

Committee:	Date:
Efficiency and Performance Sub Committee	10 September 2014
Subject: Central Support Service Costs and their Allocation or Apportionment to the City's Activities	Public
Report of: The Chamberlain	For Decision

Summary

The pressure for cost reductions is visited on central departments in the same way as front line services with the application of budget reductions and efficiency programmes. For example, making the same 12.5% budget reductions as front line services - phased over the years 2011/12 to 2013/14, and most recently preparing proposals for budget reductions/increased incomes as part of the Service Based Review.

As well as this general budget pressure being applied to improve value for money (VFM), Members have received a number of specific reports in relation to the VFM of central services, namely;

- comparisons with CIPFA VFM indicators;
- staff costs charged to projects; and
- demand management of the Comptroller and City Solicitor's services.

These reports have led to a request from Members for information on how, and why, central support service costs are 'recovered' from the City's various activities. This report addresses this request by outlining how central support service costs, totalling some £64.7m in 2013/14, are recovered from the City's various activities in accordance with proper accounting practice through apportionments or allocations.

A number of the methodologies for the recovery of costs have been identified for review and updating to improve the appropriateness of distributions, in particular IS Services, City Procurement and the Town Clerk's Department. However, it is important to ensure that any changes to the methods of recovery do not turn what is already a complex and time-consuming process into a bureaucracy whose costs outweigh any benefits achieved. The target is for the reviews to be completed within 12 months.

It should also be recognised that changing the methods of recovery will, of themselves, only redistribute costs – not further reduce them.

Recommendations

Members are requested to note:

- the bases of apportionment and allocations used to 'recover' central support service costs;
- that a number of the methodologies for the recovery of costs will be

reviewed and updated to improve the appropriateness of distributions - in particular IS Services, City Procurement and the Town Clerk's Department. The target is for the reviews to be completed within 12 months; and

- that pressures are being applied to reduce budgets/increase value for money of central departments which in turn will decrease the costs to be recovered.

Main Report

Background

1. The pressure for cost reductions is visited on central departments in the same way as front line services with the application of budget reductions and efficiency programmes. For example, by making the same 12.5% budget reductions as the front line services - phased over the years 2011/12 to 2013/14, and most recently by preparing proposals for budget reductions/increased incomes as part of the Service Based Review. The total savings proposals relating to central support services (Chamberlain, Town Clerk, Comptroller and City Solicitor, and City Surveyor) as part of the Service Based Review are £4.5m, representing 20% of the total proposals. In addition, these Chief Officers have put forward savings proposals totalling £2.7m (12% of total proposals) in relation to their activities which do not form part of central support services.
2. As well as this general budget pressure being applied to improve value for money (VFM), Members have received a number of specific reports in relation to the VFM of central services as outlined below.
3. A report on comparisons with CIPFA VFM indicators suggested that costs are relatively high compared to the local authorities in the comparator group due to the nature of the City's corporate structure, the mix of its activities/services, and the strategic prioritisation of activities at other local authorities. The measures being taken by each Chief Officer to improve VFM were also set out in the report.
4. Staff costs charged to projects was the subject of two reports which considered the reasonableness of costs in comparison with the nature and size of schemes, whether officer time/resource is being used to best effect, and that all legitimate costs are being charged to externally funded schemes. The reports generally concluded satisfactorily on each point.
5. The Comptroller and City Solicitor has reported on proposals to manage demand for his department's services. He has introduced a Professional Services Protocol with the aim of ensuring that legal resources are deployed in the most efficient and cost effective manner possible. The protocol includes sections on client care standards, indicative timescales for major areas of work, the roles and responsibilities of the Comptroller and City Solicitor's Department and client departments, charging, performance monitoring, and the storage of

papers and documents. In support of the protocol, departments are being provided with quarterly workflow reports, and the Comptroller and City Solicitor is attending other Chief Officers' Departmental Management teams on an annual basis.

6. These reports have led to a request by Members for information on how, and why, central support service costs are 'recovered' from the City's various activities and this is outlined in the following sections.

What are Central Support Service Costs and why are they important?

