
REPORT TO:	CORPORATE SCRUTINY COMMITTEE	AGENDA ITEM: 6
DATE OF MEETING:	29 APRIL 2002	CATEGORY: RECOMMENDED
REPORT FROM:	CHIEF FINANCE OFFICER	OPEN:
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (595811)	DOC: c/ks/myfiles/cec/april 2002 report
SUBJECT:	RECHARGING CENTRAL ESTABLISHMENT CHARGES	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: FM08

1.0 Recommendations

1.1 That the report be noted.

2.0 Purpose of Report

2.1 To provide an update on the review of Central Establishment Charges (CEC) including the issue of time recording, and to set out the principle of how these costs will be allocated in future years.

3.0 Executive Summary

3.1 Members will be aware of the report by the Financial Services Manager to this Committee in October 2001, and a subsequent report by the Vice Chair of this Committee to Finance and Management in November 2001.

3.2 These reports identified certain issues surrounding the allocation of CEC at the Council, and proposed that a review of the current system be undertaken, with a view to considering options for change/development by March/April 2002. A further report in January 2002 suggested a system whereby support, management and administrative services be allocated more on a fixed recharge basis – Service level Recharge (SLR).

3.3 This report sets out the principles and some of the implications of using this type of approach to allocating CEC. This includes a broad overview of what can/cannot be accounted for as the Corporate Management costs of the Authority.

4.0 Detail

The issues that have been identified with the current system are as follows:

- Time Recording

- Accountability
- What is reported
- Corporate Costs
- Generally, to streamline the System

Time Recording

- 4.2 At present, all staff are required to input their time spent on activities into a corporate system (SDTIM) which drives the allocation of CEC. As reported in January, question marks over the usefulness of staff recording time on a daily basis, together with a move towards more fixed charging prompted a consultation on SDTIM.
- 4.3 This was undertaken via a questionnaire sent to all Divisional & Unit Managers, and members of the Best Value Focus Group. An analysis of responses and the main issues arising out of the consultation are detailed in Appendix 1.
- 4.4 Although there are benefits to be gained from recording time on a regular basis, a majority of respondents to the questionnaire did not record their time daily nor did they feel that it accurately reflected their activities. Incorrect use of activity codes is also a perceived weakness.
- 4.5 This brings into question the overall accuracy, which, as previously thought, can only be spurious at best. Therefore, Divisional Managers were consulted further and given the opportunity to use pre-set automated timesheets based on informed estimates to allocate their time. Consequently, approximately 80% of staff will operate on this basis from 1st April 2002.
- 4.6 The areas remaining are those where work is very changeable, where it is required for external charging and for monitoring work on government funded capital projects. However, with the procurement of a new Financial Management System, these remaining areas are looking at alternative solutions to record time to suit their management requirements.

Breaking Down the CEC Components

- 4.7 The current categories of CEC have been split into 3 distinct areas as shown in Appendices 2, 3 and 4. It is proposed to record costs and show recharges under these headings from 2002/2003. There are some changes to allocations and methodology and these are explained in further detail below.

Appendix 2 – Service Departments

- 4.8 These represent the staff in the traditional “front line” service activities, which are mainly recharged across the cost centres they serve. For example, the cost of Technical Services is allocated across discrete cost centres for Refuse Collection, Parks, etc. Allocations are based on time spent, but as indicated in Appendix 2, this can be done on a fixed allocation in a majority of cases, based on the automated timesheets.

Appendix 3 – Support Services

- 4.9 These represent the traditional central services that support the service departments and the management and corporate activities of the Council. These are allocated based on the amount of time spent in providing a service (for a client) together, in some cases, on a measured activity, for example, the number of invoices processed.
- 4.10 This principle can continue, with the amount of time spent being driven by the automated timesheet, i.e. a fixed allocation, which becomes the Service Level Recharge (SLR). This is effectively the “price” for the service, fixed for the year. It would be reviewed annually at the commencement of the yearly budget round to update for any significant variances in resources or activity.
- 4.11 In order for this to operate, it needs to be accepted that for services such as Accountancy, Legal, the Policy/Best Value Unit, Customer Services and to some extent Personnel, the price for that year may not entirely reflect the actual level of service provided. Although activity is fairly standard and predictable in these areas, there may be some variances between years, although this should even out.
- 4.12 Effectively, the SLR for support services becomes a “retainer/insurance policy.” This has the benefit of providing more predictable and consistent allocations and allows the service user to use more support when necessary without concern for any additional cost.
- 4.13 In return, the support service should provide a clear schedule of recharges each year with an overview (contained in the Service Plan) of what these recharges represent. In addition, the proposals contained in Appendix 3 will make some of the current allocations more transparent, by breaking down recharges for Finance Services, splitting the costs of Personnel and Payroll and streamlining I.T. allocations.

Central Expenditure Accounts

- 4.14 Broadly, these will remain the same as they pool some central costs of the Council to benefit from economies of scale. These are generally charged out based on recorded usage. However, the current recharge for Payroll Operation/Personnel Management will no longer be required as this will be picked up in the recharges for support services (as per Appendix 2)
- 4.15 In addition, the current recharge for “central expenses” will no longer be required. This has tended to act as a holding account, especially for work associated with best value and E-Government. However, it is not clear from current recharges in budgets what constitutes “central expenses”
- 4.16 Therefore, these costs need to be allocated direct or as part of the SLR process. The need for this is explained further below, in the broad analysis of corporate management costs.

Accounting for Corporate Management Costs

- 4.17 All councils are allowed to account for certain corporate costs centrally and not charge them as an overhead to all services. However, there is a strict definition laid down by the Audit Commission and CIPFA governing what can be accounted for as

corporate costs. An extract from the Code of Practice detailing the definition is shown in Appendix 5.

4.18 Although the Council may have numerous activities that it classifies for management purposes as Corporate, unless it meets the definition, it cannot be accounted for as such. Therefore, they are required to be allocated across services. Some of the Council's costs (arising out of the review of CEC) currently charged as corporate, do not meet the definition and will need to be allocated across services.

4.19 This applies in particular to costs associated with best value reviews, service planning and corporate policies. These costs are considered to be part of running and developing individual services, and therefore, cannot be charged corporately. This also applies to any corporate working groups overseeing reviews and planning. Again, although this may be a way in which the Council decides to organise its business corporately, it cannot be accounted for as such.

4.20 In addition, work in connection with Crime and Disorder and Community Planning should not be charged as corporate. However, they are not required to be allocated across all services, but recorded as separate service costs in their own right.

5.0 Financial Implications

5.1 If the present level of costs associated with CEC remains, there will be no direct tangible increase or decrease in Council costs. The aim is to streamline the process of allocation, bring in an element of accountability and make it more transparent. It is anticipated that staff time will be saved by having more automated timesheets.

6.0 Corporate Implications

6.1 Recharging CEC affects all Council services and activities.

7.0 Community Implications

7.1 None directly.

8.0 Conclusions

8.1 The report sets out the broad principles of allocating CEC from 2002/2003. The more detailed work and changes can be incorporated into the 2002/03 probable and 2003/04 original estimates. Some training and awareness of the proposals may be beneficial for staff before this time.

9.0 Background Papers

9.1 Best Value Accounting Code of Practice.