial processing plants, design and build projects, or other types of contracts where the cost of preparing bids is excessive and bidders might be discouraged from submitting a bid. In these cases, pre-qualification also helps to ensure that only qualified contractors with adequate experience and resources are invited to submit proposals.

In some countries, however, particularly those in a transition economy, it may be necessary and desirable to pre-qualify contractors for most types of acquisition. The parameters for pre-qualification must take into consideration three basic elements of the contractor's organization:

- Experience and past performance on similar contracts
- Capabilities of personnel, and availability of equipment, construction or, manufacturing facilities
- Financial stability

The section on Internet References in this chapter has internet links to various local government and province procurement manuals. Many of these manuals provide sample forms.

### **EXPERIENCE AND PAST PERFORMANCE ON PREVIOUS SIMILAR CONTRACTS**

The company should be invited to provide details of annual volume of work and of similar projects successfully completed in the past, including such things as the number, size/value, and the timeframe over which they were completed. In addition, you should request references from the owners of these projects. A reasonable timeframe for past performance should be selected, bearing in mind the time in which companies could only have been in business if your country is a newly developing democracy. Five years is a desirable period, with three years being a minimum experience level. This may present a dilemma, particularly with regard to new firms as they emerge in the market place. Use your best judgment in such cases so a fair but realistic evaluation of the company is made.

Criteria should not be relaxed so that they, in effect, become a "crutch" for new businesses. Some innovative criteria may need to be developed. For example, if a new business was the result of a staff buyout of a previous central government organization, but has retained the same management, then past experience of the previous firm might be considered acceptable. Linked to past performance is the company's record with regard to disputes and litigation. This question should also be included in the qualification documents.

With regard to annual volume of work, as it relates to public works contracts for which contractors are being pre-qualified, the World Bank has recommended that the annual volume of work should not be less than 2.5 times the estimated cash flow for the project. For example, if a one year estimated duration contract had a total value of ECU 90 million, then the minimum annual volume of work required for a contractor to pre-qualify would be ECU 225 million. This is a reasonable guideline to follow, with two times the estimated cash flow being the absolute minimum.

#### **CAPABILITIES OF PERSONNEL, AND AVAILABILITY OF EQUIPMENT, CONSTRUCTION, OR MANUFACTURING FACILITIES**

Companies should provide curriculum vitae of all key personnel including details of experience specific to the proposed project. In addition, they must provide full details on all plant and equipment, owned or leased, including capacity, age, etc. Indications of which equipment will be available, as well as, similar information for construction or manufacturing facilities must also be provided relevant to the project. This includes details regarding size, location, condition, and proposed use for the project.

#### **FINANCIAL STABILITY**

Ideally, companies should provide audited accounts for a stipulated number of previous years. However this again presents a dilemma for countries in a transition economy. It is, therefore, prudent to obtain as much financial data as is realistically possible from each potential bidder. This should include:

- Audited statements where available
- Bank statements and references
- Copies of tax returns
- Cash statements
- Valuations of property, equipment, and vehicles
- Details of any other fixed or liquid assets
- Evidence of sufficient working capital

Once again, a reasonable period of time should be selected, and three to five years is a realistic timeframe to select.

### ***STEP 6: PREPARATION OF BID DOCUMENTS***

The purpose of bid documents is to provide prospective bidders with a clear and unambiguous statement of the procuring entities' requirements for the goods, services, or public works that are to be the subject of the procurement action. In addition, the documents must include details of the rules that will govern the procurement, the basis for evaluating the bids, and the terms and conditions of the contract that the successful contractor will have to enter into on award of the contract. For example, the SIGMA/ILO Public Procurement Manual for Central and Eastern Europe tabulates the three essential components of all bid documents as follows:

**Requirements.** A description of the goods, works, and technical specifications for the services to be procured, including a clear statement of the minimum quality standards.

**Contract conditions.** Great attention must be given to the preparation of bid documents so that they are clear and unambiguous. Time spent at the preparation stage will be more than compensated during the evaluation of the bids and bidders. If there are standard bid documents available, they should be incorporated into the specific project set. Do not change approved standard documents without first consulting the legal officer.

**Specifications.** The schedule of requirements and technical specifications is the component of the bid documents which is unique to the specific procurement and the one which requires the greatest care in ensuring a clear statement of needs. Depending on the size and complexity of the project, the preparation of the technical requirements may be done by the procuring entity itself or by a consultant expert in the particular subject (for example, a complex engineering design). If a consultant is used, the firm or individual must be given very precise terms of reference prior to starting the preparation of the bid documents, and be made aware of all the requirements or constraints that are known to exist. The consultant must also be given sufficient time to properly prepare the technical documents, and to thoroughly research the market to find the technical solution which offers the best value for the proposed investment.

#### City of St. Martin, Slovakia Invitation to Bid REPAIR AND REPLACEMENT OF ROOF COVERINGS

The Department of Public Works of the City of St. Martin invites qualified contractors to submit bids for the repair and replacement of roof coverings to 500 public housing units in the Karlovy district of St. Martin. The work will also include the installation of new thermal insulation to all roofs.

Funds have been made available from the city budget for this purpose, and the contract value is expected to be in the range of ECU 5-7 million. The work will be required to be carried out during the period from June to September, 20xx.

Bid documents may be inspected at the contracts office at the Department of Public Works, and obtained for a non-refundable fee of ECU 10 per set, during the hours of 0900–1600. Contractors who have not previously been pre-qualified for this work, and who were not previously rejected as unqualified, must also complete a set of qualification documents and submit them with their bids.

Bids must be received at the contracts office of the Department of Public Works no later than 1600 on 16 April 20xx. Bids must be completed in accordance with the requirements of the bid documents. Also, the bid must be accompanied by a bid security in the amount of ECU 250,000. Bids will be evaluated on the basis of price only and they must remain valid for a period of 90 days after the date of submission.

Bids will be opened in the presence of bidders' representatives who choose to be present at the contracts office of the Department of Public Works at 1630 on 16 April 20xx.

J. Marek C. Eng.  
Municipal Engineer  
Department of Public Works  
St. Martin  
1 March 20xx

## LEARNING APPLICATION

POLICY MAKER \_\_\_ CEO X FINANCE MANAGER X DEPARTMENT HEAD X

The first six steps of the procurement process have just been described in considerable detail. What parts of this process does your organisation do best?

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What parts of the process do you believe your LG could be doing better?

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Are there any steps in the process just outlined that your LG doesn't currently do that should be done?

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What could be done to improve your procurement process regarding these six steps?

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## **STEP 7: ASSEMBLING THE BID PACKAGE**

The complete bid package should consist of the following components:

- Part 1: Instruction to bidders/bidding data
- Part 2: General conditions of contract
- Part 3: Specific contract data
- Part 4: Schedule of requirements and technical specifications
- Part 5: Bid forms
- Part 6: Securities and guarantees

### **PART 1: INSTRUCTIONS TO BIDDERS/BIDDING DATA**

This section does not become part of the contract documents after contract award. The sole purpose of this component is to advise bidders of the procedural arrangements during the procurement activity. The following information should be included:

**General project data.** Include the name and address of the LG, the name of the responsible official, and the authority for the procurement. Also include details of the purpose of the procurement and confirmation of the available financing. If there are any restrictions on the eligibility of the bidders or product supply, then specify them in this section. If pre-qualification has not already taken place, then this section includes the requirements for qualification of bidders. If a site visit is a requirement, then information regarding time and location of such is specified here.

**Bid documents.** Describe in detail the contents of the bid document package, and list each document included. Also include details on how and where clarifications may be obtained, and the procedure for issuing amendments.



**Preparation of bids.** Provide all bidders with complete information regarding the documents to be submitted with the bid and any associated requirements. This would include the language of the bid. Also include information on the method of pricing the bid (for example, will it be a firm fixed lump sum price, or a schedule of rates) and, if appropriate, the currency. Include a sample bid form in this section, as well as the stipulation on the period of validity of the bid. Details of the type and amount of the bid security should also be included. If alternative proposals are to be accepted, then this information must be stated.

**Submission of bids.** This section should include information on where and when bids are to be submitted, and how bid documents are to be identified. Instructions should be provided about the treatment of late bids, and the rules relating to late or modified bids.

**Bid opening and evaluation.** This section includes information on the place of opening the bids, and the type of opening (for example, who will be permitted to attend). Details of the criteria for responsiveness and evaluation also should be stipulated, as should the procedure for correcting errors.

**Award of contract or issue of purchase order.** The contract or purchase order will be awarded to the lowest evaluated responsive bidder, and this should be stated in this section. Details of how the successful bidder will be notified (usually by issue of a "letter of acceptance") and the requirements for the successful bidder to provide a satisfactory performance security must be stipulated. If an advance or mobilization payment is contemplated, then details of the security required to cover this payment also should be incorporated.

The SIGMA/ ILO Public Procurement Manual for Central and Eastern Europe contains the following useful checklist for the Instructions to Bidders section of the bid documents:

#### Checklist for instructions to bidders

- Buyer(s) and item(s) to be bid for
- Bid security required
- Qualification requirements (if no pre-qualification)
- Substance of the bid
- Alternative bids permitted or not
- Fixed or adjustable price
- Bid validity period
- Date, time and location for bid submission
- Date, time and location for bid opening (usually the same)
- Currency and exchange rates
- Evaluation criteria
- Amount of performance security

## PART 2: GENERAL CONDITIONS OF CONTRACT

If standard sets of bid documents are available, then they will typically include standard general conditions of contract. These contract conditions may vary slightly between the different types of procurement (goods, works, or services). Therefore, care must be taken to ensure that the properly matching set is incorporated. Once again,

do not alter or amend the standard set of documents without first consulting the legal advisor.

The general conditions of contract set out the commercial terms of the procuring entity; but as a matter of principle, they must be fair to both sides. Unreasonable conditions will only lead to higher prices as bidders try to cover their exposure. This inevitably leads to an excessive number of claims during the implementation of the contract. The conditions of contract, therefore, should fairly apportion risk, and clearly identify the obligations of the procuring entity and the contractor; define the obligations for cost, time, and quality control; provide for dispute resolution, and define precise conditions for acceptance of the goods, works, or services.

### PART 3: SPECIFIC CONTRACT DATA

After the appropriate set of general conditions of contract have been selected, they need to be carefully reviewed to determine what supplemental information must be provided to align them specifically with the proposed contract. This is necessary since the “Standard General Conditions of Contract” are generic in nature, and therefore, need to have contract-specific data added to complete the proposed contract documentation. Following is a checklist of items that need to be taken into consideration.

#### Checklist for specific contract conditions

- \_\_\_ Name and address of LG and authorized representative
- \_\_\_ Contract description and identification number
- \_\_\_ Documents to be handed over as part of the contract (e.g., maintenance manuals)
- \_\_\_ Contract language and law
- \_\_\_ Start and completion dates of contract
- \_\_\_ Insurance limits
- \_\_\_ Details of performance security
- \_\_\_ Pricing and price adjustment formula
- \_\_\_ Packing and handling procedures
- \_\_\_ Incidental services (training, after sales service, etc.)
- \_\_\_ Dispute resolution process
- \_\_\_ Liquidated damages for late completion
- \_\_\_ Bonus for early completion

### PART 4: SCHEDULE OF REQUIREMENTS AND TECHNICAL SPECIFICATIONS

These are always contract specific and describe the physical requirements of the contract. They must be comprehensive, clear, unambiguous, and drafted in such a manner that bidders will be able to present their proposals without qualifying or conditioning their bids. In addition, they must be drafted to ensure the widest competition, and present a clear statement of required standards of workmanship, materials, and performance of the goods, or services to be procured. Care must be taken to avoid the use of proprietary specifications, which will limit the competition. Where a proprietary specification is thought to be the best way to adequately describe the subject of the procurement, the words “or other equal and approved” should be added.

The specifications always should require that all goods and materials are to be new and unused, be the latest version, and conform to the most recent standards and norms.

