

Report of	Assistant Chief Executive	Author	Sean Plummer ☎ 282347
Title	Recharges		
Wards affected	Not applicable		

<p>The Board is invited to consider and comment on current arrangements for corporate recharges</p>
--

1. Action required

1.1 The Board is asked to:-

- (i) note the arrangements and methodology for recharges within the Council's accounts.
- (ii) consider and comment on the information shown and planned improvements proposed in paragraphs 3.22 to 3.24.

2. Reason for decision

- 2.1 The Board has considered a number of business proposals during this year. These have set out the current costs of running services and have included commentary relating to recharges.
- 2.2 It was agreed that a report exploring recharges in more detail should be submitted to the Board in due course.

3. Background Information

Background

- 3.1. Budgets are largely monitored and scrutinised based on 'direct costs'. In this way **all** costs of the Council are monitored based on the service that incurs the costs whether this is a service area such as Leisure World or a support service such as Human Resources. This ensures that there is ownership and accountability for all budgets at the point the cost is incurred.
- 3.2. A number of savings have been delivered or identified in respect of 'support service' costs. These include savings made in recent years from reviews of ICT, accountancy, legal and communications and more recently through ICT contract savings and the agreed changes arising from the review of Corporate and Financial Management (C&FM) which will deliver cost savings of £300k.

Context

- 3.3. Recharges enable the full cost of services to be shown. This can aid comparison of costs with other organisations and enable decisions on charging and subsidy to be taken in the light of full cost information.

- 3.4. The Chartered Institute of Public Finance and Accountancy (CIPFA) produce a document on an annual basis called the Service Reporting Code of Practice (SeRCOP). This gives guidance on how costs should be reported in an effort to get some degree of consistency across local authorities.
- 3.5. The SeRCOP sets out the main areas of costs by service type and also provides a subjective analysis (such as employees, premises related costs etc). There is also a requirement to report the “total cost of a service” and this is defined as including all expenditure attributable to the service activity. Both direct costs and support costs must be included and this is the reason for the recharge process that is carried out.
- 3.6. Reporting based on “total cost” also helps to inform good business decision making such as when making savings or setting charges and also when comparing costs with others.

Colchester Approach

- 3.7. Currently budgets are shown as falling into two categories:-
- *Direct* – Budgets where the real direct cost of delivering the service or income is shown. For example staff costs, property costs and supplies and services.
 - *Non Direct* – Includes statutory recharges within and between services.

“Anatomy of a budget”

- 3.8. Appendix A provides an illustrative example of a budget for a service showing what constitutes direct costs and income and the type of transaction that is included within non-direct costs. This shows that for this service area:-

The direct cost is	£4.3m
The direct income is	£4.5m
<i>The net direct income is therefore</i>	<i>£0.2m credit</i>
Recharges total	£1.3m
<i>The total net cost of the service is</i>	<i>£1.1m</i>

- 3.9. The Council’s structure and way of working will impact on the recharges that are required. For example, in recent years some functions have been centralised such as communications and repair and maintenance. Budgets for these areas used to be held within service areas but are now managed within Corporate and Financial Management (C&FM). As such it is now necessary for recharges to be made to reflect the costs of these two areas within service budgets. Therefore, the cost of communications is now mostly shown with the direct budget of C&FM with the cost to the service shown as a non direct recharge.
- 3.10. As set out earlier there is a requirement for the total cost of services to be shown. To achieve this recharges are carried out. Recharges are made based on 4 broad headings:-
- support services (such as our offices, ICT, finance, HR and ICT, comms etc)
 - senior management costs (such the Head of Service)
 - service management accounts (such as a GMT or other manager(s) who looks after more than one service function)

- technical accounting adjustments (such as the requirements to show depreciation etc which have no bottom line impact on the taxpayer)

3.11. Appendix B sets out an analysis of all current recharges. This includes charges made from support services (mostly C&FM) and also charges made within service areas (often termed management account recharges). For all of these it shows:-

- What is recharged
- How the recharge is made
- Where the recharge is made to

Basis of recharges

3.12. The basis for recharges has been agreed to be simple to administer and understand whilst ensuring that we comply with SeRCOP. For example:-

- HR costs are recharged based on employee numbers
- Property insurance costs based on a valuation basis
- Cleaning costs based on estimated hours clearing different properties.

