

Chapter 1: Background

CONTEXT

- 1.1 In 1991, CIPFA published *The Management of Overheads in Local Authorities*, which contained a Statement on Accounting for Overheads and a range of guidance on the definitions of overheads, processes by which they might be recharged and some methodologies which could support the process.
- 1.2 In 1995, *Accounting for Central Services* was published, containing a revised CIPFA Statement on Accounting for Overheads and a new standard classification for central services, including definitions of various overheads and of the Corporate and Democratic Core (CDC).
- 1.3 This revised CIPFA Statement on Accounting for Overheads has also now been withdrawn and the standard classification has been updated, now forming Section 3, the Service Expenditure Analysis of the *Best Value Accounting Code of Practice* (BVACOP). BVACOP also includes guidance on its application, much of which supersedes the earlier guidance contained in *The Management of Overheads in Local Authorities*, *Accounting for Central Services* and other publications. Some, however, remain extant and broadly valid and therefore require restatement and/or updating.
- 1.4 BVACOP defines seven general principles for the recharging of overheads:
- complete recharging of overheads
 - correct recipients
 - transparency
 - flexibility
 - reality
 - predictability and stability
 - materiality.
- It also includes a commitment to provide more guidance on the practical application of these general principles.
- 1.5 This publication, therefore, has two main functions:
- to fulfil the commitment to provide more guidance on the practical application of the seven general principles
 - to provide updated guidance on other issues about recharging methodologies.

SOURCES

- 1.6 Examples of practical experiences were derived from a series of four regionally-based workshops to which practitioners from a wide range of backgrounds were invited. These practitioners also provided the material for many of the case studies that are included and their valuable input is gratefully acknowledged. Appendix A lists the authorities from which participants at the workshops were drawn. Further practical examples and case studies were then derived from responses to a questionnaire placed on the Institute's website during the early summer of 2002.
- 1.7 This publication also draws on material submitted during earlier consultation processes, discussions at seminars and the experience of members of CIPFA's Local Authority Accounting Panel.

SCOPE AND COVERAGE

- 1.8 The remainder of this publication is presented in two main sections:
- **Chapter 2: Application of the General Principles.** This takes each principle in turn and discusses issues that have arisen, or may arise, in its application. Where solutions have been found to particular problems, or innovative approaches have been identified, these are also described. Case studies are used to illustrate particular points.
 - **Chapter 3: Related Methodologies.** This gives guidance about methodologies associated with the recharging of overheads. Again, case studies are used to illustrate particular points.
- 1.9 All overheads are covered by this document, including not only support services but also other overheads, such as bulk insurance premiums. Appendix B gives some examples of overheads to help authorities identify costs that may fall within the definition of an overhead. Some overhead costs are service specific, eg force command within the police service. Others are of a more general, administrative nature, eg finance or legal, and can arise either in service departments or in central departments. The same seven general principles apply to the recharging of overheads that arise within service departments and therefore this publication also applies to them.
- 1.10 This publication does not, however, cover capital charges, although as BVACOP makes clear in Chapter 3 of Section 4, the same principles should be applied.
- 1.11 The 2003 BVACOP has, on the introduction of FRS 17 *Retirement Benefits*, replaced the service division Unapportionable Central Overheads (UCO) with a new service division – Non Distributed Costs (NDC). Although NDC includes a new definition of pensions costs, it is treated in a similar manner to UCO. This publication therefore refers to NDC, and not UCO.
- 1.12 The methodologies covered in Chapter 3 are:
- service level agreements
 - activity analysis, which includes time recording
 - activity based costing.

- 1.13** This publication provides guidance that is aimed at all the authorities to which BVACOP applies, ie local authorities, police and fire authorities in the United Kingdom. As noted above, this guidance has been produced to provide practical detail on the application of the seven principles specified in Section 2 of BVACOP; local authorities will wish to ensure they comply with its requirements.

CASE STUDIES

- 1.14** The case studies included in this publication were chosen for their ability to illustrate particular points rather than necessarily because they were the 'best' offered. The implementation of recharging processes that comply with the seven principles is still at an early stage in many local authorities, police authorities and fire services, so there are therefore few examples yet of what will become best practice. However, there is already evidence of good practice emerging and it is hoped that this document, and the case studies within it, will help stimulate discussion and the further development of better practice in the recharging of overheads.