## PART 5: BID FORMS

The bid package must always include a standard bid form to be completed by bidders and submitted as part of the bid package. The bid form establishes the precise requirements of the procuring entity for the bidder's price. For that reason, it must be standardized, so that evaluation can be completed on a directly comparable basis. No deviations should be permitted from the bid form.

The design of the bid form will vary depending on the nature of the type of procurement (goods, works, or services), but a checklist of items that should be incorporated is provided below.

### Checklist of items to be Incorporated in the Bid Form

- A brief description of the procurement
- Name of the LG
- Acknowledgment of bidder's understanding of conformance to the bid documents
- Provision for pricing data
- Period of bid validity
- Acknowledgment of bid and performance security
- Recognition of bid form being binding contract until agreement is executed
- Statement that procuring entity is not bound to accept this or any bid
- Signature of bidder, date, and witness

## PART 6: SECURITIES AND GUARANTEES

There are several basic types of securities and guarantees:

**Bid security.** This is provided with the bid to ensure that the bidder is submitting a bona fide bid. The security should not exceed between two and three percent of the estimated contract amount. The security may be in the form of a certified banker's check, which should not be cashed unless the bidder is in default, or a bank guarantee issued by an approved bank. The bid security will remain in force until after the evaluation process is completed, and a contract award has been announced. Typically, the security should remain in place until 28 days after the end of the bid validity period.

The bid security must be returned to the bidders immediately following this period.

The bid security may only be kept in the following events:

- A bidder withdraws the bid prior to the expiration of the validity period,
- A contract award notice has been issued to the lowest evaluated bidder, and, at that time, the bidder refuses to enter into a contract, or fails to submit a performance guarantee in accordance with the instructions to bidders.

On a following page is a sample bid security form where a bank guarantee is used as recommended in the World Bank Standard Bidding Documents.

**Performance guarantees.** Performance guarantees are required to ensure that contractors complete the contract satisfactorily in accordance with its stated requirements. Should a contractor default in any of the legal requirements, and not take any action to remedy these defects, then the ultimate resort is to enforce the performance guarantee. Note that this is a very serious step to have to take in a contract, with frequently complex legal consequences. It should not therefore be taken unless all other methods of resolution have failed. The defaulting contractor should be adequately informed of the LG's intent to draw on the performance guarantee, and the circumstances leading to this action should be well documented.

Performance guarantees are typically issued by banks in the case of bank guarantees or by surety companies in the case of performance bonds.

For construction contracts, a bank guarantee should be between five and ten percent of the contract amount, depending on the size of the contract. Performance bonds are typically around 30% of the contract value. The guarantees should not be released in their entirety until the end of the warranty period.

Performance guarantees also may be required in supply contracts, and should be the same value as above. Performance guarantees are not normally included in service contracts, although other remedies for non-performance (such as retainage) will be part of these contracts.

Bank guarantees may be either “*conditional*” or “*unconditional*.” As the name suggests, a “*conditional*” guarantee can be effected only when certain circumstances have occurred. These are best described within the World Bank Standard Documents as follows:

*The triggering of this form of performance Guarantee is conditional upon the Contractor's “failing to execute the contract, or committing a breach of his obligations thereunder” and requires a statement by the Employer and / or the Project Manager to that effect, and an exercise of judgment by the Guarantor as to whether the required conditions of default have been fulfilled. Some forms of Guarantee contain further qualifying conditions, and are not triggered until an agreement has been reached on the amount of damages payable, or until after an award has been made under the applicable settlement of dispute procedures. The construction industry favours this kind of Guarantee over the Unconditional Guarantee whenever it is available. However, not all commercial Banks (as Guarantors) are willing to issue Conditional Guarantees, and not all Employers are prepared to accept this form of Performance Security.*

An “*unconditional*” guarantee, on the other hand, must be paid on the first written demand of the procuring entity, and there is no requirement to demonstrate that the contractor is actually in default. Obviously, this is a powerful tool in the hands of the LG. However, as has been stated already, caution must be exerted when resorting to the use of this type of guarantee, and the conditions leading to its implementation must be well documented. Following is a sample World Bank bid security form.

Sample Bid Security (Bank Guarantee)

WHEREAS, .....(name of bidder) hereinafter called "the Bidder" has submitted his/her bid dated ..... (date) for the construction of ..... (name of contract), hereinafter called "the Bid."
KNOW ALL PEOPLE by these presents that We.....(name of Bank) of .....(name of country) having our registered office at ..... hereinafter called "the Bank" are bound unto ..... (name of the procuring entity/employer) hereinafter called "the Employer" in the sum of ..... for which payment well and truly to be made to the said Employer, the Bank binds itself, its successors, and assigns by these presents. SEALED with the Common Seal of the said Bank this .....day of .....19..... THE CONDITIONS of this obligation are: If, after bid opening, the Bidder withdraws his/her Bid during the period of bid validity specified in the form of Bid; or If the Bidder having been notified of the acceptance of his Bid by the Employer during the period of Bid validity: (a) fails or refuses to execute the Form of Agreement in accordance with the Instructions to Bidders, if required; or (b) fails or refuses to furnish the Performance Security, in accordance with the Instructions to Bidders; or (c) does not accept the correction of the Bid Price pursuant to Clause 27, (this refers to the World Bank Standard Documents)
We undertake to pay to the Employer up to the above amount upon receipt of his first written demand, without the Employer's having to substantiate his demand, provided that in his demand the Employer will note the amount claimed by him is due to him owing to the occurrence of one or any of the three conditions, specifying the occurred condition or conditions. This Guarantee will remain in force up to and including the date .....days after the deadline for submission of bids as such deadline is stated in the Instruction to Bidders or as it may be extended by the Employer, notice of which extension(s) to the Bank is hereby waived. Any demand in respect of this Guarantee should reach the Bank not later than the above date.
DATE.....
SIGNATURE OF THE BANK.....
WITNESS.....
SEAL.....
(signature, name and address) Notes: (1) The Bidder should insert the amount of the Guarantee in words and figures as indicated in the Instructions to Bidders. (2) Usually 28 days after the end of the validity period of the Bid. The date should be inserted by the Employer before the Bid Documents are issued.

STEP 8. INVITATION TO SUBMIT BIDS

The communication vehicle selected to invite contractors or suppliers to submit bids for a specific project or procurement will vary depending upon the type of procurement and its size. For all open bids, communication should be achieved by placing an advertisement in the newspapers or journals stipulated in any public procurement laws. Note that this will be the final procurement advertisement, and it should be published approximately 30 days before the bid documents are ready for distribution.

Invitations may be sent out by letter in the case of restricted bids, or, in the case where a pre-qualified list of bidders has been approved.

Following is a checklist of items that should be included in the invitation to submit bids.

#### Checklist for the invitation to submit bids

- \_\_\_\_\_ Date of publication
- \_\_\_\_\_ Contract name or number
- \_\_\_\_\_ Name of LG
- \_\_\_\_\_ Brief description of the procurement
- \_\_\_\_\_ Place where bid documents can be purchased and their cost
- \_\_\_\_\_ Time, date and place for submittal of bids
- \_\_\_\_\_ Time, date and place for opening of bids (if different)
- \_\_\_\_\_ Period of bid validity
- \_\_\_\_\_ Amount of bid security

### ***STEP 9. ISSUE OF BID DOCUMENTS***

The bid package must be complete and ready for issue by the date stated on the invitation to submit bids. Incomplete packages should not be issued, if necessary change the date for issue. Changing the date must be done by public notice or letter, based on current public procurement laws, so that all potential bidders are properly notified.

Bidders may be charged a non-refundable fee for each set of bid documents obtained. This cost, however, should not exceed reasonable costs of reproduction and distribution (for example, the cost of printing drawings and specifications for a public works project).

### ***STEP 10. COMMUNICATIONS DURING THE BID PERIOD***

Inevitably, there will be questions and clarifications required during the bid period. Bidders must be advised in the instructions to bidders section of the bid documents to whom questions must be addressed and the time limit for both submitting questions (for example, no later than 15 days before bids are to be submitted), and the time limit for the LG to provide these answers.

Both questions and answers must be in writing. It is also of great importance that all bidders are made aware of all the questions and answers that arise, and that all bidders receive that information at the same time.

It is good practice, particularly for large and complex projects, to have a pre-bid conference which all bidders will be invited to attend. Details of the time and place of the conference must also be included in the instructions to bidders section of the bid documents. It is generally not good practice to make this conference mandatory (since an otherwise qualified contractor may not be able to attend for some valid reason). Minutes of the conference must be taken and written copies must be sent

to all bidders to whom an invitation to bid has been sent immediately following the conference.

In cases where, as a result of a clarification of the bid documents, any of the requirements of the bid documents need to be changed, this must be done by issuing a formal “addendum” to the bid documents. The addendum must give clear details of the proposed change and advise bidders of any other effect the addendum might have on the overall bid procedure (for example, the effect of the addendum might make it necessary to extend the date for submittal of bids). Bidders must always acknowledge receipt of the addendum in writing.

### ***STEP 11. RECEIPT OF BIDS***

Bids may be received at any time up to the closing date and time stated in the invitation to bid notice. A designated office (usually the Procurement Office) must be established for receipt of the bids. All bids that are received must be date and time stamped, and logged in a register of bids received. Bidders that deliver their bids by hand should be given a written receipt. Strict instructions must be given to all staff to ensure that no bids are opened before the designated time on the due date. Bids must always be stored in a secure, locked cabinet or safe until the time bids are to be opened.

Bids received after the stipulated time must be rejected and returned unopened to the bidder.

### ***STEP 12. BID EVALUATION BOARD***

Prior to the opening of bids, a bid evaluation board should be identified. This board will be responsible for: the opening of the bids; their evaluation; determining the lowest evaluated bid, and preparing a detailed report of the proceedings. The board should include the following persons:

- A senior representative of the LG
- The project manager (if a construction bid)
- Contract/procurement specialist
- Finance/budget representative
- Legal representative
- Technical specialist(s)

This group may be supplemented depending upon the size and nature of the procurement.

A chairperson must be designated who will be responsible for the entire process.

### **LEARNING APPLICATION**

POLICY MAKER \_\_\_ CEO X FINANCE MANAGER X DEPARTMENT HEAD X

Steps 7 – 12 of the procurement process have just been described in considerable detail. What parts of these steps does your organisation do best?

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What parts of the steps do you believe your LG could be doing better?

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Are there any steps in the process just outlined that your LG doesn't currently do that should be done?

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What could be done to improve your procurement process regarding these steps?

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### ***STEP 13. BIDDING OPENING PROCEDURES***

Bid opening is a formal procedure, and should occur immediately following the time established in the instructions to bidders section of the bid documents, for the receipt of bids. The bid evaluation board should be assembled and the chairperson designated. The chairperson should formally open the proceedings and briefly describe the nature of the procurement.

All the sealed envelopes which had been received before the deadline for the receipt of bids should then be delivered to the chairperson of the evaluation board. The chairperson may then read the bid price out loud along with identifying the firm that submitted the bid by name.

After this the chairperson will close the public bid opening, distribute the minutes and the register of those present at the bid opening. Those present should be advised of the procedure and likely time for notifying the results of the evaluation process, and cautioned not to contact the evaluation board during that time.

### ***STEP 14. EVALUATION OF BIDS***

The entire evaluation board must be present during this process. The objectives of the evaluation process are threefold:

1. Ensure that the bids are in full compliance with the requirements of the bid documents (usually described as “responsive”).
2. Select the bid which is the most advantageous to the LG with regard to the criteria established in the bid documents (usually described as the “lowest evaluated bid”).
3. Ensure that the bidders are properly qualified in accordance with the criteria established in the bid documents.

