

local authority building control accounting

Guidance for England and Wales
Fully Revised Second Edition 2010



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Printed on stock sourced from well-managed forests, ISO 14001.

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Guidance for England and Wales
Fully Revised Second Edition 2010

Published by:

CIPFA \ THE CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY

3 Robert Street, London WC2N 6RL

020 7543 5600 \ publications@cipfa.org.uk \ www.cipfa.org.uk

© 2010 CIPFA

ISBN 978 1 84508 226 0

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Designed and typeset by Ministry of Design, Bath
(www.ministryofdesign.co.uk)

Printed by Trident Printing, London

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Foreword

In the spring of 2009 the Department for Communities and Local Government (CLG) consulted on a number of charging proposals in their consultation paper *Proposed Changes to the Local Authority Building Control Charging Regime*.¹ The proposals took account of representations received from stakeholders in response to the Government's consultation paper in early 2008 *The Future of Building Control* (FOBC),² discussions with Local Authority Building Control (LABC) representatives and advice given by the Building Regulations Advisory Committee (BRAC).

Following consideration of the responses to the charges consultation and further discussions with key stakeholders, the Building (Local Authority Charges) Regulations 2010 (SI 2010/404) were laid before Parliament on 25 February 2010 and come into force on 1 April 2010.

The Building (Local Authority Charges) Regulations 2010 build on the principle of devolving charge setting to local authorities in order to provide more flexibility, accuracy, fairness and transparency in the charging regime and also to improve the standards and environment within which local authorities and approved inspectors operate and compete.

This publication has been produced to support the new regulations, in consultation with CLG, who have policy responsibility for building control within government, and other key stakeholders. In particular it contains guidance on what costs should be reflected in the building regulations chargeable service and how these costs can be isolated from other building control activities, in order to calculate charges that fully recover (as far as practical) the cost of the building regulations chargeable service. This document supersedes the previous CIPFA building control accounting guidance published in April 1997.

CLG has confirmed that, in its view, following the guidance in this publication will assist local authorities in England and Wales to demonstrate compliance with the charging and accounting requirements of the new charges regulations.

Any enquiries regarding the new regulations should be directed to CLG using the following email address: enquires.br@communities.gsi.gov.uk

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1. *Proposed Changes to the Local Authority Building Control Charging Regime* consultation paper and response form are available at:
www.communities.gov.uk/publications/planningandbuilding/lachargingregimeconsult
 2. *The Future of Building Control* consultation paper and implementation plan are available at:
www.communities.gov.uk/publications/planningandbuilding/futurebuildingcontrol

Acknowledgements

CIPFA wishes to thank all those involved in the production of this publication, particularly:

Dave Baldam (author)	Senior Consultant, CIPFA
Peter Baker	Building Control Manager, Erewash Borough Council
Tracey Cull	Policy Advisor, Communities and Local Government
Mark Dickenson	Group Accountant, Kettering Borough Council
Kevin Flanagan	Policy Advisor, Communities and Local Government
Tony Hough	Chief Building Surveyor, Manchester City Council
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CHAPTER 1

Introduction

- 1 The Building (Local Authority Charges) Regulations 2010 (SI 2010/404) (referred to as ‘the Charges Regulations 2010’ within this publication) were laid before Parliament on 25 February 2010 and come into force on 1 April 2010 (see paragraph 5 on transitional provisions). The regulations authorise local authorities in England and Wales to charge for carrying out their main building control functions relating to the building regulations (hereafter referred to as ‘building regulation functions’), ie the building regulations chargeable service, and in doing so local authorities are required to comply with the principles of these new regulations.
- 2 Compliance with the Charges Regulations 2010 also extends to where local authorities enter into a contractual arrangement with a third party to provide building control services. Where a local authority enters into such an arrangement, the third party should not make a profit on the building regulations chargeable service; charges should be based on the actual costs of carrying out the specified building control functions in relation to individual building projects as required by the regulations, thereby avoiding significant surpluses.
- 3 Where local authorities enter into a formal legal partnership to provide a single building control service, this should enable them to operate a single charging regime (ie one charging scheme and financial statement, etc). This is different to those local authorities who participate in the LABC Partner Authority Scheme whereby each authority (or local authority partnership) in the scheme should continue to operate their own charging regime.
- 4 The Charges Regulations 2010 replace the previous charges regulations, the Building (Local Authority Charges) Regulations 1998 (SI 1998/3129) (the Charges Regulations 1998), and are made under the powers in the Building Act 1984 (the 1984 Act), in particular paragraph 9 of Schedule 1, which provides that:

Building regulations may authorise local authorities, subject to and in accordance with the regulations, to fix by means of schemes and to recover such charges for or in connection with the performance of functions of theirs relating to building regulations as they may determine in accordance with principles prescribed by the regulations.
- 5 The Charges Regulations 2010 contain a transitional provision which allows local authorities to introduce a new charging scheme under these regulations any time between 1 April 2010 and 1 October 2010, although they must do so by the 1 October. This will enable those local authorities who wish to take advantage of the new flexibilities to do so at the earliest opportunity, whilst allowing those who need more time to implement the changes longer to adapt to the new charging regime.
- 6 The Charges Regulations 1998 and any existing scheme made under those regulations will continue to operate and apply in relation to any building work for which applications or notices were received by a local authority, until a local authority first introduces a new charging scheme under the Charges Regulations 2010. The Charges Regulations 1998 will

also continue to apply in relation to any building work for which an application or notice was received by a local authority prior to the introduction of a new scheme, for so long as the application or notice remains under consideration.