7. Central support service costs are additional to the direct costs of running front line services. They include, for example, financial support from the Chamberlain's Department, legal support from the Comptroller and City Solicitor's Department, and office accommodation provided for both front line services and central departments. Central support service costs have to be included as part of the total costs of front line services or as part of the 'Corporate and Democratic Core' – which is explained in paragraphs 18 to 20.
8. The costs of central support services are initially held within 'Guildhall Administration' before being wholly recovered through apportionments or allocations. Changes to the methods of recovery would, of themselves, only redistribute costs – not further reduce them.
9. In the budgets of most recipients, the costs of central support services are generally treated as central risk so that departmental services are not directly affected by the expenditure – i.e. the costs do not count against recipient Chief Officers' cash limited local risk budgets. However for ring-fenced accounts, such as the Police and the Housing Revenue Account, the costs are a direct charge against available resources. In committee budgets, the costs are usually labelled as 'central recharges' or 'support services'.
10. The following table summarises the 2013/14 central support service charges from Guildhall Administration to City Fund, City's Cash and Bridge House Estates. The charges relate to a broad range of services including financial, legal, human resources, property, policy analysis and advice, committee administration, public relations, accommodation and insurances.

	City Fund	City's Cash	BHE	Total
	£m	£m	£m	£m
Town Clerks Dept. - General	4.8	3.1	0.3	8.2
Town Clerk's Dept. - Public Relations	1.0	0.6	0.1	1.7
Comptroller and City Solicitor	2.1	0.9	0.2	3.2
Chamberlain's Dept. - General	5.1	2.8	0.6	8.5
Chamberlain's Dept. - City Procurement	1.0	0.7	0.2	1.9
Chamberlain's Dept. - Insurances *	7.6	3.6	1.6	12.8
Chamberlain's Dept. - IS	6.1	3.1	0.4	9.6
City Surveyor - Guildhall Complex including Walbrook Wharf offices	5.6	6.4	0.4	12.4
City Surveyor - Management of repairs and maintenance works programmes	1.3	1.4	0.3	3.0
City Surveyor - Corporate Property Advice etc.	1.0	1.1	0.4	2.5
City Records Office	0.6	0.3	0.0	0.9
	36.2	24.0	4.5	64.7

* Approximately £10m of the insurance premiums relate to investment or operational properties of which some 75% is recoverable through service charges (depending on occupancy levels).

11. The £67.4m can also be analysed by type of expenditure/income as follows:

	2013/14
	£m
Expenditure	
Employees	37.9
Premises (excluding insurance)	11.0
Premises insurance	10.0
Supplies and services (excluding insurances)	10.2
Liability/other insurances	2.8
Total Expenditure	71.9
Income from fees and charges	(7.2)
Net Expenditure	64.7

12. These support costs are included as part of the total costs of a service or activity to ensure all of the expenditure associated with delivering a service/activity is reflected. In this way, reporting is on a consistent basis throughout the City. It provides a clearer basis on which to benchmark costs with other organisations and on which to assess value for money in service delivery (e.g. CIPFA VFM indicators).

13. The principle of Total Cost is particularly important in the development of activity based costing for commercial operations, such as the Barbican Arts Centre, where charges should cover both direct and indirect costs (provided market factors and/or Government regulations allow), and where costs are recovered from third parties, for example, lessees' service charges (subject to the provisions of the leases). Also, when considering alternative service delivery models, the City needs to ensure that all its own relevant costs are taken into account.
14. A further example of where the City needs to understand total cost is in respect of discretionary income. It is important to understand the relationship between total cost and the contribution generated from discretionary fees and charges, for example, car parking. This informs decisions on policy, ensures transparency and enables more effective financial management of the discretionary services themselves.

How does each service include an appropriate share of all Central Support Service Costs?

15. A number of expressions are used for the different ways in which Support Services and other overhead costs are distributed:

Allocation – where the expenditure can be directly and specifically related to an activity, for example, certain insurance premiums relate to specific services but are initially coded centrally to monitor and control total insurance costs.

Apportionment – where the total expenditure to be borne by a group of services is a matter of fact, but the separate amount to be borne by each individual service is not. For example, for the cost of Support Services where the charges passed on are based on the actual time spent supporting the individual service. In addition, the distribution needs to recognise the differing extents to which the various services contribute to the need for the support or benefit from it, for example, the apportionment of Internal Audit costs.

Charging – where payments or transfers are made under contracts, service level agreements or trading agreements.

16. The 'Service Reporting Code of Practice for Local Authorities' issued by the Chartered Institute of Public Finance and Accountancy forms part of proper accounting practice. This code indicates that support services should be allocated, apportioned or charged to users in accordance with the following seven general principles.

1.	Complete recharging of overheads	All overheads not defined as Non Distributed Costs or Corporate and Democratic Core should be fully recharged to service expenditure headings. Note that Corporate and Democratic Core costs should receive an appropriate allocation of overheads.
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2.	Correct recipients	The system used must correctly identify who should receive overhead charges.
3.	Transparency	Recipients must be clear what each recharge covers and be provided with sufficient information to enable them to challenge the approach being followed.
4.	Flexibility	The recharging arrangements must be sufficiently flexible to allow recharges to be made regularly enough and to the level of detail appropriate to meeting both users' and providers' needs.
5.	Reality	Recharging arrangements should result in the distribution of actual costs which are based on fact. Even if the link cannot be direct, reality should be the main aim.
6.	Predictability/Stability	Recharges should be as predictable as possible, although there will be practical limitations to this.
7.	Materiality	It is unlikely that a simple system will be adequate to meet all of the requirements noted above. However, due regard should be made to materiality to minimise the costs involved in running the system.

