

City of London Corporation Committee Report

Committee(s): Finance Committee – For decision	Dated: 18/02/2025
Subject: Review of Recharges – updated position	Non-Public report: For Decision
This proposal: <ul style="list-style-type: none"> • provides business enabling functions 	Providing Excellent Services
Does this proposal require extra revenue and/or capital spending?	Yes
If so, how much?	£240k
What is the source of Funding?	General Fund Reserves
Has this Funding Source been agreed with the Chamberlain’s Department?	Yes
Report of: Caroline Al-Beyerty, Chamberlain and Chief Finance Officer	
Report author: Radwan Ahmed, Interim Assistant Director – Strategic Finance, Financial Services Directorate	

Summary

An exercise was undertaken in FY2023-24 to review the way recharges were calculated and accurately reflect current operating arrangements. This resulted in changes to how recharges were apportioned across the City Corporation group. At the Finance Committee meeting of September 24th, 2024, several Members expressed concern that the process for recharges in the financial year 2024/25, as set out in the report, would require in-year budgetary changes. It was felt that this was unreasonable and could set a dangerous precedent. This paper proposes options to remediate those concerns, which have been identified as having only a detrimental ‘bottom-line’ impact on Housing Revenue Account (HRA) services. The recommendations within this report were reviewed and supported by the Efficiency Performance Working Party in their meeting of January 2025.

Recommendation(s)

Members are asked to:

- Note the report
- Approve the limiting of recharges to the HRA to £1.003m for FY2024/25 only, with the additional £240k to be met from current year General Fund budgets within City Fund.

Main Report

1.0 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'.
- 1.3 A review was undertaken in FY2023/24 to ensure that the methodology accurately reflected the organisations current operating model. Further details on the review are detailed in the report presented to Finance Committee at its September 2024 meeting. At this meeting Members suggested a deep dive on the recharges review be undertaken by the Efficiency and Performance Working Party; this meeting took place on 15th January.

2.0 Current Position

- 2.1 The recharges review updated estimation bases, techniques and the underlying data supporting the calculations for recharges. As a result, there has been a redistribution of the costs reflecting current support service use by area, with some areas seeing a reduction in costs, whilst others see an increase.
- 2.2 As part of the review, we also considered the process of administering recharges as part of the year end process and following officer consultation will be posting in year charges quarterly, based on the approved budget, agreed in advance especially where these relate to ring-fenced resources – see paragraph 2.3 below. No further adjustment would be made for differences arising over or underspends, which would be retained within the Finance Committee budget line. This approach will provide greater financial planning certainty to services, departments and institutions since the recharges are based on the approved budget at the start of the year. Quarterly posting also improves the cashflow distribution across the City Corporation group.
- 2.3 With the exception of ring-fenced resources (i.e. City Bridge Foundation, City Police and Housing Revenue Account (HRA)), the changes do not affect front line services, since the Recharges Risk budget is managed and apportioned centrally, and local arrangements to neutralise the impact e.g. in the case of the Corporation's schools, a subvention grant is made to each of the schools to negate the bottom line impact on the schools from recharges. It should be noted, where the Natural Environment Charities will move to a grant funding model from 2025/26; a review of recharges to these charities will be incorporated under the Natural Environment Charity Review (NECR).