- 7 The Charges Regulations 2010 introduce a new flexible charging regime which seeks to address the inflexibility and restrictions in the Charges Regulations 1998, which were identified through consultation with stakeholders. The inflexibility and restrictions of the Charges Regulations 1998 meant in particular that:
 - (a) Local authorities were unable to accurately match their charges to the actual costs of delivering their building control services because they were required to pre-fix their charges having regard to a limited number of factors, resulting in under- and, particularly, over-charging of work.
 - (b) Local authorities could not increase or decrease their charges if the level of building control input went up (or down) and as a result there was a tendency to set charges at a higher level to ensure that their costs would always be covered as required by the regulations.
 - (c) In some instances large surpluses arose following the introduction of the Charges Regulations 1998 and it was suggested that these surpluses were sometimes inappropriately used to help fund other local authority services.
- 8 As a result of the inflexibility and restrictions of the Charges Regulations 1998, local authorities were not able to compete effectively with approved inspectors and charges did not provide best value for consumers or the building industry.
- 9 The prescribed building regulation functions and advice relating to those factors for which charges should be levied as specified in the Charges Regulations 2010 are as follows:
 - (a) checking full plans applications
 - (b) inspecting work associated with full plans applications
 - (c) checking/inspecting work associated with building notices
 - (d) checking/inspecting work reverting to local authority control
 - (e) checking/inspecting work associated with regularisation applications
 - (f) providing advice in respect of the chargeable functions (a) to (e) above, before these functions are carried out, ie before an application or notice is received for the particular building work (note: the first hour is non-chargeable).
- 10 Building regulation charges should relate to the costs of carrying out the building regulations chargeable service (ie the chargeable functions and chargeable advice described in the previous paragraph). However, there are other significant service provisions which also form part of the building control service. So it is important to isolate those costs attributable to the building regulations chargeable service from the other building control functions. The process of isolating the costs of the different service provisions of the building control service is described in chapter 3.
- 11 Although not specifically stated in the Charges Regulations 2010, local authorities can continue to amend, revoke or replace any charging scheme they make under the Charges Regulations 2010 at any time.

Principles of the Charges Regulations 2010

- 12** The Charges Regulations 2010 build on the principle of devolving charge setting to local authorities in order to introduce more flexibility, remove some restrictions and ambiguities and aim to:
- (a) Enable local authorities to more accurately relate their charges to the actual costs of carrying out their main building regulation functions for individual building projects as appropriate, thereby avoiding under- or over-charging and significant deficits or surpluses arising.
 - (b) Provide fairer charges to consumers and the building industry in order to ensure the recipient pays the full cost of the chargeable work only and avoid cross-subsidisation.
 - (c) Introduce more transparency into the building regulation charging regime, with a view to safeguarding income.
 - (d) Further improve the competitive environment within which local authorities and approved inspectors compete and the standards within which they operate.
- 13** The Charges Regulations 2010 continue to require local authorities to fix their charges by means of a scheme, but they make a number of significant modifications to the Charges Regulations 1998. They remove the requirement for parity between charges for carrying out different building regulation functions, ie that full plans and inspection charges should equal building notice and reversion charges, and remove the restrictions in charging for new housing and domestic extensions. They also provide in particular for the following:
- (a) In addition to their five current chargeable building regulation functions (see paragraph 9 (a)–(e)), local authorities are authorised to charge for providing substantive ‘pre-application’ advice (consisting of greater than an hour) relating to their functions, given in advance of receipt of an application or notice of the particular building work.
 - (b) A more accurate method for calculating charges to achieve full cost recovery by relating the hourly charge of local authority building control officers to the time spent carrying out their building regulation functions, together with an increased number of factors which local authorities can take into account in determining the estimated time.
 - (c) A requirement for local authorities to fix a charge in relation to individual building projects either by reference to standard charges (ie pre-fixed) published in their charging scheme or by providing an individual determination.
 - (d) For refunds of charges to be made and supplementary charges to be raised, where appropriate.
 - (e) Greater transparency in relating total income from charges for building control services to the total costs of providing those services, comprising a new accounting principle and a requirement that the accounting treatment of costs, income and any surplus income

or deficit is set out in a statement to be approved by the appropriate local authority accounting officer³ prior to publication.