3.13. The allocation of costs could be market based or negotiated and the use of service level agreements (SLAs) and detailed time recording have previously been used for some support service recharges. However, this tends to be time consuming and can lead to internal disputes as to the level of any charge or whether a charge is appropriate.

Where charges are made to

3.14. Some recharges are made to individual costs centres, for example to Colchester Leisure World or to the waste and recycling service. A large number of support service recharges are made to Heads of Service, for example the Head of Operational Services, who then in turn use an assessment on which to pass their costs down to individual service areas.

3.15. In summary it is fair to say that recharges comprise both costs which can be directly attributable to a service as well as an apportionment of corporate overheads.

Recharges in a trading environment

3.16. As explained, recharges are included to show the full cost of a service. As such they should be considered when examining business cases for the delivery of services. This is particularly relevant when considering any changes to the delivery of a service that will impact on support service costs. For example a business plan may include requirements for:-

- additional marketing support
- changing location
- investing in new IT

3.17. What is important to consider is will the change result in actual increased or decreased costs to the Council. For example, a service may be charged a cost for HR and payroll based on the number of employees. If a business case includes a proposal to increase or reduce staff numbers there may be a change to the recharge, however, a comparatively small change in staff numbers is unlikely to impact on the costs of providing HR and payroll support.

3.18. Where a decision is taken to deliver a service through a separate company or body it will be necessary to agree appropriate charges for services. For example, the Council provides a number of services to Colchester Borough Homes (CBH). These are set out in SLAs and are treated as income in the Council's accounts.

- 3.19. As the Council is a Democratic organisation it has costs associated with this which are not charged to services. We are required to account for these within what is known as the Corporate and Democratic Core (CDC).

Summary and planned development

- 3.20 There are a number of key points to note in respect of recharges:-

- There is a statutory requirement to show the full cost of services. Recharges are therefore required to comply with this.
- All budgets are set and monitored by the service who controls and is responsible for the cost.
- Savings are already being built into support service budgets such as the C&FM FSR and ICT contract savings.
- A basis is agreed as to how recharges will be made. These are designed to be representative and easy to administer.
- Changes in services may impact on the recharge made. However, it is necessary to be clear whether a change will actually result in a cost or saving to the Council rather than simply relying on the recharge itself.

- 3.21 Given the changes to the Council arising from the UCC FSR it is necessary to review the appropriateness of where recharges are made to and the way in which we report non direct costs.

- 3.22 With changes made to Senior Management Team and other senior managers the number of recharges made via Head of Service account may need to change. This will help to ensure that charges are made more directly to service areas and therefore increase the usefulness of the financial data.

- 3.23. To improve the understanding of costs it is suggested that when financial information is presented within reports to the Trading Board or in other relevant circumstances that non-direct costs are reported with further clarification to show whether they represent a charge for a service received, an allocation of cost or a technical accounting charge.

- 3.24. This approach will also provide the opportunity to better understand the full costs of services and help facilitate challenge of the level, quality and costs of service provided.

4. Strategic Plan references

- 4.1. Whilst there is no direct link to the Strategic Plan, understanding recharges is important in order to make informed decisions relating to budget changes.

5. Financial implications

- 5.1. As set out within this report.

6. Other Standard References

- 6.1 Having considered consultation, publicity, equality, diversity and human rights, community safety, risk management and health and safety implications, there are none that are significant to the matters in this report.

	2014/15 £	
Employees	2,450,700	Pay, NI, training etc
Premises	1,216,600	Business Rates, grounds mtce, energy
Transport	2,200	
Supplies & Services	533,000	Goods, external contact costs, general expenses
Third party payments	59,500	
Direct Expenditure Total	4,262,000	
Grants and reimbursements	(8,000)	External grants, contributions
Customer & client receipts	(4,522,400)	External earned income - fees and charges etc
Direct Income Total	(4,530,400)	
Direct Total	(268,400)	Net Income
Head of Service	480,700	A large number of recharges are made to a HoS account. The HoS in turn agrees and suitable % to charge the specific service area
<i>Other specific recharges</i>		Some recharges are made directly to the service / function rather than via the HoS.
Repairs and Maintenance	265,500	Cost of R&M (staff and costs)
Repairs and Maintenance - PPM	11,400	
Corporate Facilities	9,300	
CBC Off-Street Car Parks	21,900	
Income Team	20,000	
Technical Team	3,000	
Legal Services	1,400	
Messenger & Post Room	200	
Insurance	109,200	Premises, staff and general
Total non-technical recharges	922,600	
<i>Technical Accounting Charges</i>		
Amortisation	33,400	
Cap Chg-Gen Depreciation	357,100	
Total technical recharges	390,500	
Total Non-Direct Costs	1,313,100	
Total Budget	1,044,700	

