

<b>Committee(s):</b> Finance Committee – For information	<b>Dated:</b> 24/09/2024
<b>Subject:</b> Review of Recharges	<b>Public</b>
<b>Which outcomes in the City Corporation’s Corporate Plan does this proposal aim to impact directly?</b>	All
<b>Does this proposal require extra revenue and/or capital spending?</b>	<b>No</b>
<b>If so, how much?</b>	<b>N/A</b>
<b>What is the source of Funding?</b>	<b>N/A</b>
<b>Has this Funding Source been agreed with the Chamberlain’s Department?</b>	<b>N/A</b>
<b>Report of:</b> Caroline Al-Beyerty, Chamberlain and Chief Finance Officer	<b>For Information</b>
<b>Report author:</b> Radwan Ahmed, Interim Assistant Director – Strategic Finance, Financial Services Directorate	

### Summary

Recharges relates to the distribution of costs for central support services across the City of London Corporation. The bases and methodology for recharges was last reviewed in FY2014/15. Since then, there have been several reorganisations e.g. (the Target Operating Model, and the new Ways of Working), such that many of the apportionment bases no longer reflect the business set-up for the Corporation’s institutions and service departments. Additionally, senior stakeholders have often challenged the correlation between services received and the subsequent charges.

This report provides an update to members on the work undertaken and outcomes of the Recharges Review in FY 2023/24, to address these concerns about the existing process.

### Recommendation(s)

Members are asked to:

- Note the report, including the proposed changes to the way Guildhall Admin costs are distributed being considered by senior finance colleagues across the City of London Corporation, on how recharges are processed from FY2024/25 onwards.

## **Main Report**

### **1. Background**

- 1.1 'Guildhall Admin' refers to the block of central support services such as (but not restricted to) HR, Procurement, Finance, Legal, IT, Professional Surveyors and Engineers, and Democratic Services that support the core business activity across the multiple entities that comprise the Corporation of London's group structure, including City Fund – the Local Authority, City's Estate and City Bridge Foundation (CBF). The approved budget for this group of services is £49.7m in FY2024/25 (£57.7m in FY2023/24). A large, centralised team allows the Corporation to retain in house expertise across a range of professional disciplines that would be economically unviable individually.
- 1.2 The Chamberlain, as the Chief Financial Officer for all these entities, has a fiduciary duty to ensure that these central costs are shared on an equitable basis. This is achieved by the process of 'Recharges'. There are several inter-departmental charges (either ad-hoc or service agreements) across the Corporation group which are recharged directly based on local agreements. These are outside of the scope of this review.

### **2. Why a review is necessary**

- 2.1 Established practise at The City has been to apportion the actual costs incurred within this central administrative block at the end of each financial year, once the totality of that spend has been confirmed. The basis of apportionment is complicated and requires hundreds of calculations across several workbooks. These methodologies and allocations had not been reviewed in detail since 2015.
- 2.2 Following the governance review, the Target Operating Model (TOM) (noting changes are still on-going and will have further implications) and the new Ways of Working, many of the apportionment bases no longer reflect the business set-up for the Corporation's institutions and service departments.
- 2.3 As recharges are processed during a time pressured annual closedown period, there has been little or no time for any qualitative review; resulting in a lack of transparency between recharges and the services received. This is particularly pronounced for ring fenced funds such as City Bridge Foundation, the Housing Revenue Account (HRA) and City Police, where the charges must be met from existing resources.
- 2.4 Lastly, there is a detrimental cashflow implication to City's Estate, from incurring the costs as incurred during the year pending the year end recharge exercise.

### **3. Objectives of the review**

- 3.1 The aim of the review is to find an optimal balance between simplifying the complex and cumbersome recharge methodology and having a robust apportionment mechanism that equitably distributes the cost of the Guildhall Admin group of services across the City Corporation group. Further, there is a

need for transparency of apportionment rationale, and the services to which apportioned costs relate.

- 3.2 The review also seeks to eliminate a significant critical path activity, that impacts all parts of the City of London's entities during the time pressured closedown period by smoothing the activity periodically across the year, and consequently the impact on cashflow.

#### 4. Scope

- 4.1 A full list of areas within the scope of the recharges review is listed in Appendix 1.

- 4.2 Exceptions or exemptions from this review are:

- **Within Committee** – these are usually holding accounts within a committee which are then apportioned across Divisions of Service within that committee.
- **Within Fund** – these costs incurred by a service committee on behalf of another committee but within the same fund.
- **Across Fund** – these costs incurred by a service committee on behalf of another committee but in a different fund.
- **Capital Depreciation** – City Fund asset depreciation is not included in the sums that are recharged, because of the statutory override provision relating to local authority accounting.
- **Insurance** – insurance premiums allocated across all services.
- **Inter departmental charges** – Relate to additional work requested from other departments outside the usual service agreement; where these local agreements exist, they are excluded from the recharges process.