- (f) A requirement for local authorities to set out in their charging scheme their provision for consideration and handling of complaints about charges.
 - (g) An increase in the minimum and maximum level of fees for determination applications submitted to the Secretary of State.
- 14** CLG has also issued guidance in a circular and circular letter which provides information on the requirements of the Charges Regulations 2010 and how they might be implemented in practice. This can be found on the CLG website.⁴
- 15** The overarching principles of the new local authority building control charging system under the Charges Regulations 2010 are **full cost recovery** and **users only pay for the service they receive**. This will facilitate the implementation of service level agreements based on risk assessment (as set out in the *Future of Building Control: Implementation Plan*⁵) and help to demonstrate the value that building control adds.

3. Section 151 officer or, in the case of the Common Council of the City of London, by the section 6 officer.

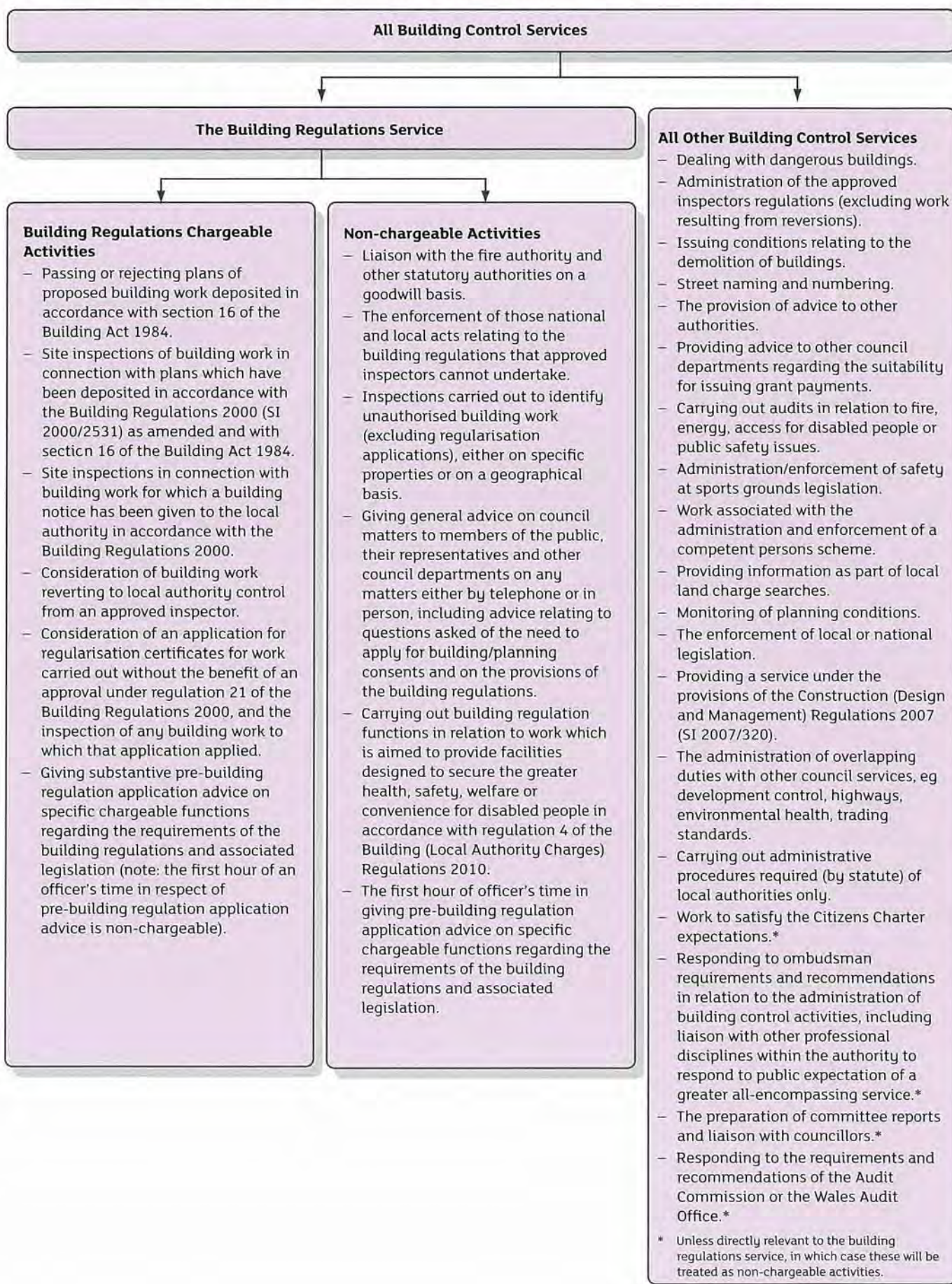
4. www.communities.gov.uk/planningandbuilding/buildingregulations/legislation/localauthoritycharges