## Checklist of bid opening activities

- All evaluation board members registered as present
- Ensure that all the envelopes are original and unopened
- Announce the names of companies that have submitted bids
- Open bids and read out bidder's name and bid amount
- Confirm that bid security is provided
- Prepare a list of bids received and record bidders' names and bid amount, and note if security in order.
- If any addenda had been issued, note if bidders had properly acknowledged their receipt
- Mark all bids "original" and ensure they are kept secure
- Prepare and sign minutes of the proceedings

## RESPONSIVE BIDS

To be "responsive," a bid will have:

- included all the securities as required
- properly signed documents
- no major errors in the computation of the bid price
- no material deviations from the requirements of the bid documents
- no qualifications or reservations

Bids determined to be "non-responsive" should be rejected immediately without further consideration. Note, however, that bids with computational errors may be corrected and the bidder notified. Obvious mistakes should not be binding on the bidder and, therefore, corrected. However, the substance and price submitted should not be allowed to change. In the event of a bidder being notified of a major computational error, the bidder may choose to withdraw the bid.

It is most important throughout this process to maintain absolute confidentiality. Remember that bidders are aware from the public bid opening of their place in the competition, and they should not be given any opportunity to alter a bid to their advantage.

## THE LOWEST EVALUATED BID

The evaluation process will vary according to the criteria established in the bid documents. For example, in a public works contract, the only criterion may be price. The bids would, therefore, be required only to be ranked in accordance with the bid prices. Provided the lowest ranked bidder had either been pre-qualified or complied with any post qualification criteria, the selection would be quite straight forward.

In other types of procurement, however, there will likely be many other criteria to be taken into consideration during the evaluation process. In this case, it is most important that the criteria have been clearly identified in the bid documents and that the evaluation board is aware that strict adherence to the stated criteria is essential during their evaluation. If any specific weighting of the criteria was done, that should

also have been made clear in the documents. The prescribed weighting (points) must not be changed during the evaluation.

It is good practice to develop a matrix of the stated criteria and complete this for each bid being considered. An example for a typical services contract is provided in the boxes below. The first box identifies the “score” (from 1 – 5 points) received by each vendor for each category. The second box shows how each score is multiplied by the weight of each category to be given a new total by category for each vendor. Then the sum of all 4 categories is provided for each vendor. So, for example, Bid A was given a score of 3 out of 5 for Criterion 1, multiplied by the weight (10 points), thereby getting an overall score of 30. In this example, it can be seen that Bid A achieved the most points (450 points) and was, therefore, considered to be the “lowest evaluated bid.”

#### Consultancy Contract—Ranking

Criteria		Bids						
		Points	A	B	C	D	E	F
1.	General experience of company (1-5)	10	3	5	4	5	3	2
2.	Specific project experience	40	5	3	4	2	4	5
3.	Personnel/ project manager	30	4	2	3	5	3	4
4.	Past performance	20	5	4	4	2	3	4

#### Consultancy Contract—Selection Criteria Matrix

Criteria		Points	Bids					
			A	B	C	D	E	F
1.	General experience of company	10	30	50	40	50	30	20
2.	Specific project experience	40	200	120	160	80	160	200
3.	Personnel/ project manager	30	120	60	90	150	90	120
4.	Past performance	20	<u>100</u>	<u>80</u>	<u>80</u>	<u>40</u>	<u>60</u>	<u>80</u>
		100	450	310	370	340	320	420

### POST QUALIFICATION OF BIDDERS

If pre-qualification of bidders has not taken place, then, after the lowest evaluated bidder has been identified, the qualification package of that bidder should be reviewed to ensure that the bidder complies with all the previously identified criteria. In the event that the bidder does not meet the criteria, then the bid should be rejected and the qualification package of the next lowest evaluated bidder should be opened and reviewed. This process must continue until all the criteria are met. Note that the qualification material is only reviewed **after** the bids have been evaluated, and only in the order of the ranking from the evaluation procedure.

### REJECTION OF ALL BIDS

Rejection of all bids may be necessary, and is permissible, when any of the following events occurs:

- The lowest bid exceeds the official estimate by a substantial margin.
- All of the bidders are considered to be non-responsive.
- There was a lack of competition.
- There is evidence of collusion.

If any of these events occur, it will be necessary to review the bid documents carefully and make any necessary changes to the scope, specifications and contract conditions, etc., before starting a new bidding process. This is also an important time to ensure that the official estimate is realistic and achievable.

## ***STEP 15. BID DISPUTES***

Sometimes a bidder(s) may raise some objection to the proposed award or to the evaluation procedure itself. If this situation occurs, it must be dealt with immediately by the chairperson of the evaluation board. It may be necessary to refer the protest to a higher authority (for example, The Office of Public Procurement in the Ministry of Construction and Public Works). In any event, however, the protest must be evaluated and resolved publicly and transparently. In the case of serious protests, it may be necessary to delay the bid award until the protest has been settled. In the worst case, the bid may have to be cancelled, and a new bid action taken to correct previous problems.

## ***STEP 16. REPORTING PROCEDURES***

At the conclusion of the bid process, when the award has been confirmed, the chairperson of the evaluation board must prepare a bid report which provides accurate details of the entire bid activity. This will include details of the evaluation process and the conclusions reached. It will accurately describe the reasons for any recommendations or rejection of any bid.

This is a most important report, and must be prepared accurately and honestly. Since it will be the only record of the entire process, it will be the focal document in any protest or complaint that may arise. It may, therefore, become crucial evidence in a court of law.

Following is an outline of the typical contents of a bid report. It is taken from the Sigma/Phare Manual on Public Procurement, and is based on World Bank requirements.

### **Contents of a typical bid report**

#### **Local government**

- name, address, telephone number, etc.
- name of responsible person
- date of general procurement advertisement

#### Bid information

- brief description of scope of procurement
- estimated cost
- procurement method
- if pre-qualification has taken place
- number of firms' procurement bid documents
- budget approval

#### Bidding process

- details of procurement notice
- date bid documents issued
- number of firms
- date and minutes of pre-bid conference
- details of any addenda issued
- date and time of bid submission, including any extensions
- bid validity period and details if extended

#### Bid opening

- date and time of bid opening
- signed minutes of bid opening meeting
- copies of all records prepared at meeting (list of attendees, number of bids received etc.)

#### Examination of bids (provide information for each bid)

- confirm that all unconditional requirements were fulfilled, or state why rejected
- confirm that bids were substantially responsive, or state precise reasons for rejection, with reference to bid documents

#### Evaluation of substantially responsive bids

- describe evaluation criteria in bid documents
- include evaluation methods used (price only, adjusted price, merit point with matrix, etc.)

#### Post qualification

- confirm that all qualification criteria were met by the bidder with the most advantageous bid, or state why bid rejected

#### Decision/recommendation for award

- name and address of firm
- amount of bid price
- issues for contract negotiation, if any

## **STEP 17 NOTIFICATION AND AWARD OF CONTRACT**

As soon as the bid evaluation board has reached a decision on the “lowest evaluated bid,” and the recommendation for award has been approved, the successful bidder should be notified as to the intention to award a contract or issue a purchase order (goods and services). Unsuccessful bidders also should be advised of the result of the evaluation.

Since there are always certain formalities to be completed before a contract can be signed, it is good practice to send the proposed contractor a “*letter of intent*” which outlines these formalities (for example, the deposit of the performance security, and the notification of required insurance being in place). The letter of intent includes details of where and when the contract will be ready for signature.

The letters to unsuccessful bidders should provide relevant details of the successful bid (remember that they would have been present during the public opening)

and give the name and address of the person to whom questions may be directed. It is most important for bidders to know how their bids did not meet the requirements of the competition so that they might respond more satisfactorily to future procurements. Bidders are entitled to a formal debriefing after the bid evaluation, and this should be readily available to them.

At this time, the bid securities of the unsuccessful bidders should be released.

## ***STEP 18. CONTRACT AWARD PROCEDURES***

During this stage, the LG should complete any pre-contract negotiations and prepare the form of agreement for signature. This is also the time when all conditions that must be completed prior to the signing of the contract must be completed (performance securities, insurance, etc.) Once all this is in place, the contract may be signed.

Typically, at this time, the bid may still be cancelled if the bidder fails to put in place the performance security, or fails to return the signed contract. Note that this procedure must be achieved within the bid validity period, which is typically 30 days from the date of the submission of bids. That period should only be extended if there are valid reasons for doing so, and the LG and the bidder should make every effort to complete the process within the specified time. A standard form of agreement should have been included with the complete bid package.

For simple contracts, it is usually necessary only to send the proposed contractor two copies of the form of agreement for signature. The contractor should sign both copies and return them to the procuring entity for signature by the responsible person. After that has been completed, one completed copy of the agreement should be returned to the contractor.

For large and important contracts, it may be customary to hold a formal contract signing where all the parties to the contract will be present and complete the signing formalities.

A complete and original set of the contract documents should be signed by both parties to the contract and held in a lock-fast facility. It is good practice to mark each of the contract documents as appropriate. For example, in a public works contract, the contract drawings would be marked:

“These are the drawings referred to in Contract Number .....between (local government) and (contractor) and dated.....”

In this case, each drawing would be so marked and initialled by both parties.

## ***STEP 19. NOTICE TO PROCEED (CONSTRUCTION) PURCHASE ORDER (GOODS AND SERVICES)***

In most contracts, the effective date for the commencement of the contract obligations is the date the contract is signed. However, in some types of contract, there may be other conditions which will trigger the effective date for beginning. For example,

in a public works contract, the project will only start when the site has been officially handed over to the contractor by the LG, and which may be after the date the contract was signed. In this case, it is good practice to record this event, usually by what is described as a “Notice to Proceed.” The notice to proceed should be in letter form, and be directed from the LG (via the project manager) to the contractor, advising that the construction site will be made available on a specified date and that date will be recorded as the effective date for the commencement of the construction works. This is extremely important in contracts where there is a date specified for completion and penalties for non-completion. A similar situation may occur in contracts for goods or services which may have a time limit (one year, for example) but the period of service does not commence until the first order is placed.

For goods and services, a “purchase order” which is similar to a contract is issued to the winning bidder. At this point departments can start ordering and receiving items based on the authorized purchase order. Releases against the purchase order are normally expedited to ensure deliveries are made at the right time. When goods are delivered they should be inspected for quality and quantity, accepted and payment authorized. Inspection for quality is aimed at ensuring that the correct quantity ordered is delivered. It requires an order check i.e. unloading the order, examining the condition, physically verifying the number of items against the purchase order to detect any damages in transit or missing items.

Quality inspection is also essential and is aimed at ascertaining the quality of items delivered to ensure that they confirm to specifications. It can be conducted by users for most items, technical staff for technical items and laboratory tests for highly complex items.

If both quantity and quality are correct, the items are accepted and an authorization to pay is forwarded to the Accounting department. This authorization along with the invoice from the vendor are used to support payment to the vendor.

## ***STEP 20. MONITOR PURCHASE ORDER OR CONTRACT***

This is an essential step to ensuring that the purchase order or contract has been executed in compliance with local government policy. In complex projects, such as building construction or the conducting of a service over an extended period of time, this can be a time consuming process. In the case of purchasing equipment, for example, it may be a simple as monitoring its performance based on criteria set forth in the bid documents. It is important that some individual or work unit be assigned this responsibility and that criteria is established before bidding takes place to assure that an effective monitoring system is in place before work begins. Use this as an opportunity to think through your procurement process for this purchase order/ contract and identify any difficulties that you may have encountered during the process. Make a note of what, if anything, needs to be changed in the procurement process so that it will work more smoothly. Prepare a plan for how you can get those changes made to the current system.

LEARNING APPLICATION

POLICY MAKER \_\_\_ CEO  FINANCE MANAGER  DEPARTMENT HEAD

Steps 13-20 have just been described in considerable detail. What parts of these steps does your organisation do best?

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What steps do you believe your LG could be doing better?

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Are there any steps in the process just outlined that your LG doesn't currently do that should be done?

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What could be done to improve your procurement process?

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## ADVANCED PROCUREMENT TOPICS

One of the challenges in developing these materials is the wide range of public institutions and professionals who will be using them. Obviously, the size of the local government is not always indicative of the level of staff competency that exists within these organizations. And, the extent to which there are local self-governance systems in place that require more complete financial management policies and procedures varies from continent to continent based on a number of circumstances. Given these variations in the user community we have made a bit of an arbitrary distinction between what might be considered basic and advanced procurement topics. For example, in some countries where the local self-governance process is well established, even smaller local governments may be administering construction contracts. In other countries, where they are transitioning from a centralised governance process, some of the following tasks may still be in the hands of regional or central government agencies.