#### 5. Approach

- 5.1 The approach is summarised as:

- Invitation for views from senior finance colleagues (Heads of Finance and Senior Accountants) across all the Services, Departments and Institutions to provide feedback on the way recharges has worked at the City of London, and the impact on their services,
- Baselineing and documenting existing approach,
- Review of recharge methodology for each area, assessing the relevance and appropriateness,
- Discuss and validate activity and services provided, and the costs of these services with both service managers and Chamberlain's Financial Services Division (FSD) colleagues, including accounting for ad-hoc local arrangements,
- Request, obtain and review locally held data on activity such as KPIs, user numbers, unit costs etc,
- Consideration of alternative methods that may reflect the business activity and/or consumption better, and
- Seek to streamline the apportionment process where possible.

## 6. Outcomes

6.1 The following tables (1 and 2) summarise by fund, the impact of the changes as a result of this review against the budgets for FY2023/24 and FY2024/25 (Original vs Revised), and the actual recharge for FY23/24 (Outturn).

Total Central Recharges	2023/24				2024/25		
	Original	Revised	Variance	Outturn	Original	Revised	Variance
City Fund	29,879	30,245	366	27,945	26,142	25,634	(508)
City's Estate	24,643	24,240	(403)	23,017	20,342	21,550	1,208
City Bridge Foundation	3,216	2,778	(438)	2,534	3,166	2,466	(700)
	<b>57,738</b>	<b>57,263</b>	<b>(475)</b>	<b>53,496</b>	<b>49,650</b>	<b>49,650</b>	<b>0</b>

**Table 1:** Summary by Fund of the change in recharges by £,000s

Total Central Recharges - Percentage	2023/24				2024/25		
	Original	Revised	Variance	Outturn	Original	Revised	Variance
City Fund	51.7%	52.8%	1.1%	52.2%	52.7%	51.6%	-1.1%
City's Estate	42.7%	42.3%	-0.4%	43.1%	41.0%	43.4%	2.4%
City Bridge Foundation	5.6%	4.9%	-0.7%	4.7%	6.4%	5.0%	-1.4%

**Table 2:** Summary by Fund of the change in recharges in %.

6.2 Table 3 below, summarises the changes in recharges to City Police, the Housing Revenue Account (HRA) and City Bridge Foundation (CBF).

Recharge Activity	Police					HRA					CBF				
	2023-24		24-25			2023-24		24-25			2023-24		24-25		
	Original £'000's	New £'000's	Outturn £'000's	Original £'000's	New £'000's	Original £'000's	New £'000's	Outturn £'000's	Original £'000's	New £'000's	Original £'000's	New £'000's	Outturn £'000's	Original £'000's	New £'000's
<b>Guildhall Complex</b>	1,325	1,344	1,325	1,121	1,268	0	0	0	0	0	341	243	233	286	84
<b>Walbrook Wharf</b>	11	0	0	11	0	0	0	0	0	0	0	0	0	0	0
<b>Commercial Services</b>	251	328	295	273	341	114	85	76	124	88	98	73	66	126	76
<b>DiTS (Information Technology)</b>	277	0	0	0	0	391	408	419	328	369	564	625	643	407	596
<b>Film Liaison</b>	0	0		0	0	0	0	14	0	0	12	12	7	12	12
<b>City Surveyors Projects</b>	86	86	79	91	91	90	90	85	98	98	168	168	135	176	176
<b>Police Pensions</b>	80	80		80	80	0	9		0	0					
<b>Support Services</b>	792	1,065	921	1,185	753	491	828	712	453	676	2,033	1,657	1,450	2,159	1,522
	<b>2,822</b>	<b>2,903</b>	<b>2,620</b>	<b>2,761</b>	<b>2,533</b>	<b>1,086</b>	<b>1,420</b>	<b>1,306</b>	<b>1,003</b>	<b>1,231</b>	<b>3,216</b>	<b>2,778</b>	<b>2,534</b>	<b>3,166</b>	<b>2,466</b>
<b>Admin Buildings Bullets</b>	110	110	129	144	144	0	0	0	0	0	0	0	0	0	0
<b>DiTS Bullets</b>	32	32	31	6	6	53	53	51	11	11	0	0	0	0	0
	<b>2,964</b>	<b>3,045</b>	<b>2,780</b>	<b>2,911</b>	<b>2,683</b>	<b>1,139</b>	<b>1,473</b>	<b>1,357</b>	<b>1,014</b>	<b>1,242</b>	<b>3,216</b>	<b>2,778</b>	<b>2,534</b>	<b>3,166</b>	<b>2,466</b>