5. This publication is available at www.communities.gov.uk/publications/planningandbuilding/buildingcontrolimplementation

Expenditure – the Building Regulations Chargeable Service

- 16** 'Building control' in a local authority is a term used to describe the collection of services administered by the head of building control. In the majority of local authorities the prime function of the service is the administration of the building regulations. However, it is important to recognise that there are other significant service provisions which also form part of the building control service.
- 17** To isolate only those costs attributable to the building regulations chargeable service, it is first necessary to isolate all other building control services from the building regulation service. Having excluded all building control activities other than those associated with the building regulations activity, it is then necessary to exclude those parts of the building regulations activity which are non-chargeable. The remaining activities form the building regulations chargeable service.
- 18** The separation of the building regulations chargeable service outlined above is illustrated in figure 3.1.

Figure 3.1: Establishing the building regulations chargeable costs



- 19 The list of activities under ‘All Other Building Control Services’ in figure 3.1 is not intended to be exhaustive. There are other services managed as part of the building control service which will vary between local authorities.
- 20 This chapter contains guidance on the expenditure that needs to be considered in order to calculate the charges levied by a local authority for its building regulations chargeable service. The totality of the expenditure and charges income needs to be included in a financial statement (referred to as the ‘Building Regulations Chargeable and Non-chargeable Account’ in this publication) (see chapter 5).
- 21 Examples of costing templates that local authorities can use and adapt to their own requirements are shown in the Workbook section of this publication (appendix B).
- 22 An illustrative example of a methodology for the allocation and apportionment of expenditure to the building regulations chargeable service is included in the fully worked example in appendix A.

LEVEL OF SERVICE

- 23 In order to ensure that the charges reflect a standard of service which protect a local authority’s duties and liabilities under the Building Act 1984, and building regulations, reference should be made to the publication *Building Control Performance Standards* produced by the Building Control Performance Standards Advisory Group. This document gives details of performance and standards expected to be achieved by all building control bodies and can be found on the following website: www.planningportal.gov.uk/uploads/br/bcpi/building-control-performance-standards_june06.pdf
- 24 It is the Government’s view that competition between local authorities and approved inspectors in the provision of building control services provides a stimulus to greater efficiency and higher standards of service to the customer as long as appropriate performance standards are applied. The Government has stated that it will continue to work with stakeholders to ensure that industry-wide building control performance standards and indicators, to which local authorities and approved inspectors subscribe, remain fit for purpose in the future and that standards remain high.

TOTAL COST OF THE BUILDING REGULATIONS CHARGEABLE SERVICE

- 25 The building regulations chargeable service should include all the direct costs (through the allocation⁶ of building control service costs) and indirect costs (through the apportionment⁷ of building control service costs) which support the building regulations chargeable service, having regard to the level of service referred to in paragraphs 23 and 24. As shown in figure 3.1, the building regulations chargeable activities will be derived from the building control service. The building control service (and ultimately the building regulations chargeable

6. Costs that can be charged directly to the building regulations chargeable service.

7. Costs that cannot be charged directly to the building regulations chargeable service but have to be apportioned on some reasonable and equitable basis which relates to the benefit that the building regulations chargeable service is receiving.

activities) should follow the total cost principle as defined in CIPFA's *Best Value Accounting Code of Practice* (BVACOP). BVACOP defines total cost as:

The total cost of a service or activity must reflect all the costs associated with that service/ activity, wherever in the management structure they arise. It is acknowledged that the accounting structure, as defined by the service expenditure headings, is unlikely to match the management structure in any authority.

26 Total cost of carrying out the building control service should include the following costs (which are in line with CIPFA's recommendations for a standard subjective analysis):

(a) Employees

- salaries
- employer's National Insurance contribution
- employer's retirement benefit cost (current service cost based on IAS 19)
- agency staff
- employee allowances (not including travel and subsistence)
- relocation
- interview
- training
- advertising
- severance payments
- employee-related schemes (eg welfare schemes, discount schemes)

(b) Premises-related expenditure

- repairs and maintenance
- energy costs
- rents
- business rates
- water services
- cleaning and domestic supplies
- premises insurance

(c) Transport-related expenditure

- repairs and maintenance, running costs and contributions to provisions in respect of council-owned vehicles
- leased vehicles
- hired vehicles
- car allowances
- mileage payments
- public transport
- transport insurance

(d) Supplies and services

- equipment, furniture and materials
- catering

- printing, stationery and office expenses
- postage, telephones, radio and computer costs
- grants and subscriptions
- consultant fees

(e) **Third party payments**

- independent units within the council
- joint authorities
- other local authorities
- health authorities
- government departments
- voluntary associations
- private contractors (ie where local authorities enter into a contractual arrangement with a third party to provide building control services)

(f) **Transfer payments**

(This heading is not relevant to the building control service.)