Given these differences in roles and responsibilities from one country to another, we urge you to make your own determination as to what is basic and advanced. In other words, feel free to continue on if the following tasks either reflect your circumstances, or whet your professional development appetite.

## CONSTRUCTION CONTRACT ADMINISTRATION

The prime objective of contract administration is to ensure that the requirements of the contract are completed within the stipulated parameters of quality, cost, and time.

### ORGANIZATION

The conditions spelled out in the contract establish the legal framework for the management of the contract, and the other contract documents set the requirements for performance in terms of cost, quality, and time. The LG should appoint an administrative team to manage the project. The size and complexity of the project will determine the composition of the management team. Simple contracts may need intermittent management, whereas complex contracts (large public works contracts, for example) will require a full time team of specialists to manage the contract. In any procurement, however, it is imperative that a management team is established, and that the members of that team are qualified professionals in their specific disciplines.

In addition, a team leader, or *project manager*, always must be appointed to be in charge of the project.

## MANAGEMENT TEAM

The management team is the one identified earlier in the heading “Procurement management team for construction procurement,” in the definitions, basic concepts and ideas section.

The actual level of effort will be determined by the nature and size of the project. However, it is important that within each specialist group, an individual is designated to be responsible for responding to any requests from the manager for assistance. In the case of large projects, an entire team will be necessary. In very large projects, the team may be located at the project site.

*Note: the project managers are the key players throughout the project. All communications to and from each side of the contract must be through the project managers only.*

## PROJECT FILES AND RECORDS (DOCUMENT CONTROL)

A complete set of records of the project must be maintained and updated during the contract term. These records fall into the following categories:

**Contract documents.** The original set of signed contract documents must be retained in a lockfast cabinet or safe. Verified copies of parts or all of the contract documents will be required as working copies by the project manager and, as necessary, by his specialist support staff.

**Progress records.** These will document the contractor’s proposed schedule for completion of the project and will be represented by an approved contractual statement of key dates leading to completion. This may take various forms depending upon the nature of the project. For example, a simple goods contract may only have dates for dispatch, delivery, inspection, and acceptance. A complex public works contract, on the other hand, will require a detailed schedule either in bar chart or critical path format. Irrespective of the complexity of the scheduling method, the project manager must establish a system for recording and monitoring progress. This is a critical element in maintaining factual records of the contractor’s performance, which in turn, may be used in assessing awards or penalties.

**Meeting minutes.** The project manager must hold regularly scheduled progress meetings, and accurate written records (minutes) of these meetings must be kept. Copies must be distributed to all those present at the meeting, and any other person who has a significant interest in the project. The frequency of progress meetings will vary with the size of the project; but, typically, they should be held at least every two weeks throughout the term of the contract.

**Financial records.** A complete record of the financial progress of the project must also be maintained by the project manager. This is in addition to the records maintained by the accounting department to document payments made to the contractor or vendor. The financial record will track on a regular basis the actual status of the contract, taking into account: the original contract amount; any changes that have been authorized; payments certified to date; the amount of any retainer being

withheld; the status of any contingency amounts that may have been established; and a forecast of any known future changes that may have an impact on the contract.

**Reporting procedures.** Reporting procedures fall into two categories as follows:

- reports from the contractor or vendor to the LG
- reports within the LG

**Contractor/vendor reports.** Contractors/vendors should be required to submit regular progress reports to the project manager as a matter of contractual responsibility. The reports will vary with the size and nature of the project. It is good practice, in any case, to make them a condition of payment, particularly when interim progress payments are being made.

**LG procurement reporting.** Senior management in the LG should receive briefing reports from project managers at least monthly. These reports must provide details of performance with regard to schedule, finance, and quality. They should contain sufficient information to keep management apprised of any potential contractual deviations.

## PAYMENTS AND RETAINAGE

Payments must be made in accordance with the terms set out in the contract. A procedure must be established between the project manager and the accounting department to ensure that, once an invoice has been approved, payment will be made promptly and fully. It is very good practice to ensure that payment is processed to contractors and vendors within 30 days of receipt of an *approved* invoice.

Late payments are not in the best interest of either the LG or the contractor. A LG that has a reputation for late payment will eventually find that contractors and vendors will be unwilling to enter into contracts with them, thus reducing the competitiveness of future bidding. Contractors and vendors that receive late payments will become aggressive, uncooperative, and more likely to make claims throughout the contract life. In other cases, late payments have caused contractors to fail in business, resulting in termination of the contract, and the resultant effort of re-procurement.

## QUALITY CONTROL / ASSURANCE

It is essential to establish a program to ensure that the desired quality, as stated in the bid specifications, is met by the contractor / vendor. This can be achieved by approaching quality control in two directions:

- First, by ensuring that the technical specifications include quality control requirements to be fulfilled by the contractor. For example, in a goods supply contract, there should be requirements for the supplier to have certain tests or inspections carried out prior to shipping the goods. The supplier also should be required to submit test certificates from specified inspection firms, validating the tests were completed satisfactorily.

Technical specifications in public works contracts will always include the national standards for materials and workmanship that must be met; but, they should also include specific requirements for the contractors with regard to quality control. This may include designating staff with a specific responsibility for performing quality control.

- Second, by establishing a quality control organization within the LG. The size of this group will clearly depend upon the size of the procuring entity or the project, but it is a cost that should be included in the project budget. In the case of more complex public works contracts, the LG may hire independent inspecting agencies to provide quality control services. These would typically include such things as laboratory testing of concrete to ensure that the required strengths were being attained. They might include field inspection of all construction activities to ensure that they are being performed in the desired manner (either in accordance with local building codes or the technical specifications).

## PERFORMANCE EVALUATION AND REMEDIES

Closely linked to quality control procedures is the evaluation of performance by the contractor / vendor.

The quality control team, in whatever form it takes, must provide the designated project manager with regular reports on the performance of the contractor / vendor.

In the event this is not in accordance with the contract requirements, the LG has several remedies to enforce contractual performance:

- Reject the goods, services, or works, and insist on contract performance. Payment should be withheld until everything is satisfactory.
- In the case of only partial non-performance, it is possible to withhold sufficient sums of money to cover the cost of the specific item in default.
- Where the contractor / vendor does not complete the work in accordance with the contract, the procuring entity may bring in another contractor to correct the deficiency and subtract the cost from the contract amount.
- In the ultimate case, where a contractor / vendor refuses to meet the contract requirements, the final remedy is to terminate the contract, and apply the full powers available to the LG, under the terms of the contract. Note that the LG may have rights under common law as well, and legal advice should be sought in cases of this nature.

## CHANGES IN SCOPE

It must be recognized that, within any extensive contract, it is almost inevitable that there will be changes in the scope of the work. This may result from conditions that could not have been foreseen before the contract was awarded, or simply, a change in the requirements of the procuring entity. Provided this does not conflict with the intent of the contract itself, or on a larger scale, the provisions of the public procurement law, then these changes in scopes should be dealt with fairly and equitably.

Typically, when a change occurs, the contractor will bring it to the attention of the project manager, who should make the initial determination on its acceptability.

At that point, the contractor should be invited to submit a proposal to carry out the necessary work, with a statement of its impact on the cost and schedule of the contract. Thereafter, the project manager should, along with the contractor, negotiate the change in cost and schedule that resulted from the change in scope. The contract should then be adjusted accordingly.

## SUBMITTALS

Throughout most contracts, and particularly in public works contracts, the contractor will be required to make submittals to the project manager for discussion and approval. These will range from samples of materials being proposed for inclusion in the works, to change proposals relating to changes in the scope of the work as discussed in the last section. It is extremely important that there is a procedure established so that these submittals are processed in a timely manner, so that the contractor will have no reason to claim that the progress of the project was delayed because of slow processing of these submittals. This approval procedure can be more complex than it might appear, since it frequently involves input from a number of different individuals (e.g., architects, engineers, or administrators). The project manager must, therefore, establish an information flow path which will ensure the expeditious approval of submittals.

## DISPUTES AND CLAIMS

Unfortunately, few contracts are free from claims or other forms of dispute. How these disputes will be settled, will be governed by the conditions of contract, and ultimately by the rules set out in the public procurement law.

As a general principle, however, both parties to a contract should make every effort to settle disputes within a non-judicial framework. The final resort to the courts is typically time consuming, expensive, and aggressive, and should be avoided if possible. Most standard bidding documents will include provision for mediation by independent adjudicators, selected by both parties, as a means of resolution, where a dispute has not been settled amicably by the project manager and the contractor. This is a less formal procedure and should be considered the preferable method of dispute resolution. Failing this type of settlement, the next level is arbitration. Arbitration will typically be carried out within the framework of the arbitration law of the country. Note, however, that in some contract documents, reference might be made to international arbitration procedures, such as those under the rules of the United Nations Commission on International Trade (UNCITRAL) or the International Court in The Hague. If it does not infringe the national laws, some consideration should be given to including this form of international arbitration, especially in very large contracts which would attract many companies from different countries to submit bids. International arbitration rules would add another dimension of transparency to the procurement process.

## HAND-OVER / TAKE-OVER

As the contract draws to a conclusion, several important steps must be followed to ensure that the contract requirements have been fully met. The procuring entity

must put a plan in place to effect a smooth and contractually sound take-over of the product.

This may be a very simple procedure, for example, receiving the final report from a consultant or accepting the delivery of goods in a supply contract. Or, it may be complex, as in the case of a major public works contract such as construction of a water treatment plant. This is a very important stage in any type of contract, however, and great caution must be exercised before the procuring entity acknowledges that this contractual point has been reached.

The reason for this is that accepting delivery of the product of the procurement action typically triggers certain contract provisions. The following is a list of typical contractual issues to be considered:

- The contractor may be released of any further liabilities under the contract.
- The warranty period will commence.
- The contractor may be entitled to a partial release of retainage.
- The contractor may be entitled to final payment in the case of a supply contract.
- Other than in the case of latent defects, this may be the last opportunity for the procuring entity to challenge any items not thought to be in accordance with the requirements of the contract.

As a safeguard, the procuring entity should, therefore, ask the following questions, or perform the following tasks, before accepting the product of the contract:

- Have the goods, works, or services been delivered completely in according to the requirements of the contract?
- Has a complete list of defects been prepared and delivered to the contractor?
- Has the contract been completed on schedule, and do I have any claims against the contractor with respect to any delay?
- Are there any outstanding claims which have not been settled?
- Have I received all the maintenance manuals that were required under the contract?

Only after all of these questions have been answered, and the appropriate action taken, should the LG officially acknowledge the completion of the contract. In contracts where there is a warranty period, the LG must retain management control to ensure that all obligations of the warranty are fulfilled.

## CONTRACT CLOSE OUT / SETTLEMENT OF ACCOUNTS

This stage recognizes the final completion of the contract. It can only take place when all the elements of the contract have been met, and all outstanding issues settled. Assuming that all the contract requirements have been met, the final payment can be made to the contractor. Once again, this should be done expeditiously, and the

contractor should not be required to wait an unreasonable amount of time for final payment. At this time, the performance guarantee also should be released.

If, for any reason, there remain minor items of work to be completed, it is acceptable to retain an appropriate amount of money to ensure that these items will be completed.

## CONTRACT EVALUATION / ANALYSIS

It is good practice to prepare an analysis of the contract at its completion. This will document the positive and negative aspects of the contract, and highlight the lessons learned from it. This post-contract evaluation must be carefully documented and retained in the contract records.

## LEARNING APPLICATION

POLICY MAKER \_\_\_ CEO \_X\_ FINANCE MANAGER \_X\_ DEPARTMENT HEAD \_X\_

The contract administration process has just been described in considerable detail. What parts of this process does your organisation do best?

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What parts of the process do you believe your LG could be doing better?

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Are there any steps in the process just outlined that your LG doesn't currently do that should be done?