**Table 3:** Summary of Charges (old bases vs New basis FY23/24 & FY24/25 for City Police, HRA and CBF., based on approved budgets, and actual recharges on the new methodology

6.3 In addition to the changes arising from the review of apportionment methodologies, the Strategic Finance team have prepared a document which includes a link to each individual calculation, and a schedule of services relating to each area ensuring that there is a clear understanding of how recharges are calculated and the services to which they relate. This document has been circulated to the Corporations Finance Leadership Group (FLG)– a group of senior finance professionals from across the Corporation and its Institutions, including the CFO, Finance Directors and Heads of Finance.

## 7. Regular review and future proposals

7.1 To ensure that the underlying data and apportionment methods remain current and a true reflection of service usage, each recharged area will be reviewed once every three years on a rolling schedule. However, where significant operational changes are made, these will be reviewed and incorporated in between review periods.

7.2 A key issue arising from this review has been the current practise of waiting for expenditure to be finalised, and then recharged during the busy financial closedown period. There is wide consensus that this should be done earlier in the year, for which the following options are being considered.

- **Option 1 - Fixed Charge, agreed at budget setting** - To calculate the recharges based on the budgetary sums for the 'Guildhall Admin' block of services, and post at quarterly intervals during the year. No further adjustment would be made for differences arising over or underspends, which would be retained within the Finance Committee budget line.
- **Option 2 - Actual Charge, posted quarterly** - As above (1), but with an actual adjustment posted in the first quarter after the end of the year, alongside the first quarter recharge based on that years budgetary sums.
- **Option 3** - To post an **estimated amount based on the 3rd quarter budget monitor** in the 11th period of each financial year, with any differences posted in the first quarter of the following year.
- **Option 4** - In order to eliminate the necessity for the suite of calculations and spreadsheets, a further proposal is **to apply a fixed percentage** based on this recharges review, across all Guildhall Admin budgets (adjusted for expenditure items that are charged and/or funded by separate agreement) to each service and institution. The percentage allocation would be reviewed every three to five years (or less where there are significant operational changes). This fixed sum could then be allocated to either budgets or actuals as outlined in options 1 to 3 above.

7.3 A summary table of the advantages and disadvantages are included in Appendix 2. Our view is that option 1 is the best fit, as this significantly simplifies the current recharges process, provides planning certainty to institutions, and supports better cash flow distribution across the City of London Corporation.

7.4 Senior finance officers were being consulted at the time of writing this report, with a view to the agreed methodology to be applied and posted for the first two quarters by the end of Q2.

## 8. Financial implications

8.1 The financial implications are discussed within the body of the report.

## **9. Resource implications**

9.1 There are no additional resourcing implications arising from this review.

## **10. Legal implications**

10.1 The City Corporation is the corporate trustee of Charities and Sundry Trusts. It is required to manage conflicts of interest arising between the City Corporation and to the Charity/ Sundry Trust. The overriding principle is that decisions made on behalf of the City Corporation as trustee of the Charity or Trust must be taken in the best interests of Charity or Trust. This legal duty applies in relation to proposed financial transactions between the City Corporation as trustee and the City Corporation in its corporate capacity, and is known as the duty of 'single-minded loyalty'.

10.2 Additionally, with regards to CBF, The Supplemental Royal Charter adopted in June 2023 makes further reference that the Trustee "...maybe reimbursed from CBF's funds... reasonable expenses properly incurred by it ... when acting on behalf of CBF."

10.3 The revised calculations continue to support the discharge of these duties.

## **11. Risk implications**

11.1 There is a risk that a lack of regular review of the way Guildhall Admin charges are calculated, could result in a non-equitable distribution of costs across the City of London Corporation group. The proposed changes help mitigate that risk.

## **12. Equalities implications**

12.1 This proposal does not advantage or disadvantage any characteristic or protected groups.

## **13. Climate implications**

13.1 None

## **14. Security implications**

14.1 None

## **15. Conclusion**

15.1 This report sets out the outcome of the Recharges Review and confirms that the review objectives set out in section 3 of this report have been met. The review also sets out a way forward to ensure that apportionment methods continue to stay current and representative of business operations and eliminate the recharges process as a significant critical path activity during the time pressured annual closedown period.

### **Radwan Ahmed**

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**Appendix 1** – Recharges included within this review

**Appendix 2** – Summary of options for processing recharges