(g) **Support services**

- finance
- IT
- human resources
- property management/office accommodation
- legal services (not included in the definition of corporate and democratic core)
- procurement services
- corporate services (not included in the definition of corporate and democratic core)

(h) **Depreciation and impairment losses**

- depreciation
- revaluation losses
- impairment losses
- amortisation of intangible assets.

- 27** The above is not intended to be a prescriptive or comprehensive list of expenditure within the standard subjective analysis. Local authorities should refer to BVACOP for the comprehensive list.
- 28** Depreciation and impairment losses may not be a direct charge to the building control service, but may be recharged through support services (ie office accommodation). Costs such as depreciation, impairment losses and current service pensions may only be available after the financial year end and as such will have to be estimated when setting building regulations charges.

- 29 In addition to including total costs shown in paragraph 26, local authorities should consider including notional interest based on capital employed. This is consistent with BVACOP, which states:

Authorities will also need to decide whether a cost of capital element (to reflect the full cost of using fixed assets in the provision of a service) should be included in any costing for decision-making purposes.

In particular, local authorities will need to ensure when putting any service(s) out to competition that all their own relevant costs are taken into account, whether these are defined as being within total cost or not.

- 30 The inclusion of notional interest based on capital employed is aimed at including costs that are comparable to the private sector and therefore demonstrating the principles of fair competition and value for money⁸. Estimates of notional interest on capital employed are comparatively straightforward for assets used specifically for the building regulations chargeable service. Where assets are charged as part of support services (ie IT or office accommodation), the costs may be apportioned and reapportioned many times between support services before charges come to rest with the building regulations chargeable service. Local authorities should take account of the materiality of any notional interest and the cost/benefit of setting up a robust system to accurately determine the building regulations share of assets when making a decision whether to include notional charges in the building regulations chargeable service.
- 31 Local authorities will find the CIPFA publication *Standing Guide to the Commissioning of Local Authority Work and Services*⁹ useful in determining whether to include notional interest in the building regulations chargeable service.

SUPPORT SERVICES

- 32 Support services are those which support the direct provision of services to the public (ie building control service). Paragraph 26 (g) provides examples of support services.
- 33 A defining feature of support services is that, for total cost purposes, they end up charged, allocated or apportioned to direct services, rather than having a final service expenditure heading of their own.
- 34 Recipients (ie the building control service), who are under pressure to achieve and demonstrate value for money, are getting more demanding in terms of knowing what support services they carry, how they are calculated and whether they can have any control over the amount charged. With the development of internal markets for many support services, it is often the case that recipients determine the volume and quality, and thus the price they are charged for support services (ie through service level agreements/trading agreements,

8. This reasoning also justifies the inclusion of depreciation, revaluation and impairment losses, and amortisation of intangible assets, within the total cost of the building regulations chargeable service when calculating charges, even though these costs do not ultimately affect the 'bottom line' for council tax purposes.

9. This publication is available at www.cipfa.org.uk/shop

recharge of actual costs or charge per unit of service provided), but have others imposed upon them.

- 35 The challenge by recipients and justification by the provider of support services is never more important than within the building regulations service. The level of support services will have a direct impact on the level of charges and competitive environment, because the Charges Regulations 2010 are based on the principle of local authorities relating their charges to the recovery of the costs (which will include support service costs) of carrying out building regulation chargeable function(s) for individual building projects.
- 36 It is therefore important that the level of support services recharged to the building control service and appropriate costs charged to the building regulations chargeable service conform to the following seven principles so that they do not inappropriately increase building regulation charges:
- (a) **Complete recharging of support services** – the general principle is that all support service costs should be fully recharged to the service expenditure headings, ie building control service (division of service level) or building regulations service (subdivision of service level) defined in BVACOP.
 - (b) **Correct recipients** – the general principle is that allocation and apportionments should be made to each of the services benefiting from the support.
 - (c) **Transparency** – recipients must be clear what each recharge covers and be provided with sufficient information to enable them to challenge the approach being followed. This requires a number of features to be present in the apportionment system; information about the basis of apportionments should be given in a sufficient level of detail; the actual level of detail used for the calculation of recharges should be agreed between the recipient and the provider in each case; and recipients should receive regular information on recharges.
 - (d) **Flexibility** – the recharging arrangements must be sufficiently flexible to allow recharges to be made regularly enough and to a level of detail appropriate to meeting both recipients' and providers' needs. In the case of the building regulations service this may mean the provider of the support service giving information to support the allocation and apportionment at this subdivision of service level, as well as to support the calculation of total costs of the building control service.
 - (e) **Reality** – recharging arrangements should result in a distribution of actual costs that has a basis in fact; there should be a link between the cost to a recipient and the benefit they receive; recipients should receive a 'fair share' of the apportionment.
 - (f) **Predictability/stability** – recharges should be as predictable as possible, although there will be practical limitations to this, not least recipients' requirement for some flexibility in the amount of a support service they use and therefore pay for.
 - (g) **Materiality** – it is unlikely that a simple system will be adequate to meet all the other requirements noted above. However, due regard should be given to materiality to minimise the effort involved in running the system so that the quest for 'accurate' apportionments does not turn the process into a bureaucracy whose costs outweigh the benefits achieved.
- 37 Further guidance can be obtained from BVACOP in respect of the application of seven principles of recharging overheads.