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What could be done to improve your contract administration process?

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## MANAGING GOODS AND EQUIPMENT (STORE OPERATIONS)

### STORAGE FACILITIES

The trend in storage facilities is toward fewer and larger storerooms. Increasingly expensive land and construction costs make this more economical than a multitude of storage locations. Larger storerooms also facilitate automated warehousing techniques, which can minimize labour costs. It is generally suggested that LGs:

- Receive, inspect, stock, and distribute all purchases from centralized store locations.
- Use a closed-stores system with all materials stored in a closed, controlled area.
- Stock only equipment, materials, and supplies that are necessary or which can be purchased in volume quantities at significantly lower prices.

### INVENTORY CONTROL (PILFERAGE CONTROL)

All items which are stored should be identified. For larger warehouses, a classification system should be established with a number code for stock identification.

- The stock number should begin with three or four numbers that establish the basic product class.



- Next should be three numbers, which identify the particular type of product, followed by two numbers that indicate size, colour, etc. The stock number should not be used to identify stock bin or location of an item, as these are subject to change.
- Two additional numbers may be assigned to identify the inventory category to which an item is assigned, such as “critical” or “basic,” as an aid to inventory management. Requisition control and purchase expediting for selected categories can be based on these two numbers.
- If desired, another two digits may be added to identify storeroom location.

A stock record card should be kept for each commodity stored. This card should show deliveries, issues, and balance-on-hand at all times. Deliveries are posted from reports of goods received; each “issue out” is posted from the signed request, and the balance-on-hand is then reduced accordingly.

### Sample Inventory Stock Card

Stock Number:		1450-300-10-00-22-1					
Item description:		2 cm. x 3 cm. Widgets					
Location:		Bin 2 Drawer 2					
Minimum		100			Maximum		800
Date	Deliveries In	Delivery From	Unit cost	Issues Out	Issued to	Balance on hand	
1/1/xx						595	
2/5/xx				50	Program A	545	
3/8/xx				75	Program B	470	
4/15/xx				125	Program B	345	
5/18/xx				75	Program B	270	
6/23/xx				160	Program A	110	
6/23/xx	500	ABC Supply	\$1.12			610	
7/24/xx				390	Program B	220	
Suppliers:		ABC Supply		Smith Company			
		Brown Supply		Ace Corporation			

The card should provide space to show the minimum and maximum amount of each item that should be stored. When the supply on hand nears the minimum, the storekeeper should send a requisition to the procurement agent to replenish the stock. The stock record card should also include an adequate description of the item, its location in the storehouse, reference to the suppliers, date, source of charge or credit, and unit price.

A complete physical inventory of all stores should be made at least once a year. Any difference between the quantities recorded on the stock record cards and the

physical inventory should be investigated. Adjustments should then be made on the card records to bring the book inventory into line with actual quantities on hand.

## PROCUREMENT AND E-GOVERNMENT OVERVIEW

It is no secret that organizations are looking to the Internet to fulfil their procurement needs. Developing countries have moved very quickly to take advantage of the Internet Revolution. From web requisitioning and on-line procurement to sale of assets through on-line auctions, these countries have leveraged the capabilities of the Internet.

We believe that several factors will influence the level of governmental use of and involvement in e-government. Each of these is discussed in the following.

### E-BUSINESS

The most important factor in how much of governmental activities will move online will likely hinge on the extent of e-business activity in the overall economy. As the entire country business economy moves towards using the internet, local governments will move along also.

### PUBLIC ATTITUDES

While the public may enjoy the various service aspects of e-government by being able to transact business *with* government online as in paying for fines or taxes, they will also appreciate the tangible cost savings and efficiencies that can be produced through the application of the auction model to public sector management. Headlines will undoubtedly be made when each province introduces programs to renew drivers' licenses over the Internet and when LGs announce ways to obtain building permits and pay water bills online. Yet, these are still early days in e-government, and the landscape is changing daily. As LGs leverage the power of the Internet, they are discovering that the process of transformation doesn't stop at LG services. Many believe, especially for developed countries, that we are at the cusp of an era of profound change, not simply in how government works, but in what government is all about. The ability to instantly communicate, and to communicate important information so that citizens can be more involved in decision-making, may have a drastic impact on how LGs make decisions.

### CULTURAL CHANGES

For organizations of all types, operating in the online environment will mean that learning cycles will be much shorter and compressed than those in the offline world. This makes creating a true "learning environment" more important than ever. LGs and countries that are quick to try, quick to learn, and quick to adapt will win more in the global economy. Those that learn the fastest, and keep learning, will stay ahead. LGs and countries that take months to assess what they've learned, whose internal processes don't run on Internet time, will get left behind.

## A LEARNING, ENTREPRENEURIAL GOVERNMENT

Which word best describes government today: learning or entrepreneurial? Most people inside and outside the public sector would likely respond that the latter is more descriptive. In an increasingly knowledge-based economy, we will need a knowledge-producing, learning government. Following and building on trends in the private sector, we will need a more entrepreneurial government to fully leverage the power being brought about by the Internet revolution. This will mean promoting “entrepreneurial leaders” within government at all levels and forging partnerships with those persons and companies that can help the public sector take advantage of opportunities present.

## AN AGILE GOVERNMENT BUREAUCRACY?

First and foremost, there is the notion of bureaucracy. Bureaucrats can be a difficult lot, jealous of their turf and generally reluctant to make binding commitments or do anything quickly with people they don’t know well. Yet, the demands of the e-marketplace will challenge our fundamental notions of what it means to be in the public sector, from the highest elected and appointed officials to the front-line employees in all agencies at all levels of government.

## LEGISLATIVE AND REGULATORY CHANGES

One of the most pressing tasks of those in leadership positions at all levels of government is to examine rules, regulations, laws, and legislation that might hinder the development of the respective marketplaces for online procurement and asset disposition activities. Almost every agency at every level of government will find that they have guidelines in place that will either hinder or completely prevent involvement in emerging market-spaces. Just on the procurement side, policy manuals for procurement are often measured by the number of binders they take up. These guidelines, along with the legislation and regulations behind them, will need to be updated, if not completely revised and “downsized.”

## THE TRANSPARENT MARKETSPACE

By 2010, it is very likely that graft, fraud, and corruption will have occurred in the B2G (business to government) marketplace. And there will be steps taken to prevent this from occurring. Yet, the greatest preventative measure to such improprieties in B2G e-marketplaces is a characteristic that is inherent in them — the transparency of the process. Indeed, price transparency and the full sharing of information are inherent elements of the emerging online B2B (business to business) exchanges. Transparency should also be a part of all e-marketplaces established for the sale of governmental assets to ensure the propriety of these as well. In the end, the fact that these cyber markets operate with an openness not generally found in the physical realm should be a great deterrent to any corruption of the processes that will be put in place. Thus, the transparency of the cyber marketplace may well produce a paradox in that less oversight may actually produce more legitimacy in pricing in the public sector.

## THE DEMISE OF THE 'GOOD OLD BOY' NETWORK?

Finally, the transparency of the online marketplace may especially work to the advantage of both small businesses and minority firms, as it may mean the demise of the “good old boy” network. As more and more procurement moves online and as more procurement is conducted in a dynamic pricing environment, the winner is not going to be the person who’s the best backslapper, or makes the biggest campaign contributions or the person who unloads the most money at the golf course. Many expect that for the future, suppliers who base their business on personal relationships and clients, who are too busy to shop the market, will find that their days are numbered. The world is changing — power is shifting from salesperson to the LG buyer.

## INTRA/INTERGOVERNMENTAL COOPERATION

This will be a critical area in order to foster greater governmental participation in e-marketplaces. Not only is it critical that public sector leaders network and share best practices in the on-line procurement and auction models, but this also will be true in all areas of e-government. Public officials and governmental managers will be well-advised to stay on top of the emerging knowledge base in this area and to share their own expertise in this area with others.

## TECHNOLOGY

The whole concept of the emerging online marketplaces is a technologically driven phenomenon. As discussed previously, making dynamic pricing a workable concept in online marketplaces is driven not just by the Internet itself, but also by the software necessary to develop and administer the auction process. Thus, technology will surely be a factor — if not the most important— in the future development of online marketplaces, in both the private and public-sector marketplaces. Inherent in the further development of e-government is the assumption that both computing power and the Internet will continue to grow at a rapid rate.

## *AUCTION MODEL AND GOVERNMENT*

One of the most important internet technologies has been the auction. The best known example of this is E-Bay. It is a market place where people with something to sell, offer it and others submit bids. Usually the highest bidder wins. This model has become a new-found source of revenues for LGs. Their old surplus equipment, which formerly was sold off in local auctions, can now be offered on the world-wide web. It significantly increases the number of people who are aware of the item being for sell and has resulted in receiving more money for the sale of surplus property. Many times the items are sold to other LGs and other times to private citizens. There are three ways in which the auction model can be applied to governmental operations:

## GOVERNMENTAL PROCUREMENT

Fundamentally, the challenge present today is how both governmental purchasers and their interested suppliers can make use of online e-marketplaces to make connections with each other. There are three primary ways for this to happen through a process called “exchanges.” There are independent, government-led, and industry-led exchanges.

### *INDEPENDENT EXCHANGES*

Following the pattern that has been occurring in B2B e-commerce — and with governmental procurement being an extremely large marketplace — it is likely that the first wave of exchange development may come from entrepreneurs seeking to link governmental purchasers and private sector suppliers of goods and services.

These exchanges will essentially insert themselves into the existing market for governmental procurement between potential buyers and suppliers. In doing so, entrepreneurs will seek to create governmental procurement portals, marketspaces where procurement officers and suppliers could meet, with the reward being the transaction fees. Examples of such exchanges in the United States are govworks.com and ezgov.com.

To be successful, independent exchanges have two basic choices as to what form their marketspaces can take.

- First, they can establish very specialized marketplaces based on governmental procurement needs (i.e., medical equipment, computers, furniture) or governmental agency types (i.e., health care, safety, interior). Whatever the basis for the exchange, the defining characteristic of either the buying or selling side is the central need which makes such exchanges readily identifiable.
- On the other hand, independent exchanges can be established by firms desiring to operate across a wide variety of governmental interests and procurement needs, such as the strategies of FreeMarkets and VerticalNet, both USA-based firms. Such exchanges seek to be essentially “one-stop” shopping for almost all governmental procurement needs and a single point of entry — or procurement portal — for those seeking to become governmental suppliers.

### *GOVERNMENT-LED EXCHANGES*

The second form of exchange in the B2G marketplace are consortia made up by combinations of governmental agencies and levels. Public procurement power can be vastly increased through such combinations — creating major volume buyers in the public sector. Further, suppliers wishing to do business with the government can enter this marketplace through a single point of contact, rather than having to deal with multiple agencies and even multiple levels of government.

How might such governmentally developed exchanges be created and work? One of the likely models will be the so-called “E-Mall.” Although it did not progress

beyond the pilot stage as a collaborative effort, the E-Mall project was successful in demonstrating the power and potential of collaborative online procurement efforts. E-Mall was started as an online procurement system by the state of Massachusetts in 1998 in an effort to pool the procurement power of multi-state governments in a collaborative marketplace. The pilot E-Mall project demonstrated that such collaborative procurement could:

- Markedly cut administrative costs
- Secure more favourable prices from suppliers
- Reduce procurement cycle times from weeks to days
- Slash the time required to issue purchase orders

While Massachusetts has continued the E-Mall project for its state procurement, the other participants in the program (Idaho, New York, Texas, and Utah) have all opted to develop their own procurement marketplaces, either in-house or with private-sector support. Such combinations could occur at both the intra and inter-governmental levels. For instance, health-care-based procurement consortia could be established both within and among local, state, and national government agencies working in that area. Likewise, LGs could seek to combine their procurement power by establishing cooperative consortia both among the various levels of LGs (i.e., LGs, school districts, county, or parish governments) and the agencies within them. The potential combinations are virtually limitless. The only limitation on the development of such procurement consortia in the public sector will be the amount of intra/intergovernmental cooperation on procurement activities.