- 2.4 Tables 1 to 3 in section 7 of this report, summarises the changes in recharges to City Police, the Housing Revenue Account (HRA) and City Bridge Foundation (CBF) respectively. Using the 2024/25 budget figures, the table shows that:
- I. There is a decrease in recharges to the Police of £158k arising from the removal of Digital and Information Technology Services (DITS) and some HR services, for which the Police have agreed a separate SLA, and have internal service provision respectively.
 - II. There is an increase in recharges of £240k to the HRA service due to an increase in the use of support services than previous data had recorded. Additionally, the HRA does not benefit from the reduction in recharges relating to the Guildhall Complex as they are not based in the Guildhall.
 - III. CBF see a decrease of £758k in recharges as they have significantly reduced the use of Support Services, such as Finance, HR and committee clerking which are delivered internally.
- 2.5 The increase in charges to the HRA already compound a challenging financial position for the statutory ring-fenced fund. Due to the complexities of reviewing the recharges, the outcomes of the review and the increase in charges were not fed through budget setting process. Consequently, if implemented without mitigating or compensatory actions, this would likely contribute to an overspend on the HRA service in 2024/25.
- 2.6 At the Finance Committee meeting of September 24th, 2024 several Members expressed concern that the process for recharges in the financial year 2024/25, as set out in the report, would require in-year budgetary changes. It was felt that this was unreasonable and could set a dangerous precedent. The options and recommended proposal seek to remediate those concerns, which have been identified as having only a detrimental 'bottom-line' impact on HRA services.
- 2.7 Additionally, Members sought further information to aid their understanding of the scope and bases for recharging Guildhall Admin support services, which has now been reviewed by the Efficiency and Performance Working Party. Appendix I to this report contains a table that summarises (by each area of Guildhall Admin), the previous and revised basis for recharge apportionment.

3.0 Options to mitigate impact on HRA

- 3.1 In order to minimise the negative impact on the HRA, the following options are considered:

Option 1 – To disregard the outcomes of the recharges review and continue to place reliance on the historic method of apportionment. This option is not recommended since the historic bases does not reflect the current operating model, and potentially means the Corporation is not meeting its stewardship duties as a trustee of its charities and trusts, and the wider City Group structure.

Option 2 – To disregard the outcomes of the recharges review for 2024/25 only, with the revised numbers fed into the budget setting process to take effect for all areas from FY2025/26. This option is not recommended as in FY 2024/25, this would mean that Police and CBF incur additional charges of £158k and £758k greater than the data suggests is an equitable portion of the wider Guildhall Admin block of services. In the case of CBF, this challenges the legal duty in relation to proposed financial transactions between the City

Corporation as trustee and the City Corporation in its corporate capacity to operate in the duty of 'single-minded loyalty'.

Option 3 – To limit the recharge for FY2024/25 only to the HRA to £1.003m i.e. the approved budget amount. The balance of £240k would be met by the general fund within City Fund. Whilst statutory provisions require that the HRA is operated as a ringfenced account, current legislation also requires that any overspends in the HRA are borne by the Authority's General Fund. This arrangement would only apply to FY2024/25; from FY2025/26 onwards, the recharges as calculated using the updated will be incorporated within the planned HRA budget.

4.0 Recommendation

4.1 Members are recommended to support Option 3, as this ensures that there is a fair and equitable distribution of support service recharges across the City Corporation group, whilst mitigating the unbudgeted increase that would negatively impact the HRA. The amount of £240k can be accommodated within existing General Fund budgets without creating pressures within the General Fund or elsewhere and is in line with the original planning assumptions when the budget was approved. Therefore, no additional resource requirements are needed.

4.2 Option 3 was endorsed by EPWP in their meeting of January 2025.

5.0 Key Data

5.1 Tables 1 to 3 below, summarise the changes in recharges to City Police, the Housing Revenue Account (HRA) and City Bridge Foundation (CBF) respectively. The 24/25 numbers reflect the approved budget, and the 25/26 numbers show the latest indicative budgets. The "Original" columns show what the value of recharges was calculated using the previous methodology, with columns entitled "New" showing what the values have been calculated under the revised methodology and updated data sources.