CORPORATE AND DEMOCRATIC CORE AND NON DISTRIBUTED COSTS

- 38 Expenditure relating to corporate and democratic core (CDC), and non distributed costs (NDC) are not included within the costs of services as identified in BVACOP, and as such no allocations or apportionments to building regulations activities should be made for these costs.
- 39 BVACOP defines CDC as comprising two divisions of service – democratic representation and management (DRM) and corporate management (CM). If anything does not fall within the definitions given for either DRM or CM, then it cannot be within CDC.
- 40 DRM concerns corporate policy making and all other member-based activities. CM concerns those activities and costs that relate to the general running of the authority. These provide the infrastructure that allows services to be provided, whether by the authority or not, and the information required for public accountability. Activities relating to the provision of services, even indirectly, are overheads on those services, not CM.
- 41 NDC comprises (this is not a comprehensive list):
- (a) past service costs relating to retirement benefits (if any) – these are defined by the IFRS-based *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code)¹⁰
 - (b) settlements relating to retirement benefits (if any) – these are defined by the IFRS-based Code
 - (c) curtailments relating to retirement benefits (if any) – these are defined by the IFRS-based Code
 - (d) impairment losses relating to assets under construction, non-current and current assets held for sale, other surplus assets held for disposal (but which do not satisfy the criteria in the Code to be classified as held for sale) and depreciation/losses on the latter category of assets
 - (e) the revenue expenditure involved in holding surplus assets (eg security costs).
- 42 Further details of CM, DRM and NDC can be found in BVACOP.

ALLOCATION AND APPORTIONMENT OF COSTS TO THE BUILDING REGULATIONS CHARGEABLE SERVICE

- 43 Where costs relate to a number of building control functions, then only the proportion of those costs directly relevant to the building regulations chargeable service should be included in the activity.
- 44 It is important that local authorities develop a costing methodology that uses robust and transparent allocation and apportionment bases to justify the inclusion and exclusion of costs in the building regulations chargeable service.
- 45 It would not be considered practical to allocate the travel costs, ie car allowances, directly to individual building projects because this would result in the costing and charging

10. *Code of Practice on Local Authority Accounting in the United Kingdom* (CIPFA, annual).

methodology becoming very complicated and would have a disproportionate impact on those applicants who happen to be remote from the local authority (building control) offices.

- 46 Allocation** – where possible costs should be directly allocated to the building regulations chargeable service (and to/or individual projects). Examples of such costs include:
- (a) *car allowances (transport-related expenditure)* – separately identifiable to the building regulations chargeable service (where possible, but may need to be apportioned for multi-purpose journeys covering both chargeable and non-chargeable activities)
 - (b) *consultant fees (supplies and services)* – separately identifiable to the building regulations chargeable service
 - (c) *finance (support service)* – processing creditor and debtor invoices and receipt of charges income identifiable to the building regulations chargeable service
 - (d) *legal services (support service)* – recovery of charges income identifiable to the building regulations chargeable service.
- 47** In the majority of instances it is envisaged that costs will not be directly attributable to the building regulations chargeable service and as such will have to be apportioned using an appropriate and justifiable basis.
- 48 Apportionment** – employee costs generally comprise the most significant area of local authority expenditure, so the basis used to apportion these costs should be chosen carefully in order to accurately reflect the employee costs of the building regulations chargeable service. It would seem reasonable to use time recording (ie productive time¹¹) as the basis for apportioning costs to the building regulations chargeable service. An example of a timesheet template that local authorities can use and adapt to their own requirements is shown in the Workbook section of this publication (appendix B).
- 49** Time arising from management and clerical work, could be treated in two ways – as a general overhead (and therefore not included in productive time) or as productive time, where it relates directly to the building regulations chargeable service.
- 50** The apportionment of costs to the building regulations chargeable service could be carried out at a consolidated service level; the productive time across the service is aggregated together and used to apportion the costs of the building control service (excluding costs that can be directly allocated) to the building regulations chargeable service.
- 51** In addition to providing a transparent and robust basis for the apportionment of costs to the building regulations chargeable service, productive time provides a mechanism for calculating charges (using productive hourly rates), which is further explored in chapter 4.
- 52** When developing a costing methodology, local authorities should have regard to the seven principles set out in paragraph 36 (a) to (g).

11. Productive time is deemed to be time spent directly on the building control service, split between the activities set out in figure 3.1. Productive time excludes sickness, annual leave, training courses and management meetings.

