

Report to the Finance & Performance Management Cabinet Committee

Date of meeting: 20 January 2014

Portfolio: Finance & Economic Development

Subject: Recharge of Support Services

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Recommendations/Decisions Required:

That the Cabinet note the attached report of the Cross Charging Sub Group.

Executive Summary

The report provides some background to the reasons behind recharging Support Services costs to services that benefit from their work.

Reasons for proposed decision

To note the work carried out.

Other options for action

No other options available.

Report:

1. At the meeting of the Finance Cabinet Committee of 21st January 2013, questions were raised by members about the reasons for recharging costs and there was a wish to understand the process and the reasons for it. A Sub Group was appointed to carry out this work.
2. 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. There are a number of Mandatory Headings and Sub Headings to report on as well as others that are discretionary.
3. The Main General Fund headings applicable to this Council are Central Services, Cultural Related Services, Environmental and Regulatory Services, Highways and Transport Services, Housing Services and Planning Services. The Housing Revenue Account (HRA) has to be accounted for separately by law. These are the headings that appear in the Comprehensive Income and Expenditure Statement within the Statutory Statement of Accounts.
4. SeRCOP also requires a subjective analysis of each Service budget heading. A subjective heading refers to the type of expenditure, for example Salaries, Electricity, Car Allowances, Stationery, Contracted Services and Support Services to name but a few. 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.

5. This Council, because it is a Democratic organisation, has additional costs to bear because of this and this is referred to as the Corporate and Democratic Core which is a sub heading within Central Services. This is initially a General Fund cost but other accounts such as the HRA or Pension Fund, if applicable, should be required to contribute toward their share of the cost. This needs to be based on a reasonable estimate of the time spent on HRA matters by those involved in the democratic process.
6. The Sub Group have met and examined some of the Support Service budget sheets which show the individual budgets at subjective level. All Revenue budgets are constructed in this manner so that each Service budget is made up of a number of smaller subjective budgets. The budget is monitored at the subjective level as well as the Service total level. All Support Services must be fully allocated to the services that they support including other support services if applicable. The process is a financial accounting process intended to calculate the total cost of each service. However the total cost as defined by the code may or may not be relevant for decision making purposes but this would depend on the type of decision to be made.
7. All Support Services are allocated on the most appropriate basis. For some services there is an obvious method. Office Accommodation – floor area. Payroll – headcount. Telephone Charges – based on handsets. Cashiers – Transactions processed. Others will need to be allocated based on an assessment of the work carried out. For Example Accountancy and Legal. Some allocation processes are relatively straight forward others less so but a balance needs to be struck between getting costs broadly allocated to the correct headings and ensuring complete accuracy.
8. The current system is such that for example the Spending Control Officer for waste management is only responsible for those costs in their control and it is accepted that an element of the total cost of the waste management service will be outside that control. Having said that all costs are ultimately in the control of a Spending Control Officer albeit a different officer and also this may be in the long term rather than short term.
9. The Budget is summarised in a budget book which groups services by directorate and includes a summary subjective analysis. There is a further more detailed analysis referred to as the Spending Control Book which gives the full detail of each budget and the budget codes that can be used. A term 'accountancy use only' is used in the book which determines the budget headings that the spending officer can use to commit expenditure against. It does not necessarily denote whether it is controllable or not.

Issues raised by the Sub Group

10. The setting of the budget is the responsibility of Council. This process is directly linked to the setting of the Council Tax (General Fund) or Housing Rents (HRA) and occurs during February of each year for the financial year commencing on the following 1 April. The budget is monitored at different levels of detail by this panel, Management Board, Spending Control Officers and Finance Officers. Any significant variances that come to light are reported and where possible remedial action taken to address the issue.
11. With regard to Value for Money, work has been done in this area by this panel and the use of Benchmarking does assist up to a point but accounting is not always an exact science and differences in interpretation can distort the outcome somewhat rendering the process of limited value.
12. Business Plans should identify any needs for additional funding to meet objectives contained therein. A decision can then be made as to whether the additional investment is felt to be worthwhile.

