

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO: Scrutiny Committee 11th March 2004

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APPORTIONMENT OF RECHARGES BETWEEN THE SERVICES

Purpose

1. This report outlines the process involved in recharging the cost of Staffing and Central Overhead Accounts (including ICT costs) to the portfolio services, as requested at the meeting of the Committee on 11th February 2004.

Background

2. When the estimates of each portfolio were presented to Members as part of the estimate scrutiny process, some concern was expressed over the high impact of the central recharges on the total costs of each portfolio and the lack of current understanding with regard to their determination.
3. The recharges originate from the Staffing and Central Overhead Accounts of the Council. They consist of salaries, office accommodation and other office costs of running the departments, except for Warden costs, which are treated as a direct cost. Accounting codes of practice determine that all support costs must be recharged fully to the Services. The recharges are made to detailed accounts encompassing all areas of the General Fund, Housing Revenue Account, Capital and Holding Accounts. However, as specific areas of the recharges are largely inter-reliant on other recharges, the process is complex and can only be achieved through the use of a computerised 'model'.
4. The split of recharges between the different services of the Council depends mainly on the allocations of officer time submitted in respect of each individual officer. These are estimated for the Original Estimates and may be amended for the Revised Estimates and the Final Actual figures. All figures quoted in this report relate to the 2004-05 Estimates.

Considerations

COSTS TO BE RECHARGED (£16.5m in 2004-05 estimates)

Departmental (£14.6m): including ICT, but excluding wardens and Commercial Division manual workers.

5. These accounts consist of over 50 departmental divisions. The costs incurred are mainly those of employing the officers, agency staff and consultants. Other related costs include incidental items such as printing, postage, equipment, courses and travelling in connection with providing the relevant services. Salaries are the main cost within the departmental accounts (but note in paragraph 12 that further substantial indirect costs are also added before recharging). The revenue ICT costs for the whole Council, including the costs of new systems, are included within the ICT Division (£2.9m).

Administrative Buildings (£2.3m, including £0.8m capital charges)

6. These are the running costs of the premises occupied by the Council's officers. In 2004-05, there will be a total of six properties occupied at some point in the year, but in future, there will just be the Cambourne and Cambridge Offices.

Central Expenses and Support Services (£0.4m)

7. These are costs of the workforce overall, including employee insurance, central training, printing and health and safety.

Total Rechargeable Costs (£17.3m, the total of paragraphs 5, 6 and 7)

8. Although the total rechargeable costs above amount to £17.3m, only £16.5m is recharged within the 2004-05 estimates. The remaining £0.8m relates to the successful CIP bids for 2004-05, which were approved too late for the costs to be apportioned. Those recharges will be included in the Revised 2004-05 Estimates, to be completed next December.

APPORTIONMENT TO SERVICES

9. The main method of apportionment of the £16.5m central costs is through the analysis of each individual officer's time, by means of a staff cost allocation sheet (Appendix A). This is completed each September/October by the respective officer (or supervisor) by entering the percentage of time spent on each activity or service. The departmental costs are attributed to each individual on a huge recharge spreadsheet. Salaries and travelling are specifically identified but all other direct and indirect costs are apportioned to those individuals. The total cost of each individual is then recharged to services and activities according to the percentages entered on the staff allocation sheet.
10. Some of the more specific ICT costs (eg. Council tax and benefits systems) are recharged to the particular service, whereas most ICT expenditure is apportioned across individual officers as a charge per head and is therefore included in the staff allocation above.
11. The recharges originating from the officer allocations, ICT and some other more minor allocations are aggregated in the recharge spreadsheet to produce the overall recharges to each service. The summary of the recharges to services is shown in **Appendix B**. For example, the recharge to Partnership Working, within the Sustainability and Community Planning Portfolio, is estimated at £47,720 in 2004-05. For illustration, this figure is analysed in Appendix C between individual officers who allocated part of their time to that particular service.
12. The recharges to the services through the staff allocation sheet consist of considerably more expenditure than the officer's salary cost which on average only accounts for around 60% of the total. As well as the direct costs of an officer's division (paragraph 5), there will be apportionments of the cost of the administrative buildings (paragraph 6) and the other central costs (paragraph 7). Those support costs will also be further increased by allocations of staff time (eg. caretakers, receptionists, central post service). Furthermore, other central services (such as human resources, payroll and central accounting) are apportioned over individual officers when time is spent on overall services rather than on a specific one.

2004-05 INCREASE IN RECHARGES

13. The total 2004-05 estimated recharges of £16.5m represent an increase of £3.2m over the original estimates for 2003-04. There are a number of major factors that have contributed to the increase. The salary cost increases arising from the PWC review (£0.7m), new posts (£0.4m) and additional contact centre costs (£0.1m) agreed by Cabinet/Council have all now been included in the recharges. The anticipated pay awards and higher employer's contributions for national insurance and superannuation added 6% to the basic cost of pay (£0.5m) and the inflation allowance on other expenditure was 2.5% (£0.1m). The initial costs of the new Cambourne Offices in 2003-04 (£0.6m) were not recharged to services, but the 2004-05 costs will be, as they will be occupied. Finally, the amount of capital charges on ICT and the administrative buildings (mainly Cambourne) has increased substantially (£0.8m). However, although capital charges increase the recharges to take into account the use of the relevant capital asset, they are reversed out of the General Fund summary, so that they do not in fact increase the total expenditure of the Council.

OVERALL RECHARGES AND ALLOCATION

14. The level of recharges overall is mainly affected by the implementation of major corporate decisions made by the Council (such as the PWC salary review, development of ICT, introduction of the Contact Centre and the new offices) and the costs of resources required to carry out all the office functions of the Council (primarily staff). Additional costs can only arise from CIP bids or Council decisions and then have to be allocated. For new staff, this will be according to the relevant spending officers judgement on the allocation sheet. This may be to one portfolio, in which case the Portfolio Holder will have been involved closely with that decision, but in most cases there will be a range of duties, which may affect several portfolios.
15. It should be remembered that the total costs have to be allocated somewhere, so if a recharge is removed from one place it has to be charged elsewhere. If new work is requested from current officers on a particular service, their time will be allocated to that area, so such factors may influence the recharges to growing services. Any reduction in staff would result in salary savings, less any redundancy costs, but generally there would be no discernable decrease in other central costs (such as accommodation), so those costs would have to be redistributed to all other users.
16. It is continually emphasised to officers that the accuracy of their staff allocation percentages must be justified if necessary to the relevant budget officers. However, any consideration of real savings in recharges must be directed towards the source of the costs, which are the Staffing and Central Overhead Accounts. Those estimates are considered by the Cabinet in December each year.

Financial Implications

17. The original estimated recharges, including the unallocated items, are included in the consideration of the annual budget. The estimated proportions and figures are replaced by actuals in the final accounts.

Legal, Staffing and Sustainability Implications

18. None

Recommendations

19. The Scrutiny Committee is requested to note the contents of this report.

Background Papers: the following background papers were used in the preparation of this report: Estimate Booklet
Estimate Working Papers and recharge model (parts of which are confidential)

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