Charging Methodology

- 53** As explained in chapter 2, the Charges Regulations 2010 introduce a new charging regime for the building regulations chargeable service. In particular the regulations require local authorities to:
- (a) Calculate charges to achieve full cost recovery by relating the hourly charge of local authority building control officers to the time spent carrying out their chargeable building regulation functions and advice, taking into account an increased number of factors in determining the estimated time.
 - (b) Fix a charge in relation to individual building projects either by reference to standard charges published in their charging scheme or by providing an individual determination where appropriate, eg in relation to larger building projects.
 - (c) Provide refunds of charges and raise supplementary charges where appropriate.
- 54** It is important that local authorities have a fair, consistent and transparent charging methodology because they are required by the Charges Regulations 2010 to set out their general methodology for setting standard charges and indicate when they will provide an individually determined charge within their charging scheme (see chapter 5).
- 55** This chapter contains guidance on the calculation of standard and individually determined charges for providing services in relation to the chargeable functions and chargeable advice. The chargeable functions and chargeable advice are set out in paragraph 9 and figure 3.1, and are repeated below:
- (a) checking full plans applications
 - (b) inspecting work associated with full plans applications
 - (c) checking/inspecting work associated with building notices
 - (d) checking/inspecting work reverting to local authority control
 - (e) checking/inspecting work associated with regularisation applications
 - (f) providing advice in respect of the chargeable functions (a) to (e) above, before these functions are carried out, ie before an application or notice is received for the particular building work (note: the first hour is non-chargeable).
- 56** The Charges Regulations 2010 prescribe broad charging principles in which local authorities are given the flexibility to decide whether or not they wish to set standard charges (published in the local authority's charging scheme) or calculate individually determined charges (to be confirmed in writing), whichever is considered most appropriate to ensure the accurate recovery of costs. Whichever method is used, local authorities are required to have regard to their hourly rate and to a number of factors, as appropriate, when calculating the costs of their functions in relation to individual building projects, in order to provide more accurate and fair charges based on assessing the building control resource input required. Local

authorities should also calculate any refunds and supplementary charges on the same basis. These key factors are set out in regulation 7(5) of the Charges Regulations 2010, ie:

- (a) the existing use, or proposed use, of the building after completion of the building work
- (b) the different kinds of building work described in regulation 3(1)(a) to (i) of the Building Regulations 2000
- (c) the floor area of the building or extension
- (d) the nature of the design of the building work and whether innovative or high-risk construction techniques are to be used
- (e) the estimated duration of the building work and the anticipated number of inspections to be carried out
- (f) the estimated costs of the building work.¹²

- 57** Further factors can be considered which mainly relate to the case for reducing or increasing a charge at the outset; see paragraph 67. Local authorities are not authorised to take into account any other factors in setting their charges.
- 58** Local authorities have a new power to make provision in their charging scheme allowing them to request any information they consider necessary to determine a charge. This builds on the requirement in the Charges Regulations 1998 whereby local authorities could request a written estimate of the cost of the building work. While this may still apply in the case of the factor in paragraph 56 (f) local authorities may now need to also request other information, eg details of the builder involved to help determine the number of inspections needed (the factor in paragraph 56 (e)), or to confirm that part of the work will be self-certified under a competent person scheme (the factor in paragraph 67 (a)).
- 59** When setting standard charges local authorities are required to specify in their charging schemes (see chapter 5) which factors (as outlined in paragraphs 56 and 67) have been taken into account in estimating the time required for officers to perform a chargeable function(s) or chargeable advice. They will also be required to do this in writing when providing an individually determined charge. In practice, particularly for the latter, local authorities may find it useful to provide a 'tool' which will enable an applicant to calculate their charge based on fixed inputs/assumptions, eg the cost of inspections, but this is at their discretion.
- 60** An example of the calculation of standard charges is included in the fully worked example in appendix A.
- 61** The LABC proposes to prepare a new model charging scheme to assist local authorities with the production of their new charging schemes, which when available can be found in the members area of the LABC website (www.members.labc.uk.com/chargesguidance).

STANDARD CHARGES

- 62** Standard charges would normally be calculated and approved before the start of the financial year and published in an authority's charging scheme, whereas individually determined charges (see paragraph 75) would be set on a project-by-project basis when projects arise.

12. It is considered that the 'estimated cost of the building work' is not always a good indicator of building control resource input and should not be used as the primary factor.

Local authorities should take care when setting standard charges for types of building work as they will only be able to 'flex' (ie adapt) these to take account of individual circumstances if the applicant agrees and the local authority will have to confirm this in writing.