#### *INDUSTRY-LED EXCHANGES*

The third form that such exchanges may take in the B2G marketplace are consortia, led by current and potential suppliers to governmental purchasers. Indeed, one of the main lessons from the E-Mall project might be that the real push for a centralized e-marketplace procurement portal may come from governmental suppliers. As states move toward various forms of online procurement, suppliers will push for a common platform through which to do business with government, as opposed to having to deal with each government's — and perhaps each government agency's — procurement systems. One can envision various supplier groups forming such supply-side e-marketplaces in the near future.

#### **DISPOSITION OF USED/SURPLUS/SEIZED GOVERNMENTAL ASSETS**

While most of the attention paid to creating online exchanges has thus far been in regards to new items, there is vast potential for applying dynamic pricing concepts and creating new marketplaces for used and surplus items. In the public sector, this could also include the sale of seized assets, making this an area worthy of specific attention by governmental leaders. Nothing could be less technical at present than the typical governmental auction, where buyers have to physically gather at a specific time and location for the auctioning of used and surplus equipment and other assets. Whether it is noon on the courthouse steps or the storage yard of the

LG, the asymmetry of the auction event means the eventual auction winner must be physically present at the auction.

Initially, governments at all levels should seek to do what firms in the private sector are seeking to do, simply offering their auctions online through the “one to many” model. With streaming video technology, the merging of the physical auction with cyber-bidding produces positive results i.e., increased returns from the auction of such assets and time saved by the efficiencies of cyber auctions. With examples from industries as diverse as the worlds of fine art and used cars, local, state, and federal governmental leaders should examine how they can employ this technology to expand the reach — and consequently the financial impact — of their auction activities. Indeed, what may develop in the near future is something much more complex — and yet more beneficial for governmental bodies and auction participants alike. We may see new forms of enterprises develop to specifically either the seller or buyer of governmental assets — or both. As has occurred in the private sector, “info-mediaries” may develop to facilitate transactions between governmental bodies that want to sell goods and interested potential bidders. Such emerging companies can aggregate and integrate large amounts of product information from a variety of vendors, bringing buyers and sellers together in a way heretofore impossible. In this way, information about auctions can be pooled to create “virtual eBays” in this under-noticed sector of governmental activity. We may also see governmental bodies — particularly at the county and/or state levels — create such “virtual eBays” for their own internal and interagency use. The saying that “one person’s trash is another’s gold” would hold true here. Perhaps before such auctions go “outside” the government, other agencies and/or levels within a governmentally driven operation could be allowed a “first-look” opportunity to claim, or bid, in an interagency competitive environment, such items before they go outside.

## LEARNING APPLICATION

POLICY MAKER \_\_\_ CEO \_X\_ FINANCE MANAGER \_X\_ DEPARTMENT HEAD \_X\_

The proposed use of e-government and procurement has just been described in considerable detail. What parts of that process is your organisation interested in?

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Are there any steps that your LG can start now to implement e-procurement?

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## LINKING ECONOMIC DEVELOPMENT PROGRAMS TO PROCUREMENT

Procurement can be used to encourage economic development in the LG community.<sup>1</sup>The following are summaries of some programs that you may want to try in your LG.

### SMALL, LOCAL BUSINESS PROGRAM

Establish a development program focused on the LG's small, local suppliers. In parallel with the direct development program, develop a second tier program which partners small local businesses with existing large suppliers. Develop recognition programs for the direct development and second tier programs. Increase "informal competitive bid" limits to allow more purchases to be directed towards small local businesses.

### M/WBE PROGRAM

M/WBE stands for Minority/Woman Business Enterprises. These are businesses that meet specified criteria to qualify. It is similar to the small local business program.

### BUY RECYCLED PROGRAM

Establish a 10% price preference through a "targeted" recycling program. Track and monitor purchases of recycled products. Update specifications for recycled product purchases on a consistent basis. Enforce departmental compliance with LG Administrative Code pertaining to the Recycled Products Procurement Program. Provide education about the significance of recycling to LG employees as well as suppliers.

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1 For further information on encouraging local economic development, see UN-HABITAT (2005) Promoting Local Economic Development through Strategic Planning. The Local Economic Development Series.



## BUY LOCAL PROGRAM

Do not implement a legally mandated “buy local” program. Instead, focus on fast delivery times which means inventory must be nearby to deliver. Implement “Just-In-Time” delivery terms which require inventory to be stored locally in order to provide next day service.

## AFFIRMATIVE ACTION PROGRAM

Require that all suppliers not discriminate in their employment practices against any employee or applicant for employment based on race, religion, national origin, ancestry, gender, sexual orientation, age, physical handicap, marital status, or medical condition.

## CHARGING FOR SPECIFICATION PACKAGES

A procurement office has unavoidable processing expenses, including the expense and effort involved in preparing and assembling specifications, printing copies of the bid for vendors, and postage. In many countries, public works and building construction departments have been charging for specifications and construction drawings for years, to offset the cost of preparing and printing specifications and construction drawings. In many of the same countries, LGs now charge vendors a fee to cover the costs of preparing and distributing all specification packages, including their non-construction bids.

Additional cost savings occur when a prospective vendor is charged for bid specifications. In some countries, experience has demonstrated that only vendors with an interest in bidding will actually pay the fee. The cost and time associated with sending specifications to those who don't intend to bid is avoided. In the US, LGs have found that for every ten free specification packages mailed to vendors, only one or two are returned. Meanwhile, printing and postage costs have been incurred that, over the course of the year, are a significant portion of a procurement office's budget.

## PROCUREMENT AND PUBLIC RECORDS

In countries where transparency and public records are a high priority, almost every document associated with a purchase transaction can eventually become a public record. Because of this, the procurement manager must know what should and should not be placed into public files.

Public records could include justifications for any actions taken that affect the outcome of the bid or award. It also can include any documents received during the bidding process. Documents not classified as public records could include correspondence with the legal Department on the interpretation of purchasing laws. A word of caution is in order if you plan to prepare a memo “to the file” to explain an action taken during the bidding process. Clear the document with your legal Depart-

ment. Let your attorney advise you on how to handle anything unusual that you want to include in the bid file. It is also prudent to clear with your legal department every release of information from a bid file to a third party.

## INTERNET RESOURCES

The following are some of the more helpful web-sites available at the time this chapter was written. Since it is such a dynamic resource base, it is important to do your own research to discover new opportunities. Exchange these new discoveries with your professional colleagues and encourage them to do the same.

Statement of Good Procurement Practices – New Zealand

[www.oag.govt.nz/homepagefolders/publications/procurement\\_guide/procurement\\_guide.htm](http://www.oag.govt.nz/homepagefolders/publications/procurement_guide/procurement_guide.htm)

Government procurement in New Zealand

[www.med.govt.nz/irdev/gov\\_pur/purchasers/purchasers.pdf](http://www.med.govt.nz/irdev/gov_pur/purchasers/purchasers.pdf)

World Bank procurement information

<http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/PROCUREMENT/0..contentMDK:20109646~pagePK:84269~piPK:60001558~theSitePK:84266.00.html>

EU public procurement

[http://europa.eu.int/comm/internal\\_market/publicprocurement/](http://europa.eu.int/comm/internal_market/publicprocurement/)

Asia Pacific public procurement

[http://www.apec.org/apec/apec\\_groups/committees/committee\\_on\\_trade/government\\_procurement/resources/overview.html](http://www.apec.org/apec/apec_groups/committees/committee_on_trade/government_procurement/resources/overview.html)

ANZ – Australiza, New Zealand public procurement

[http://www.finance.gov.au/ctc/anz-government\\_procurement\\_agr.html](http://www.finance.gov.au/ctc/anz-government_procurement_agr.html)

Pori, Finland sustainable procurement

<http://www.pori.fi/hankinta/eng/sustain/environ.htm>

Green procurement resources

<http://www.nerc.org/adobe/survey/>

Public procurement lessons from East Africa

[www.oecd.org/dataoecd/59/11/2503452.pdf](http://www.oecd.org/dataoecd/59/11/2503452.pdf)

Bulgaria public procurement law

[www.nobribes.org/Documents/Bulgaria\\_PublicProcurementLaw\\_2002.doc](http://www.nobribes.org/Documents/Bulgaria_PublicProcurementLaw_2002.doc)

Public procurement on the internet (European Institute of Public Administration)

– this is a comprehensive site with numerous links.

[http://www.eipa.nl/Topics/Procurement/procurement\\_websites.htm](http://www.eipa.nl/Topics/Procurement/procurement_websites.htm)

MSP planning and procurement (South Africa Ministry and Department of Provincial and Local Government)

[http://www.local.gov.za/DCD/policydocs/gp\\_msp/ms04.html](http://www.local.gov.za/DCD/policydocs/gp_msp/ms04.html)

Designing a business case to demonstrate “best value” for money in procurement

- UK

[www.cps.gov.uk/publications/docs/procureman.pdf](http://www.cps.gov.uk/publications/docs/procureman.pdf)

Project management

<http://www.pmfforum.org/>

City of Pori Finland Procurement Office

<http://www.pori.fi/hankinta/eng/sustain/environ.htm>

International Trade agreements and Local Governments (Canada)

[http://www.dfait-maeci.gc.ca/tna-nac/fcm/part2\\_ii-en.asp](http://www.dfait-maeci.gc.ca/tna-nac/fcm/part2_ii-en.asp)

Municipal guide to procuring renewable energy

[www.irecusa.org/municipal/municipal\\_guide.pdf](http://www.irecusa.org/municipal/municipal_guide.pdf)

Facilities procurement guide (Canada)

[www.gov.ns.ca/tpb/manuals/PDF/300/30302-11.pdf](http://www.gov.ns.ca/tpb/manuals/PDF/300/30302-11.pdf)

Setting up and operating electronics recycling/reuse programs: manual for municipalities and counties (US)

<http://www.nerc.org/adobe/survey/>

Policy strategy to guide uniformity in procurement reform

[www.treasury.gov.za/organisation/sf/policy.pdf](http://www.treasury.gov.za/organisation/sf/policy.pdf)

Public-private partnerships for the urban environment - tools for pro-poor municipal PPPs: Module 16: Tendering and procurement (UNDP)

<http://pppue.undp.org/toolkit/MOD163.html>

Green Purchasing Good Practices Guide (Finland)

[www.pori.fi/hankinta/ymparisto/gpgpg.pdf](http://www.pori.fi/hankinta/ymparisto/gpgpg.pdf)

Need for integrating social concerns into procurement

[www.aalborgplus10.dk/.../c01\\_geirnaert\\_abstract\\_theme01.pdf&navn=c01\\_geirnaert\\_abstract\\_theme01.pdf](http://www.aalborgplus10.dk/.../c01_geirnaert_abstract_theme01.pdf&navn=c01_geirnaert_abstract_theme01.pdf)

Tender supply notice

[http://www.ear.eu.int/projects/main/EAR\\_01\\_MTG\\_01\\_01\\_001-01.htm](http://www.ear.eu.int/projects/main/EAR_01_MTG_01_01_001-01.htm)

Tender notification

<http://municipaladm.kar.nic.in/tender.htm>

Public works procurement notice - Hungary

[http://www.cfcu.hu/English/open/o\\_wrk\\_szolnok\\_113771\\_en.html](http://www.cfcu.hu/English/open/o_wrk_szolnok_113771_en.html)

Albania—Manual for the Service of Public Procurements, a toolkit in the hands of Local Governments. The manual is published under the initiative and approved by the Ministry of Local Government and Decentralization. The document includes: (i) basic principles of the project cycle; internationally accepted principles of procurement of works, goods and services; (iii) a comment on the Albanian legislation in procurement; (iv) technical specifications; (v) basic knowledges on contract documents and contracting; and standard forms for procurement of goods, services and works.