Service Area	Where is this charged	What basis is this charged out on
Corporate and Financial Management (C&FM)		
Assistant Chief Executive	Corporate and Democratic Core (CDC) and C&FM GMT's	10% to CDC and chosen time % to each GMT
Policy & Project	CDC and HoS (excl C&FM) and EMT	50% to CDC and equal split to HOS/EMT (except OPER which splits with NEPP)
Strategic Change Team	HoS (excl C&FM) and EMT	Equal split
Democratic Services Management	Committee Services, Civic Fund and Members	50% Committee, 25% Civic and Members
Committee Services	EMT, CDC, Civic Fund, Members, Development Management and NEPP	Fixed amount to NEPP and time % to others
Civic Fund	CDC	Clears fully into CDC
Members Expenses	CDC	Clears fully into CDC
Legal Manager	CDC and Legal Services	% Split
Legal Services	Cost Centre Level	% based on historic time recording data
Strategic H R Manager	HR	100% into HR
Central Training	HR	100% into HR
Human Resources	HOS (excl C&FM), EMT, Members, HRA and NEPP	Number of employee's
Unison	HoS and EMT	Equal split
Members and Staff Car Parks	HoS, EMT and Members	Number of spaces occupied
Other Civic Offices	HoS, EMT, Members, Audit, CDC, CCTV, Community Alarms, NEPP and CBH	Number of workstations
Angel Court	Other Civic Officers	100%
Town Hall	Floor space occupied	CDC and Other Civic Officers
Rowan House	Other Civic Officers	100%
Repairs and Maintenance	Cost Centres	On Actual cost and time spent
Cleaning	Cost Centres where cleaned	based on hours spent cleaning per building
Messenger and Post	Cost Centre's	Actual spend %
Hallkeepers	Elections, Civic Fund, Civic Others and Town Hall	Fixed %
Corporate Facilities	Other Civic Offices and Town Hall and Travel Plan and proportion to cost centres for property management	Fixed recharge for travel plan assistant time and proportion of time for property management, remainder % split to buildings
Communications	HoS (excl C&FM), EMT and NEPP	Equal split after fixed fee to NEPP
MFD's	HoS and EMT	% Split
Corporate ICT	HoS (excl C&FM), EMT, NEPP and HRA	Equal split after fixed amount to NEPP and HRA
Computer Holding Account	HoS, EMT, Members, HRA, Museums and NEPP	Number of recorded VDI sessions
Telephones	HoS, EMT, NEPP and HRA	Based on number of employee's
Financial Management	CDC, Debit Management, Audit, Museums, NEPP,	Gross budgeted expenditure and some fixed charges

