

A Support Services Recharging Example

Service:	SERVICE COSTS			SUPPORT COSTS			
	SVC1	SVC2	SVC3	SUP1	SUP2	SUP3	TOTAL
Net Direct Costs	935,000	875,000	190,000	220,000	140,000	140,000	2,500,000
Net Total Costs	935,000	875,000	190,000	220,000	140,000	140,000	2,500,000

This sample Council is providing three services at a total cost of £2.5M. Given the above information it is not clear what the true cost of each of these services is.

The challenge is to reallocate the costs of the support departments to the service departments so that the net cost of the support departments is zero and the net costs of the service departments reflects the true cost of providing those services.

First decide on the percentages to be use for this reallocation...

A Support Services Recharging Example - The Problem

Service:	SERVICE COSTS			SUPPORT COSTS			
	SVC1	SVC2	SVC3	SUP1	SUP2	SUP3	TOTAL
Net Direct Costs	935,000	875,000	190,000	220,000	140,000	140,000	2,500,000
Costs from other cost centres:							
SVC1			??				??
SUP1	??	??	??				??
SUP2	??	??	??	??			??
SUP3	??	??	??	??	??		??
Sub-Total	??	??	??	??	??	??	??
Income from other cost centres:							
SVC1				??	??	??	??
SVC2				??	??	??	??
SVC3	??			??	??	??	??
SUP1					??	??	??
SUP2				??		??	??
SUP3				??	??		??
Net Total Costs	??	??	??	0	0	0	2,500,000
Percentage Allocations Used:							
Services Charging-->	SVC1	SVC2	SVC3	SUP1	SUP2	SUP3	
<i>Charged Services:</i>							
SCV1				35.00	20.00	20.00	
SVC2				35.00	40.00	20.00	
SVC3	5.00			8.00	20.00	40.00	
SUP1					6.00	10.00	
SUP2				10.00		10.00	
SUP3				12.00	14.00		
Total Percentages Charged Out:	5.00	0.00	0.00	100.00	100.00	100.00	

This table shows the percentage reallocations that will be used to fill in the ?? in the top table. The percentages for each of the three support areas total 100 because they are fully recharged. As a result the net total costs for each must be zero.

A Support Services Recharging Example - A Possible Solution

Service:	SERVICE COSTS			SUPPORT COSTS			
	SVC1	SVC2	SVC3	SUP1	SUP2	SUP3	TOTAL
Net Direct Costs	940,000	880,000	180,000	220,000	140,000	140,000	2,500,000
Costs from other cost centres:							
SVC1			55,190				55,190
SUP1	87,730	87,730	20,050		25,080	30,080	250,670
SUP2	36,930	73,870	36,930	11,080		25,860	184,670
SUP3	39,190	39,190	78,380	19,590	19,590		195,940
Sub-Total	1,103,850	1,080,790	370,550	250,670	184,670	195,940	3,186,470
Income from other cost centres:							
SVC1				-87,730	-36,930	-39,190	-163,850
SVC2				-87,730	-73,870	-39,190	-200,790
SVC3	-55,190			-20,050	-36,930	-78,380	-190,550
SUP1					-11,080	-19,590	-30,670
SUP2				-25,080		-19,590	-44,670
SUP3				-30,080	-25,860		-55,940
Net Total Costs	1,048,660	1,080,790	370,550	0	0	0	2,500,000

Percentage Allocations Used:

Services Charging-->	SVC1	SVC2	SVC3	SUP1	SUP2	SUP3
<i>Charged Services:</i>						
SCV1				35.00	20.00	20.00
SVC2				35.00	40.00	20.00
SVC3	5.00			8.00	20.00	40.00
SUP1					6.00	10.00
SUP2				10.00		10.00
SUP3				12.00	14.00	
Total Percentages Charged Out:	5.00	0.00	0.00	100.00	100.00	100.00

Points to note:

The overall net total is still £2,500,000

The net total of each support service is now zero

The sum of the charges received by the service areas from the support areas is £500,000 - the circular recharging between support service areas has not increased this figure.

Care should be taken when looking just at the apparent sub-total costs of the support areas. These *are* inflated by the circular recharging. So all we can really tell about the charge from SUP1 to SUP2 is that there is a net difference in value between the services that they provide each other of £14,000. The gross charge of £25,080 by SUP1 to SUP2 will be a little misleading.

A Support Services Recharging Example - SVC3 is out-sourced and so no longer charged:

Service:	SERVICE COSTS			SUPPORT COSTS			
	SVC1	SVC2	SVC3	SUP1	SUP2	SUP3	TOTAL
Net Direct Costs	940,000	880,000	180,000	220,000	140,000	140,000	2,500,000
Costs from other cost centres:							
SVC1			58,230				58,230
SUP1	99,220	99,220	0		32,180	37,530	268,150
SUP2	51,010	102,010	0	16,320		34,680	204,020
SUP3	74,270	74,270	0	31,830	31,840		212,210
Sub-Total	1,164,500	1,155,500	238,230	268,150	204,020	212,210	3,242,610
Income from other cost centres:							
SVC1				-99,220	-51,010	-74,270	-224,500
SVC2				-99,220	-102,010	-74,270	-275,500
SVC3	-58,230			0	0	0	-58,230
SUP1					-16,320	-31,830	-48,150
SUP2				-32,180		-31,840	-64,020
SUP3				-37,530	-34,680		-72,210
Net Total Costs	1,106,270	1,155,500	238,230	0	0	0	2,500,000
Percentage Allocations Used:							
Services Charging--->	SVC1	SVC2	SVC3	SUP1	SUP2	SUP3	
<i>Charged Services:</i>							
SCV1				37.00	25.00	35.00	
SVC2				37.00	50.00	35.00	
SVC3	5.00			0.00	0.00	0.00	
SUP1					8.00	15.00	
SUP2				12.00		15.00	
SUP3				14.00	17.00		
Total Percentages Charged Out:	5.00	0.00	0.00	100.00	100.00	100.00	

Points to note:

The overall net total is still £2,500,000

The percentage recharges have had to change in order to ensure that the net totals of each support service is still zero

The direct costs of the support areas did not change so the sum of the charges received by the remaining service areas from the support areas is still £500,000

The recharge to SVC1 and SVC2 has increased despite those services not having changed.

This also had the effect of increasing the charge between SVC1 and SVC3

In looking at potential reductions in support areas you would probably start with SUP3 as this was previously making the largest charge to SVC3. It may be worth looking at the charges received by SUP3 from the other support areas although these are likely to have less of an impact.