<http://www.uri.org.al/html/publications.html>

Development of sustainable procurement in Brazil - powerpoint presentation

[www.un.org/esa/sustdev/sdissues/consumption/procurement/lauraandrachell.pdf](http://www.un.org/esa/sustdev/sdissues/consumption/procurement/lauraandrachell.pdf)

Electronic procurement: A guide for councillors and managers

[www.fitlog.com/pubs/e-Procurement%20master%20report%20\(Acrobat\).pdf](http://www.fitlog.com/pubs/e-Procurement%20master%20report%20(Acrobat).pdf)

OECD – Public Procurement: LESSONS FROM KENYA, TANZANIA AND UGANDA

[www.oecd.org/dataoecd/59/11/2503452.pdf](http://www.oecd.org/dataoecd/59/11/2503452.pdf)

Municipal and Revival Program Operations Manual – Serbia

[www2.undp.org.yu/mir/pub/OM/Vol1.pdf](http://www2.undp.org.yu/mir/pub/OM/Vol1.pdf)

Karachi, Pakistan procurement tenders page

<http://www.karachicity.gov.pk/tenders.asp>

Getting communities involved in infrastructure provision - community partnered procurement

<http://www.id21.org/urban/U3ac1g2.html>

## PROCUREMENT MANUALS

UNDP

[www.undp.org/procurement/PROCUREMENT%20MANUAL.May.2003.pdf](http://www.undp.org/procurement/PROCUREMENT%20MANUAL.May.2003.pdf)

State of Texas, U.S.

<http://www.tbpc.state.tx.us/stpurch/toc.html>

City of Suffolk, VA U.S.

[www.suffolk.va.us/finance/ProcurementManual.pdf](http://www.suffolk.va.us/finance/ProcurementManual.pdf)

Dallas/Fort (US) worth International Airport

[www.dfairport.com/procurement/pdf/manual.pdf](http://www.dfairport.com/procurement/pdf/manual.pdf)

Serbia

<http://www.undp.org.yu/mir/pub/OM/Vol1.pdf>

<http://municipaladm.kar.nic.in/tender.htm>

New South Wales, Australia

[http://www.dpws.nsw.gov.au/.../ Environmental+management.pdf](http://www.dpws.nsw.gov.au/.../Environmental+management.pdf)

Department of Trade and Industry, UK

[http://www.dti.gov.uk/about/procurement/pro\\_man.htm](http://www.dti.gov.uk/about/procurement/pro_man.htm)

Capital Projects procurement manual – New South Wales, Australia

<http://www.construction.nsw.gov.au/CPPM/>

Harvard University, US

[http://vpf-web.harvard.edu/ofs/procurement/pro\\_pro.shtml](http://vpf-web.harvard.edu/ofs/procurement/pro_pro.shtml)

University of Iowa, US Procurement Card Policy Manual

<http://www.uiowa.edu/~purchase/procurement/manual/PCtoc.html>

Bracknell-Forest UK

[www.bracknell-forest.gov.uk/procurement-manual.pdf](http://www.bracknell-forest.gov.uk/procurement-manual.pdf)

Angola

[www.angola.org/referenc/reports/oildiagnostic/Procurement\\_ManualB.pdf](http://www.angola.org/referenc/reports/oildiagnostic/Procurement_ManualB.pdf)

OECD (Organisation for Economic Cooperation and Development) (Joint collaboration of SIGMA and ILO/Turin Training Centre, 1996)

[http://www.oecd.org/LongAbstract/0.2546.en\\_2649\\_201185\\_1829479\\_1\\_1\\_1\\_1.00.html](http://www.oecd.org/LongAbstract/0.2546.en_2649_201185_1829479_1_1_1_1.00.html)

Government of India Enterprise

[www.bsnl.co.in/company/pro\\_policy.pdf](http://www.bsnl.co.in/company/pro_policy.pdf)

Public sector reform in Nigeria resulted in draft procurement manual

[www.wto.org/english/tratop\\_e/gproc\\_e/wkshop\\_tanz\\_jan03/nigeriacase3\\_e.doc](http://www.wto.org/english/tratop_e/gproc_e/wkshop_tanz_jan03/nigeriacase3_e.doc)

King County, Kansas (U.S.A.) Capital projects procurement manual

<http://www.metrokc.gov/recelec/archives/policies/con771aep.htm>

Ministry of Foreign Affairs - Denmark

[www.um.dk/.../54C158B7-27C2-4B04-A74E-711D8D269A71/0/Guidelines\\_for\\_Procurement\\_of\\_Goods\\_November\\_2002.doc](http://www.um.dk/.../54C158B7-27C2-4B04-A74E-711D8D269A71/0/Guidelines_for_Procurement_of_Goods_November_2002.doc)

# PART TWO: MANAGEMENT TOOLS

## PURPOSE

One of the most important responsibilities of local self-government is to procure the resources needed to conduct public business in as efficient and fair a manner as possible. LG's willingness to manage its procurement functions in a fair and reasonable manner can be one a community's strongest assets in attracting business development and creating employment opportunities. The procurement process also can place a LG's credibility in grave jeopardy when questions of possible corruption arise or when there is suspicion that the process is being manipulated by public officials for personal or political gain.

This workshop is intended to provide officials responsible for public procurement and procurement policy making with the ability to manage public procurement activities fairly, efficiently, and in accordance with the law and proper standards of ethical conduct.

*Don't forget to look back at the Learning Applications! Many of them can be easily adapted for group exercises and may be more appropriate for persons who are just being introduced to the concepts of procurement.*

## CONTENTS

A brief description of each learning activity is shown below with an approximation of the amount of time required. If you wish to change the order, to omit something, or to add training material of your own, feel free to do so.

### 12.1 WARM-UP EXERCISE: THE LIMITS OF FRIENDSHIP

Participants take part in an introductory exercise that explores an ethical dilemma of public office associated with the acceptance of gifts or favours. (45 minutes)

### 12.2 TRAINER PRESENTATION

Brief concept presentation based on the preceding essay that describes the organization and administration of the procurement function in local self government. (30 minutes)

### 12.3 EXERCISE: EVALUATING BIDS

Participants practice applying criteria to evaluate competing bids for a procurement project. (60 minutes)

#### **12.4 ROLE PLAY: THE CONTRACT RETAINAGE DISPUTE**

Participants take part in a role play of a LG/contractor dispute over a retainage for contract performance.(120 minutes)

#### **12.5 CRITICAL INCIDENT EXERCISE: THE SOLE SOURCE DEBATE**

Participants debate the pros and cons of an incident involving a decision to award a construction contract without competitive bidding. (90 minutes)

#### **12.6 GUIDED DISCUSSION: UNRESOLVED PROCUREMENT ISSUES**

Participants respond to questions and discuss unresolved issues in the management of procurement in their own LGs. (75 minutes)

#### **12.7 CLOSING EXERCISE: LEARNING TRANSFER**

Participants reflect individually on what they have learned and make commitments to put it to use back home after the workshop. (30-45 minutes)

## 12.1 WARM-UP EXERCISE: THE LIMITS OF FRIENDSHIP

### TIME REQUIRED:

45 minutes

### PURPOSE

Enable participants to understand the ethical issues associated with public officials receiving gifts from persons who do business with the LG and the value of appropriate policy guidance.

### PROCESS

Divide participants into groups of five to seven. Give participants copies of *Viktor's New Friends* and ask them to read it. In their small groups, ask participants to answer each of the questions at the end of the incident and to be prepared to discuss their answers with participants of other groups after about 20 minutes.

When small groups have been discussing the incident for about 20 minutes, reconvene the groups and ask them to share with one another their answers to each of the questions. Take the questions in the order presented and encourage as many participants as possible to offer their comments and ideas.

## Critical Incident: Viktor's New Friends

As LG finance director for a mid-sized LG in a mountainous region in the centre of the country you are pleased with the reports you have been receiving about Viktor, your new procurement officer. Viktor is a recent public administration graduate from a central LG university. In his first few months on the job, Viktor has become well informed on provisions of the new national purchasing law and has been diligent in his dealings with contractors and others seeking to do business with the LG. You are particularly pleased to learn that Viktor has been praised by vendors for his promptness and efficiency in handling paperwork required in the bidding and contract award process.

You are disturbed, however, when you begin to receive less favourable reports about Viktor. You learn that Viktor and his wife are often guests at parties and dinners given by people who do business with the LG. Viktor has received numerous small gifts—a wristwatch, a magnum of champagne at Christmas, and a leather briefcase on his birthday—by them. After learning that Viktor and his wife have accepted an invitation to be flown in a private jet for a weekend at a private villa in Northern Italy, you decide to intervene.

Confronted about the favours, Viktor denies they had any influence on his handling of the LG's business. He reasons that it is his job to maintain pleasant relations with vendors. The gifts he has received, he claims, were tokens of friendship or appreciation and that it would have been rude of him not to accept them.



## Questions

1. Can a line be drawn between a friendly gift and a bribe?
2. Should all gifts—a dinner, tickets to an athletic event, a weekend holiday—be refused by public officials as possible bribes?
3. What is the appropriate relationship between public employees and persons they might be able to help because of the positions they hold?
4. As director of finance, what policies would you recommend governing gifts and favours?

## 12.2 TRAINER PRESENTATION

### TIME REQUIRED:

30 minutes

### PURPOSE

This presentation is to provide participants with ideas and perspectives on public procurement as a conceptual foundation for the exercises included in this workshop.

### PROCESS

Prepare the presentation based on information covered by the preceding essay on public procurement. Describe the legal base and organization for procurement in LG. Review the process of procurement as it is carried out in a LG including bid documents, the bid process, and the contract award. Conclude with a discussion of contract administration and ensuring compliance with contract requirements.

Outlined information on note cards may help you cover the information systematically and stay on schedule. Ask questions from time to time during the presentation as a check on participant comprehension and to hold their attention. Augment the presentation with visual aids including pre-printed newsprint sheets, overhead transparencies, or Power Point as a further aid to comprehension.

## 12.3 EXERCISE: EVALUATING TENDERS/BIDS

### TIME REQUIRED:

60 minutes

### PURPOSE

This exercise is to provide participants with practice conducting an evaluation of bids.

### PROCESS

Divide participants into the same small groups used for the opening exercise of this workshop. Give participants in each small group a copy of a situation involving an invitation for the submission of bids for a specific LG project (*see next page*). Ask participants to assume they have been convened as a bid evaluation board by the LG's director of finance to select the bid which conforms most closely to the criteria established in the LG's bid documents. Give the small groups 30 minutes to make their decisions. After thirty minutes, reconvene the small groups and ask a spokesperson from each group to present the group's choice with their rationale for its selection. Compare and discuss results.

*Note. There could be a difference of opinion about which tender or bid to recommend. We would tend to favour Tender A. Our reasoning is that Tender A offers a slightly better combination of scores on the three most highly rated criteria (cost, speed and project manager reputation) than the other tenders. For example, it is almost as highly rated as Tender D on price and duration, but much higher on reputation of project manager. Tender A far exceeds Tender C on duration, the most highly rated criterion owing to the importance of an early completion date to the city council. Although Tender A ranks lower than Tender B on duration, it is much more costly making it politically undesirable.*

## The Board's Bid Task

Your LG has invited bidders to submit bids for a 10 kilometer road construction project. The section of road to be rebuilt is badly deteriorated and hazardous. Its reconstruction has become a high priority for the LG governing body which hopes to see the project completed at the earliest possible date. An invitation to submit bids was prepared, advertised and distributed to a pre-qualified list of bidders.

By the closing date stipulated in the invitation-to-bid notice, six qualified bids had been received. A bid evaluation board has been formed and is responsible for selecting the bid which is most advantageous to the LG in relation to the criteria established in the bid documents. Sealed envelopes containing the bids have been opened and the board has been convened to begin the formal evaluation process.

A matrix containing the evaluation criteria used by the board, weights assigned to each of the criteria and the board's rating of each of the six bidders is shown below. Each criterion is evaluated on a scale of 1 – 5 with 1 being low and 5 being high. The result is then multiplied by the weight. For example, bid A was given a score by the board of 5 out of 5 for criterion 1. Multiplying the score by the weight of 10 gave bid A an overall score of 50 on that criterion.

