
REPORT TO:	CORPORATE SCRUTINY COMMITTEE	AGENDA ITEM: 7
DATE OF MEETING:	22 OCTOBER 2001	CATEGORY:
REPORT FROM:	CHIEF FINANCE OFFICER	OPEN:
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (EXT 5811)	DOC:s:\cent_serv\committee reports\corporate overview & scrutiny\22 oct 2001\cecharges.doc
SUBJECT:	RECHARGING CENTRAL ESTABLISHMENT CHARGES	REF: KS/JHM
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE:

1.0 Recommendations

1.1 That the report be noted.

2.0 Purpose of Report

2.1 To provide background information on why and how Central Establishment Charges (CEC) are recharged across Services.

3.0 Executive Summary

3.1 This report has been prepared due to a request from the Committee concerning the recharging of CEC. It provides an analysis of why and how these costs are allocated over services. It concludes by indicating that a review of the methodology involved and what is reported, is to be shortly undertaken. It also highlights that the burden of CEC on individual services should reduce as a result of a change to the Code of Practice, which governs the recharging of CEC.

4.0 Detail

4.1 Definition and Terminology

The principle and methodology of recharging CEC is very much unique to local government. Firstly, CEC are broadly shared services that are usually delivered centrally, and support front/main line services that are delivered direct to the local community. They are sometimes known as support/central services or overheads, etc. but commonly the overall term is CEC. A list of the functions generally classed as CEC is shown in Appendix 1.

4.2 Why Allocate Them

The main requirement for all authorities having to separately identify and recharge CEC, arose mainly from CCT legislation, and is now contained in the principles of Best Value. The broad principle is that all costs should be allocated to services, including a “fair” charge for central, departmental and shared services (i.e. CEC). This principle applies to all local authorities. Although individual authorities may use different systems and detail for identifying CEC, the basis of recharging is broadly the same, and is contained in the Chartered Institute’s (CIPFA) Code of Practice.

4.3 The Cost and how is CEC Recharged in South Derbyshire?

The total cost of CEC at the Council is summarised in Appendix 2. This shows a total cost of approximately £7.5m, which is **approximately 30% of total Council expenditure**. Excluding service department staffing costs (this is explained later) **“central services” account for approximately 15% of total expenditure**.

The Council currently splits its CEC into 3 separate areas, as follows:

- Central Expenses
- Departmental Costs
- Holding Accounts

It is from these 3 areas that all services are recharged CEC.

4.4 **Central Expenses**

A full list of these is given in Appendix 3, which shows the type of recharge, what it contains, together with how and where they are recharged. Generally, they cover the running costs of

- the Civic Offices,
- Darklands Road Depot;
- the cost of employing staff (training, payroll, insurance, health & safety, etc)
- maintenance of computer hardware/systems, and
- the cost of central telephones, printing and postage.

Broadly, these costs are pooled in separate cost centres and recharged out on a pro-rata/usage basis, for example, per capita and area occupied. Where applicable records are maintained centrally to record usage and the recharge is based on this data.

4.5 **Departmental Costs**

A full list of these is given in Appendix 4, which shows each department. Broadly, these contain the cost of **all staff** based in the Civic Offices and at Darklands Road Depot. All the costs are pooled in separate cost centres and are **all** recharged out based on an hourly rate, which is calculated from the Council’s time recording system. They can be split as follows:

a) Central Departments

These are recharged across many service areas as by their nature, they support more than one service area.

b) Service Departments

These are predominantly recharged across discrete service areas. For example, Planning is recharged to Local Planning and Development Control cost centres, whilst Environmental Health is recharged to Food and Pollution Control, etc.

However, some costs (predominantly those provided by **Financial Services**) and certain types of administration are recharged into a Holding Account. This is the remaining type of CEC, which is described below.

4.6 Holding Accounts

These are maintained separately and used as a vehicle for recharging certain types of activity. Firstly, costs are recharged from Departmental Cost Centres (as above) based on the hourly rate. However, they cannot be charged direct because the calculated cost from the hourly rate, needs to be recharged across a multitude of cost centres based on some activity level (e.g., number of invoices processed). Therefore, they are recharged to a separate holding account (there are currently over 50) depending on the type of activity. The main ones are shown in Appendix 5.

These costs are ultimately recharged and reported as a summarised figure, i.e. **Miscellaneous Financial/Accountancy Recharges and Departmental Admin.** Although correct, this perhaps is misleading given the myriad of individual charges building up to this figure, as shown in Appendix 5.

5.0 Financial Implications

5.1 As described in the report.

6.0 Corporate Implications

6.1 Recharging CEC affects all Council services and activities.

7.0 Community Implications

7.1 As above

8.0 Conclusions

8.1 The recharging of CEC has always been a contentious issue in local authorities. It can be a complicated exercise and demands considerable staff time at certain times of the year. At present, the Council operates quite a robust and detailed methodology, which more than matches accounting and audit requirements.

However, a review of the methods used at South Derbyshire is to be undertaken with a target of identifying and implementing any improvements during 2002/03. It is likely that the review will focus on time recording, holding accounts, treatment of departmental costs and descriptions in financial statements. However, it will be necessary to continue with the basic principle of fully allocating all costs in accordance with the Code of Practice.

Finally, a recent change to the Code will mean that certain expenditure relating to past year's pension contributions, presently charged within Central Expenses and Departmental Costs, can now be charged to the Corporate Management costs of the Authority. This means that although the costs of the Council will not change, the overall costs of the two CEC heads will reduce, consequently lowering recharges across individual services.

9.0 Background Papers

9.1 Financial Control Document 2001/2002