Recharge Activity	24-25				25-26			
	Original	New	Change		Original	New	Change	
	£'000's	£'000's	£'000's	%	£'000's	£'000's	£'000's	%
Guildhall Complex	1,121	1,345	224	20%	1,168	1,349	181	15%
Walbrook Wharf	11	0	(11)	-100%	-	-	-	-
Commercial Services	273	341	68	25%	461	499	38	8%
DiTS (Information Technology)								
City Surveyors Projects	91	106	15	16%	134	88	(46)	-34%
Police Pensions	80	80	0	0%	80	80	0	0%
Support Services	1,185	731	(454)	-38%	1,318	857	(461)	-35%
	2,761	2,603	(158)	-6%	3,161	2,873	(288)	-9%
Year-on-Year Increase (£'000s)					400	270		
% change in Year-on-year increase/(decrease)						-33%		

Table 1: Comparison of recharges using the old methodology and revised for City Police, using approved and indicative budget figures for FY2024/25 and 2025/26.

Recharge Activity	24-25				25-26			
	Original	New	Change		Original	New	Change	
	£'000's	£'000's	£'000's	%	£'000's	£'000's	£'000's	%
Guildhall Complex	-	-	-	-	-	-	-	-
Walbrook Wharf	-	-	-	-	-	-	-	-
Commercial Services	124	88	(36)	-29%	208	129	(79)	-38%
DiTS (Information Technology)	328	369	41	13%	522	410	(112)	-21%
City Surveyors Projects	98	115	17	17%	95	92	(3)	-3%
Police Pensions	-	-	-	-	-	-	-	-
Support Services	453	671	218	48%	500	735	235	47%
	1,003	1,243	240	24%	1,325	1,366	41	3%
Year-on-Year Increase (£'000s)					322	123		
% change in Year-on-year increase/(decrease)						-62%		

Table 2: Comparison of recharges using the old methodology and revised for the Housing Revenue Account, using approved and indicative budget figures for FY2024/25 and 2025/26.

City Bridge Foundation								
Recharge Activity	24-25				25-26			
	Original	New	Change		Original	New	Change	
	£'000's	£'000's	£'000's	%	£'000's	£'000's	£'000's	%
Guildhall Complex	286	90	(196)	-69%	300	90	(210)	-70%
Walbrook Wharf	-	-	-	-	-	-	-	-
Commercial Services	126	76	(50)	-40%	174	112	(62)	-36%
DiTS (Information Technology)	407	566	159	39%	588	629	41	7%
City Surveyors Projects	176	183	7	4%	165	175	10	6%
Police Pensions	-	-	-	-	-	-	-	-
Support Services	2,159	1,481	(678)	-31%	2,338	1,677	(661)	-28%
	3,154	2,396	(758)	-24%	3,565	2,683	(882)	-25%
Year-on-Year Increase (£'000s)					411	287		
% change in Year-on-year increase/(decrease)						-30%		

Table 3: Comparison of recharges using the old methodology and revised for City Bridge Foundation, using approved and indicative budget figures for FY2024/25 and 2025/26.

6.0 Corporate & Strategic Implications

6.1 Strategic implications

6.1.1 Accurate recharging of support services to Corporation's services, departments and Institutions ensures that the proper stewardship across the Corporation group is adhered to, and more importantly ensures that the full cost of providing those services is recorded and reported to key stakeholders to support decision making.

6.2 Financial implications

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

6.3 Resource implications

There are no additional resourcing implications arising from this review.

6.4 Legal implications

6.4.1 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'.

6.4.2 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."

6.5 Risk implications

6.5.1 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.

6.6 Equalities implications

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

6.7 Climate implications

6.7.1 None

6.8 Security implications

6.8.1 None

7.0 Conclusion

7.1 This paper sets out a recommendation in relation to concern raised at the September Finance Committee meeting of adverse unbudgeted variances as a consequence of the change to recharge apportionment. If approved by members, this will ensure that the updated recharges apportionment can be implemented immediately to better reflect current operating arrangements, whilst negating a budgetary overspend in FY2024/25 for the Housing Revenue Account.

Appendices

Appendix I – Table summarising apportionment methodologies

Background Papers

Review of Recharges – Finance Committee – 24 September 2024

Radwan Ahmed

Interim Assistant Director – Strategic Finance

E: radwan.ahmed@cityoflondon.gov.uk