Service Area	Where is this charged	What basis is this charged out on
	EMT and HoS (excl C&FM)	
Insurance	Cost Centres	Liability premiums charged on percentage basis, property premiums on a valuation basis. Excesses recharged to departments incurring them.
Debt Management	CDC	Fully to CDC
Audit	HoS	Number of audit days allocated per year
Customer		
Head of Customer Services	CDC and Customer Services GMT's	10% to CDC and chosen time % to each GMT
Customer Operations Manager	CSC, Benefits & C.Tax Processing, Technical Team	% estimate of management time
Customer Service Centre	Across all services including directly to the HRA	Based on historical number of customer enquiries including Face to Face, Reception/Switchboard and Contact Centre.
Technical Services	C.Tax, NNDR & Benefits plus Housing, Payroll, CLW & Elections	Smaller amounts for SLA services and then % time/historical basis for main elements
Benefits & C.Tax Processing	C.Tax, NNDR & Benefits	% time/historical basis
Customer Solutions Manager	C.Tax, NNDR & Benefits plus Income, Welfare Benefits & Investigations	% estimate of management time
Customer Support & Income Mgmt	C.Tax, NNDR & Benefits and Income team.	% estimate of management time
Income Team	Across all council services who raise invoices/receive or recover a variety of income	Income team on a % / historical basis; Enforcement aspect bases on % basis of workload
Investigations	Benefits	100% all to Benefits
Community		
Head of Community Services	CDC, Community GMT	10% to CDC and time % to each GMT
Equality & Safeguarding	All HoS & EMT	Equal split
Community Zones	Zone Teams, Sweepers, Market, Tree Management and Area Zones	Equal split across all cost centres as new arrangement.
Area Zones	HRA	26% of total (N, W, S ,C zones) charged to HRA
Community Development	Community Initiatives, Warm Homes, Community Safety Activity Centres	% estimate of management time
Museums	Management accounts to main Museum services	Equal split
Commercial		
Head of Commercial Services	CDC, HRA and Commercial Services GMT's	10% to CDC and chosen time % to each GMT + HRA
Commercial Team	To Heads of CBC main services + ALMO contract + Building Control; Monitoring & Response and Bereavement	% estimate of management time
Monitoring Centre	Various council services who	Historical SLA basis

Service Area	Where is this charged	What basis is this charged out on
	have out of hours monitoring & response	
Place Strategy Manager	Major Planning Projects; Spatial & Transportation Policy; Housing Strategy	% estimate of management time
Housing Strategy	CDC & HRA	Fixed amount to CDC and 50% remaining costs to HRA
Economic Growth Manager	Estates team, Enterprise and Regeneration Teams	% estimate of management time
Estates Management	Various council services who own property, incl the large commercial portfolio + HRA re Housing Development work	% of management time / historical basis (incl number of properties)
Enterprise Management	Initiative Funding, Town Centre mgmt; Enterprise & Tourism	% estimate of management time
Operational		
Head of Operational Services	CDC and Operational Services / NEPP GMTs	10% to CDC and chosen time % to each GMT
Sport & Leisure	Charged within S&L	% estimate of management time
Recycling & Fleet Management	Recycling & Fleet service	80% of Operations Co-Ordinator post to fleet management, 20% of post to Shrub End Depot. Chosen % across domestic, trade, voids, Bring sites and food waste cost centres.
Fleet Management	Across services using vehicles, including NEPP. Also to Licensing in respect of taxi inspections	Budgeted cost of vehicles on contract hire, costs directly attributable to individual vehicles with the balance recharged on the basis of value of recharges.
CBC car parks	£21,900 to Colchester Leisure World car park. £30,600 to staff car parking	CLW charge is the cost of maintaining Alfia car park machines from the date they were installed, inflated by RPI each year. Staff car parking recharge is to reflect the opportunity cost of staff parking in St Mary's, St John's and Britannia car parks during the Christmas period (2 months), based on the cost of an annual season ticket.
Professional (incl PSU)		
Head of Professional Services	CDC, Professional GMT	10% to CDC, rest equally split between GMT
Environmental Health	Env Health Services areas	Equal split
Electoral Services	Elections, Electoral Registration	44% Elections 56% Electoral Registration
Planning & Licensing	Planning, Licensing, Food/Safety, Land Charges	% based on estimated management time.
PSU	EMT and all HoS	Currently split equally over all HoS (small % to EMT), until more detailed information is known after 1 st year of operation
Scanning	Participating Service Area's (HoS and other usage	Percentage charged to participating services based on estimated usage.

Service Area	Where is this charged	What basis is this charged out on
	area's)	
Central Stationery	HoS, EMT and NEPP	Number of FTE percentage, minus some area's
Systems	HRA and across service areas	Fixed amount to HRA then split across others
EMT		
EMT	CDC and HoS	80% to CDC then split over HoS
Colchester 2020 Travel Plan	HoS	Equal split over HoS

Key to abbreviations

CDC – Corporate & Democratic Core

HoS – Head of Service

HRA – Housing Revenue Account

GMT – General Management Team

EMT – Executive Management Team

NEPP – North Essex Parking Partnership