Hierarchy of delegation

13. Since members are in overall control of the Authority they are by definition responsible for the Finances. Portfolio holders have responsibility for particular services and again it follows that they have responsibility for the finances of those services as they are inextricably linked. The budget is grouped on a directorate by directorate basis and each Director has responsibility for those budgets in their areas and below that all individual Cost Centres have a named budget holder who might be at Assistant Director level or section head level. The Spending Control Officer has delegated authority given to them by the relevant Director. Their responsibility goes down to the subjective heading level of those budgets in their control. Generally over and underspends are investigated unless they are felt to be insignificant.
14. The scheme of virement is an example of the hierarchy of delegation. A virement is the re-allocation of financial resources from one budget to another that does not increase the budget in total. A Director, in consultation with the Chief Finance Officer, can agree virements up to £20,000, the relevant portfolio holder up to £50,000, Cabinet up to £100,000 and Council over £100,000. Virements between revenue and capital are prohibited as are virements between the General Fund and HRA.

Cost Allocation for Management Purposes

15. All costs are controllable either in the short, medium or long term regardless of whether they are fixed or variable. However a spending control officer will have subjective budgets within their cost centre that are not controllable by them and therefore should not be held to account for any over or underspend in these areas. The use of an imputed interest charge in relation to fixed assets used to be part of the budget however this was discontinued some years ago as being irrelevant for establishing the total cost of a service. There is still a place for this particularly in financial decision making when wishing to compare the costs of lease or buy decisions or calculating returns on particular projects. There are however some costs that do form part of total costs that should not be considered in decision making particularly when considering cost saving exercises.
16. With regard to the costs facing the Authority any change in objectives will affect the level of costs. Some services are mandatory and the authority is only able to vary the level of service provided whereas others are discretionary and the authority has the power to provide the service or not as it sees fit. The Authority could choose to expand services but there is obviously a cost attached to that decision. Costs that are fixed in the short term can often be stepped or variable in the longer term. For example the level of HRA Housing Management costs will depend on the number of properties being managed. One Council House sale will have little effect on management costs whereas 100 might do. But equally 100 tenants that pay their rent on time and cause no nuisance cost less to manage than 10 that are constantly in arrears and troublesome generally. Housing Management costs are probably stepped whereas, maintenance costs are generally variable.
17. The allocation of costs could be market based or negotiated and the use of service level agreements for some Support Service recharges has previously been tested. However it tends to be quite time consuming and previously led to internal disputes around the level of charge or whether there should be charged at all. The end result distorted the total cost of some services and defeated the original objective of the exercise.

Conclusion

18. The charging of Support Services to the Cost Centres that they support is a requirement of SeRCOP in order to establish the total cost. There is discretion on how this is achieved but the most appropriate basis available should be used.
19. The costs that make up total cost for a particular service are not all controllable by the

responsible Spending Control Officer for that service and they should only be held to account for costs within their control. However other costs will be controllable by another officer elsewhere in the Authority.

20. The costs that the Authority faces can be Fixed, Variable or Stepped. However some costs that are fixed in the short term become stepped or variable in the longer term. When making decisions about savings that can be achieved the nature of the costs making up the total budget needs to be understood to assess the level of savings that can be achieved by a particular course of action.

21. For some financial information used in management decisions costs that are part of total cost may need to be excluded. Conversely some costs may need to be included that do not form part of total cost. The type of decision being made will determine this.

Resource Implications

The recharging of costs is an accounting process that forms part of the budget setting process.

Legal and Governance Implications

The setting of a budget ensures that there is a financial plan in place that actual costs can be measured against. This activity assists good governance/

Safer, Cleaner, Greener Implications

The Council's budgets contain spending in relation to this initiative.

Background Papers

Budget Book, Spending Control Book and detailed estimate working papers all held in Accountancy.

Impact Assessments

Risk Management

Budget monitoring ensures that the risk of actual expenditure being significantly different from budget can be managed and remedial action taken when necessary.

Equality and Diversity:

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? No

What equality implications were identified through the Equality Impact Assessment process?
None

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
N/A