Criteria		Weight	Bidders					
			A	B	C	D	E	F
1	Reputation of the company	10	50	10	40	40	50	30
2	Reputation of project manager	30	150	30	150	90	90	120
3	Experience with related projects	20	60	20	100	80	60	80
4	Quality of work performance	20	80	40	80	100	60	100
5	Bid price	50	200	150	250	250	100	150
6	Estimated duration of project	40	120	200	80	120	40	40
		Total	_____	_____	_____	_____	_____	_____

### Questions:

1. Which of the bidders would your group recommend for a contract award?
2. What is your group's rationale for this decision?
3. What are the implications for LGs in getting the best quality products and services when a contract award must go to the lowest bidder on price?

## 12.4 ROLE PLAY: THE CONTRACT RETAINAGE DISPUTE

### TIME REQUIRED

120 minutes

### PURPOSE

Compare approaches and develop skills in creating conditions favourable for settling a dispute over payment for contract performance.

### PROCESS

Tell participants they will be taking part in a role-play that involves a dispute between a LG and an underground utility construction contractor. Tell participants that three groups are needed for the exercise:

- The first group represents the LG
- The second group represents the utility contractor
- The third group consists of process observers

Handout copies of the situation and group tasks on the next page and ask participants to read them. After participants have read the handout, ask them to count off in threes to create the three groups. Remind them that the first group represents the LG, the second group the contractor, and the third group the process observers. Assign Groups 1 and 2 to separate work areas. Ask participants in Group 3 to reconfigure the training room into a conference room in readiness for use by Groups 1 and 2. Observers will be seated in chairs around the sides of the room where they can see and hear clearly what is taking place.

At the end of 45 minutes, recall Groups 1 and 2. Remind the two groups of their assigned task and that they have 20 minutes to find a way to resolve the dispute. At the end of 20 minutes, ask for reports from the observers. Following the observers' feedback and participant discussion, ask a question such as the one stated below to close the exercise.

### Questions

1. How effective are contract compliance penalties in compelling contractors to complete projects on time?
2. What rewards for early completion of projects might be written into construction contracts as an alternative to compliance penalties?

## The Contract Payment Dispute

### THE SITUATION

Nine months ago, a contract was awarded by the LG to a construction company to replace water lines along a 10 kilometer section of road serving a commercial district of the LG. The contractor agreed to complete the project in six months. This was important to the LG since continuing work beyond six months would extend the project into the rainy season, ensuring delay and perhaps shutdown of the project. A standard provision of every utility construction contract awarded by the LG authorizes the LG to retain up to 10% of a contract award for failure of a contractor to complete the project on time.

The contractor was slow to get the project underway. One reason was a decision by the contractor to complete the relocation of sewer lines in another part of town to avoid incurring a penalty for not finishing that project on time. Another reason was delay by the LG in issuing the customary notice to proceed, in order to give the LG a few weeks to notify business owners who would be inconvenienced while the water lines were being installed. These factors resulted in the loss of about thirty days in getting started with the project.

Five months into the project, the contractor was notified in writing by the LG that work on the project would have to stop for several days. The reason given was to restore the road for use as the principal route for an important holiday parade. The contractor agreed to move its equipment and place safety fences around the work areas but pointed out that the stoppage might result in missing the completion date specified in the contract.

As predicted, the project was completed three weeks late. In response, the LG invoked its contract right to retain 10% of the total payment due to the contractor. The angry contractor demanded to be paid the full amount claiming the delay was caused by the LG and that there was nothing in the contract about a parade. In reply, the LG's project manager countered that the contractor should have known the LG had been sponsoring this holiday parade for years and should have made allowance for it in project scheduling.

Further complicating the issue are these facts. The contractor did not issue an official schedule amendment for approval by the LG when it became clear that the project would not begin on time. On the other hand, the LG did not require the contractor to submit regular progress reports. Formal progress meetings with contractor representatives were not held during the term of the contract. And there was no reporting by the LG's project manager to senior management officials on matters of performance, scheduling, or potential contract deviations. Finally, moving equipment and setting up fences in preparation for the construction and later restoring the area, at the LG's written request, resulted in a non-reimbursed cost to the contractor of approximately 10,000 Euros.

Representatives of the LG's project management team are meeting today with their contractor counterparts in an attempt to find a way to resolve the dispute.

## Tasks

**Group 1.** As representatives of the LG's project management team, your task is to find a way to resolve the dispute in a way that benefits the LG without further alienating a contractor with a record of good performance on LG projects. You will have forty-five minutes to develop the LG's position and select a primary spokesperson (project manager for the LG's project team). Following the planning period, you will have twenty minutes to work with representatives of the contractor team to resolve the dispute.

**Group 2.** As representatives of the contractor's project management team, your task is to find a way to resolve the dispute in a way that benefits the company without jeopardizing the company's eligibility to bid on future LG projects. You will have forty five minutes to develop the contractor's position and select a primary spokesperson (project manager for the contractor's project team). Following the planning period, you will have twenty minutes to work with representatives of the LG team to resolve the dispute.

**Observers.** Your task is to observe the interaction between the two teams and to answer each of the questions on the attached observer worksheet. During the planning phase of the exercise, you will be responsible for setting up the training room in conference room fashion with representatives of the two teams seated across from each other at the conference tables. After the 20 minute dispute resolution phase of the exercise, be prepared to report on your observations and lead a discussion of team reactions and self-appraisal.



## Observer's Worksheet

1. What effort was made and by whom to create a hospitable climate for resolving the dispute?

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2. What were the most effective arguments used by the LG to support its position?

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3. What were the most effective arguments used by the contractor to support its position?

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4. What degree of success was achieved in resolving the dispute and how was this accomplished?

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# 12.5 CRITICAL INCIDENT EXERCISE: THE SOLE SOURCE DEBATE

## TIME REQUIRED

120 minutes

## PURPOSE

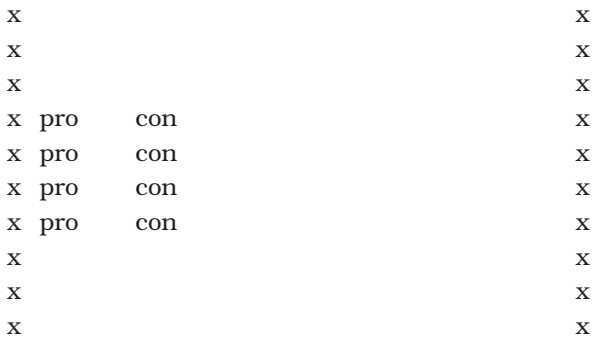
Develop a deeper understanding of a controversial procurement decision.

## PROCESS

Hand out the critical incident (attached) about a finance director who feels compelled to engage in a questionable procurement practice. After participants have read the incident, divide them into two debating teams. Assign one team the “pro” position that agrees with the finance director’s action and the other team the “con” position that disagrees with it.

Next, create several subgroups within each debating team of about four participants each. Ask each subgroup to develop arguments for its assigned position (pro or con) working independently of other subgroups. After about fifteen minutes, end the discussion and ask each subgroup to select one of its members as its spokesperson.

While subgroups are meeting, set up two facing rows of two to four chairs (depending on the number of subgroups created for each position) for spokespersons for each team’s subgroups. Line up the remaining participants behind their spokespersons. The debate setup would look like this:



Begin the debate by having the spokespersons present their views. Refer to this process as “opening arguments.” After all of the opening arguments have been made, stop the debate and reconvene the original subgroups. Ask each of the subgroups to strategize about how to counter the opening arguments of the opposing side. Again, have each subgroup select a spokesperson, preferably a new one.

Resume the debate by having the spokespersons give “counter arguments.” As the debate continues, encourage other participants to pass notes to their debaters with suggested arguments or rebuttals. Also, encourage them to applaud or cheer for the arguments of their respective spokespersons.

End the debate when subgroups seem to be running out of arguments or rebuttals. Instead of announcing a winner, reconvene the participants by having them pull chairs into a circle. Integrate the group by having people from different teams sit next to one another. Use a few questions to stimulate discussion of the exercise and its learning value. Here are a few examples:

- When faced with a situation like this and in the absence of any legal guidelines, is there a high, universal standard of public good to guide a finance director in choosing the right thing to do? What is this standard?
- The facts of this situation assume that there is no law that stipulates the conditions under which LG is prevented from contracting sole source. On the other hand, what if such a law did exist in this situation? .

## Critical Incident: We Have Little Choice!

A LG is nearing the end of a contract for street construction and is faced with a large cash outlay to meet its obligation to the street contractor. The due date for payment coincides with a low point in the LG's cash position owing to delay in receiving funds pledged to the LG by the national Ministry of Finance. Following the LG's custom in similar situations in the past, the finance director decides to delay payment to the contractor on the implicit understanding that the next phase of street construction will be handled as an extension to the existing street contract. When questioned about the decision not to advertise the project for competitive bidding, the finance director is reported to have said, "We have little choice. The LG would not be in this position if we could count on the ministry to fulfil its financial commitments to us on time."

## 12.6 GUIDED DISCUSSION: UNRESOLVED PROCUREMENT ISSUES

### TIME REQUIRED

75 minutes

### PURPOSE

Identify the unresolved issues in managing LG procurement functions and what can be done to resolve them.

### PROCESS

Tell participants they will be engaging in three consecutive guided discussions about issues they currently face in managing the procurement function in their LGs.

Ask three members of the group to volunteer as discussion leaders. Give each of the selected leaders one of the following questions as his or her topic for discussion. The discussion of the three topics should be in the order presented below.

Tell discussion leaders they each have twenty minutes to lead a discussion of the assigned topic. Encourage discussion leaders to ask follow-up questions when needed to energize or refocus the group. Suggest that discussion leaders, or another member of the group, capture the most important ideas from the discussion on a flip chart as a stimulus for subsequent discussions.

#### **Question 1:**

*What are some of the unresolved issues facing your local government in managing the procurement function?*

#### **Question 2:**

*What options does your local government have for resolving these issues?*

#### **Question 3:**

*What can local governments do individually or collectively to implement the most promising of these options?*

**Trainer's note.** *Keep in mind that these questions may provoke controversy and debate among participants. Discussion leaders may need some help from you to keep discussions on track.*

## 12.7 CLOSING EXERCISE: LEARNING TRANSFER

### TIME REQUIRED

30-45 minutes

### PURPOSE

This exercise is to help participants transfer the learning experiences of the workshop into their real-world activities as finance directors. The focus of this exercise is on raising expectations, engaging in realistic planning and making personal commitments. Most of the work is to be done on a personal basis with some interpersonal sharing.

### PROCESS

Spend at least half an hour at the end of the workshop to focus the attention of participants on important learnings and encourage them to continue experimenting with these learnings in their management activities. Begin by giving participants about fifteen minutes to work independently on a simple learning transfer questionnaire.

When participants have completed the questionnaire, ask them to share quickly with the group two or three things they intend to do differently in their roles with respect to public procurement to close the workshop.

*Trainer's note. It is generally agreed that the purpose of training is to improve the way people do things by showing them a better way. In fact, the success of a training experience can be measured by the amount of personal growth and change that takes place both during training and after the training is over.*

*Commitments to learning and change made at the close of a workshop can help participants overcome learning resistance in themselves and in the work environment. A trainer can help learners make a successful transition from the world of learning to the world of doing through a few simple planning exercises.*

## A LEARNING TRANSFER QUESTIONNAIRE

Take a few minutes to reflect on public procurement, the new ideas you encountered in this workshop, and how you feel about them. Then, in the space below, write a sentence or two to describe something interesting you have learned about yourself during this workshop.

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Based on what you have learned about yourself and the many possibilities for change presented by this workshop, what two or three things do you intend to do differently that involves public procurement?

1. 

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2. 

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3. 

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Finally, what obstacles in yourself or in your work environment do you expect to experience during your efforts to implement these changes? What will you do to remove or minimize these obstacles?

### **Expected Obstacle**

1. 

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2. 

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3. 

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**Action to Remove It**

1. \_\_\_\_\_  
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2. \_\_\_\_\_  
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3. \_\_\_\_\_  
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