How are the City's Central Support Service Costs apportioned or allocated?

17. The following table outlines the method of cost recovery for each of the City's central support services.

Support Service	Method of Recovery	Comments
Town Clerk's Dept. - General	Estimated time spent.	Reviewed annually for new services and restructures but underlying percentages are somewhat dated. Would also benefit from greater granularity, e.g. committee services, human resources, and contact centre.
Town Clerk's Dept. – Public Relations	Based on Public Relations workplan. Allocated direct to services where possible with only the corporate elements routed through central support services. Corporate element apportioned in proportion to the total of central support service charges.	Updated annually.
Comptroller and City Solicitor	Timesheets	By definition, the use of timesheets should ensure that the distribution of charges remains relevant.

Chamberlain's Dept. – General	Five Finance Units – estimated time spent; Capital Team – project numbers; Corporate Treasury – value of investments; Internal Audit – workplan; Pay Office – headcount; Pensions – majority allocated to City of London Pension Scheme with apportionments for Police and Teachers schemes based on estimated time spent; CBIS Team – general ledger transactions; Income Allocation – transaction numbers; Revenue Collection – number of invoices; Support Services – overhead on remainder of department.	A major review was undertaken for the 2013/14 outturn and the new methodology will be updated annually.
Chamberlain's Dept. – City Procurement	Based on budgets transferred from departments at inception of service	Now that the City Procurement service has become established, a more representative methodology for the apportionment of costs will be developed.
Chamberlain's Dept. – Insurances	Premises – allocated; Liability insurances – headcount; Engineering – allocated; Motor – vehicle numbers; staff costs – an overhead on the overall Chamberlain's Department charges.	Updated annually.
Chamberlain's Dept. – IS	Usage of corporate systems; numbers of PCs; and local systems.	The apportionments are largely based on data from before the transformation of IS Services as the interim period has been a moving target. As the service enters a period of relative stability, the methods of apportionment will be reviewed and updated.
City Surveyor - Guildhall Complex including Walbrook Wharf offices	Areas occupied with some weightings applied to differentiate areas with higher or lower running costs (e.g. ceremonial, plant and equipment).	Updated annually with the 2013/14 outturn having taken account of the vacation of Guildhall Yard East and the consequent movements within the Guildhall North and West Wings.

City Surveyor – Management of repairs and maintenance works programmes	Timesheets	By definition, the use of timesheets should ensure that the distribution of charges remains relevant.
City Surveyor - Corporate property advice; advice on repairs, maintenance and improvement programmes, historic buildings, and energy conservation	Timesheets	By definition, the use of timesheets should ensure that the distribution of charges remains relevant.
City Records Office (CRO)	Overhead on Town Clerk's - General	The CRO is now integrated with the London Metropolitan Archives (LMA). However, whilst the LMA is wholly a City Fund cost, the City Records Office is apportioned between the funds. As the CRO was originally part of the Town Clerk's Department, the apportionment of the CRO costs continues to follow that route.

Corporate and Democratic Core

18. Part of central support service costs relate to the Corporate and Democratic Core (CDC) which is defined as comprising two divisions of service: Democratic Representation and Management (DRM) and Corporate Management (CM).
19. DRM concerns corporate policy-making and all other Member-based activities. CM concerns those activities and costs that relate to the general running of the City.
20. These costs relate to the infrastructure that allows services to be provided, whether by the City or not, and the information required for public accountability. To reflect their corporate purpose, the costs of CDC are not generally distributed across individual services but are met from the Finance Committee's budgets for each fund.

Non Distributed Costs

21. A limited number of costs are excluded from allocation or apportionment to services. The two main exclusions are unused and unusable shares of assets and certain retirement benefits (e.g. past service costs and gains or losses on settlements). Again, any such costs would be included in the Finance Committee's budgets for each fund.

Conclusion

22. Whilst the arrangements for recovery of central support service costs broadly achieve the seven general principles at paragraph 16, there are three services

in particular where the appropriateness of the distributions requires review and updating. These relate to IS Services, City Procurement and the Town Clerk's Department. However, it is important to ensure that any changes to the methods of recovery do not turn what is already a complex and time-consuming process into a bureaucracy whose costs outweigh any benefits achieved.

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