

Briefing Note concerning Recharges made to the Board in 2023/24 by City of London Services

Background

1. At the Markets Board meeting on 22nd July the 2023/24 Revenue Outturn Report for the Board was considered. Although the report was received, Members queried the £449k net overspending on recharges. This was principally due to significant variances in respect of charges for IT services from the Director of Information and Technology Services (DITS) and from the Commercial Services Team for contract management and transactional activities (CLPS) provided to the Markets Board. More details were requested for these two recharges.
2. It had been explained in the outturn report, that a review of the basis of apportionment for all central recharges, had been undertaken following implementation of the Target Operating Model (TOM) and the Governance Review. As a result, the basis of apportionment used had changed between the final budget for 2023/24 and the outturn 2023/24, so that even if overall cost for these services had remained the same, there would be variances due to the change in basis of apportionment. It had been decided that there was insufficient time to amend the Final Budget for 2023/24 for the change but the new basis of apportionment would be reflected in budgets going forward. Any increase in cost for 2023/24 would therefore be met by the centre, through deficit financing, and not impact on front-line services. This was the position for Markets Board.
3. Overall the total cost of these services had not significantly changed. The final budget for DITS recharges was based on a total cost of £8.49m and for the outturn recharge a total actual cost of £8.67m (a 2.1% increase). For CLPS the comparable figures were £1.94m for the final budget and £1.89m for the actual (a 2.5% reduction). So the principal driver of variation in the recharges was the change in basis of allocation.
4. In respect of the DITS and CLPS recharges, as the increase in costs was significant, Members asked for further information as follows:
 - a) Details of the method by which cost is allocated and how it has changed
 - b) Details of the calculations in respect of the Markets Directorate for these recharges

The purpose of this briefing note is to answer these questions.

Recharges to Markets Board for 2023/24

5. The Revenue Outturn Report for 2023/24 advised that the variance between the final budget for 2023/24 for capital and support service charges of £3.6m and the outturn for the year of £4.049m was £449,000. This can be analysed as follows:

Markets Board Recharges for 2023/24			
	Final Budget 2023/24	Outturn 2023/24	Variance
	£	£	£
IT Services (DITS)	211,000	467,171	256,171
Commercial Services (CLPS)	40,000	151,886	111,886
Guildhall Complex (3)	39,000	32,861	(6,139)
Central Departments (1)	752,000	801,127	49,127
Insurance	610,000	649,310	39,310
Capital Charges	1,776,000	1,774,532	(1,468)
City Surveyor Direct Recharge (2)	223,000	222,999	(1)
Film Liaison	26,000	26,265	265
Core & Democratic Recharge (4)	(77,000)	(77,000)	0
	3,600,000	4,049,151	449,151
Notes			
1 - Covers Chamberlain's department apart from DITS and CLPS; Town Clerk, Comptroller & City Solicitor. City Surveyor (property advice)			
2- Covers City Surveyor's management of FM services, cyclical works and minor improvement projects, and inspections.			
3- Covers accommodation costs of Markets team within Guildhall Complex			
4- Reallocation of costs to centre in respect of core LA function			

6. As can be seen from the above table the majority of the variance is accounted for by the first two lines relating to DITS and CLPS charges and this is the subject of the remainder of this paper.

Details of the Method of Cost Allocation and How it has Changed

7. The recharges review had revealed short comings in the basis of allocation currently being used for these services and reflected in the final budget as follows :
- **Commercial Services:** following a restructuring of the Commercial Services team, the previous methodology for apportionment no longer reflected the business model. To rectify this the Commercial Director supplied details on the complexity and time spent of managing contracts and as well as operational transaction details for each department to update the basis of allocation for the outturn.
 - **DITS:** the previous method of apportionment had been based on the nature and complexity of each element of service. This involved some subjective judgement and had become too complex and no longer reflected a good split of the work done by the team. It was decided that a 'fair' apportionment basis would be to use the number of licences held by each service. Each person who has an email account has a licence, so whilst the charge does not necessarily reflect the amount of IT usage it was deemed the easiest and simplest method of apportionment. This was the main reason that the Markets recharge had risen

Going forward, if this basis of apportionment is to be retained, a review will be undertaken to see if the 'cost' of the licence can be reduced for infrequent users. Initial work reveals only a small saving per licence of approximately £150 each would be made, as provision of service including security, whether it is used or not, is the main cost driver.

These changes in the basis of cost allocation largely explain the increase in cost as can be seen in the detail analysis provided in the next section

Details of the calculations in respect of the Markets Directorate for these Recharges

8. The analysis by Market for the two recharges (DITS and CLPS) is shown in the table below

Analysis by Market 2023/24 Financial Year

	Final Budget	Outturn	Variance
	£	£	£
<u>DITS</u>			
Directorate	14,000	15,333	1,333
Smithfield	77,000	191,455	114,455
Billingsgate	69,000	130,192	61,192
Spitalfields	51,000	130,192	79,192
	211,000	467,171	256,171
<u>CLPS</u>			
Smithfield	21,000	81,884	60,884
Billingsgate	12,000	30,248	18,248
Spitalfields	7,000	39,754	32,754
	40,000	151,886	111,886

9. For illustrative purposes Spitalfields Market recharges has been used and the detailed calculations for this market are shown on Appendix 2-4 attached. The same methodology was applied to the other two markets,
10. For DITS a detailed calculation of the Final Budget, various elements of the service were allocated separately with a 10% reduction for the institutions (principally schools, GSMD) for some elements, to reflect their own 'in house' IT staff. On review this was deemed unwieldy and not reflective of how the service was currently being delivered. For the actual 2023/24 the cost was based on the number of licences which was deemed less subjective and more reflective of what drives the cost of the service.
11. For CLPS the Final Budget recharge was allocated based on the Spitalfields share of AP transactions using 2021/22 as the base (recall budget for 2023/24 is compiled in 2022/23 so 2021/22 was the last full year of AP transactions). The new basis splits the cost of CLPS in total between the tendering and management of contracts, which is more labour intensive, based on a weighted score, and the operational function which was based on operational transaction detail. Both were supplied by the Commercial Director. The total share of the cost for Markets was computed and then Spitalfields share at 26.274% (based on its split of local risk gross spend on markets in total) was applied to arrive at the Spitalfields recharge.

Conclusion

12. Compared to the final budget the change in basis of allocation was the principal cause of the increase in cost to the Markets Board for 2023/24 for these services.
13. However, the impact on the Markets overall finances was minimal as the centre has agreed to pick up the cost for 2023/24, through deficit financing, and provide an increased budget allocation for budgets going forward.

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