- 63 The overriding principle is to set charges to recover the costs of carrying out the building regulations chargeable service for individual building projects as nearly as possible. This principle is designed to avoid cross-subsidisation between individual building projects and to provide fairer charges to individual applicants.
- 64 Once local authorities have completed the allocation and apportionment of expenditure to the building regulations chargeable service (see chapter 3), the calculation of standard charges, using individual job costing, can be carried out.
- 65 The Charges Regulations 2010 state that the costs of providing services in relation to a chargeable function(s) or chargeable advice must be calculated using a **single average hourly rate** at which the time of officers will be charged. It would seem reasonable to use productive hourly rate(s) as the cost driver to estimate the individual costs of projects and the charge to recover these costs. An average productively hourly rate could be calculated where costs are allocated and apportioned at the consolidated service level (see paragraph 50).
- 66 Local authorities have the discretion to take account of factors relating to individual projects when setting their charges, as described in paragraph 56. With the assumption that productive hourly rate(s) is a suitable cost driver (see paragraph 65 above), it would be appropriate therefore to initially calculate the charges using standard productive hourly rate(s) which would be based on an assessment of standard productive time for providing services in relation to the chargeable functions and chargeable advice. The standard productive time would be based on the assessment of routine and repetitive building projects such as domestic extensions/alterations or traditional two-storey housing and having regard to the factors set out in paragraph 56.
- 67 Regulation 7(5) of the Charges Regulations 2010 also sets out further factors in addition to those set out in paragraph 56, which local authorities should take account of when setting charges, as appropriate, when calculating their costs in relation to individual building projects. These mainly relate to the case for reducing or increasing a charge at the outset. These factors are:
- (a) Whether a person who intends to carry out part of the building work is a person mentioned in regulation 12(5) or 20B(4) of the Building Regulations 2000, ie a member of a self-certification scheme (competent persons).
 - (b) Whether in respect of the building work a notification will be made in accordance with regulation 20A(4) of the Building Regulations 2000, ie where design details approved by Robust Details Ltd have been used.
 - (c) Whether one application or building notice is in respect of two or more buildings or building works, all of which are substantially the same.
 - (d) Whether an application or building notice is in respect of building work which is substantially the same as building work in respect of which plans have previously been deposited or building works inspected by the same local authority.
 - (e) Whether chargeable advice has been given which is likely to result in less time being taken by a local authority to perform a chargeable function.

- (f) Whether there is a requirement to engage and to incur the costs of a consultant to provide specialist advice or services in relation to a particular aspect of the building work.
- 68** It would be appropriate for local authorities to use the above factors as triggers in order to 'flex' the standard charge to take account of the assessment of the additional or reduction in time (and hence cost) as a result of the chosen factors.
- 69** Local authorities should give careful consideration to the types of building work for which they can set and publish accurate and fair standard charges in advance in their charging scheme based on the recovery of their costs, along with the particular factors they will take into account in doing so (see paragraphs 56 and 67). It is not the intention of the Charges Regulations 2010 to require a separate standard charge for every single individual building project. It should be possible to group certain types of work of particular descriptions that are expected to have similar building control input and set separate standard charges, eg erection of new dwellings, extensions, loft conversions, replacement windows and roofs etc, with standard reductions where appropriate.
- 70** Most local authorities currently primarily set their pre-fixed charges in three schedules related to two factors; the estimated cost of the building work, or the floor area of the building for the erection or extension of small domestic buildings and dwellings. However, when making a charging scheme under the Charges Regulations 2010 local authorities will be required to take into account an increased number of factors as stated above, and as such there will be a need to adapt/expand the current three schedules local authorities currently use for charging. How many categories of charges are needed in practice will be a matter for individual local authorities.
- 71** The use of productive time as a basis of apportioning costs to the building regulations chargeable service, as well as being used to calculate the costs of functions in relation to individual building projects, will provide a mechanism for fairer charges that accurately reflect the cost of carrying out the building regulations chargeable service and thus avoid significant surpluses and deficits.
- 72** A simple illustrative example is shown in figure 4.1 of how individual standard charges can be calculated having regard to a series of factors that have been chosen to take account of when calculating the charges.

Figure 4.1: Calculation of standard charges

The estimated cost of the building control service of Tumble Town District Council is £800,000.

The allocation and apportionment of the £800,000 of the building control service to isolate only those costs attributable to the building regulations chargeable service has been carried out at a consolidated service level (see paragraph 50) and has resulted in £634,750 estimated cost of the building regulations chargeable service.

The estimated standard productive time (hours) in relation to the building regulations chargeable service used to apportion these costs is 10,336.

The estimated standard productive hourly rate is £61.42 ($£634,750/10,336$) (rounded to £61.40).

It is estimated that it will take a standard five hours (based on eight inspections) to undertake inspection work for one small domestic extension and therefore the standard charge would be:

Standard inspection charge: £307.00 ($£61.40 \times 5$ hours)

However, one of the factors used by Tumble Town District Council is the applicant's use of competent persons. Due to the use of a competent person on this project the number of inspections can be reduced to seven and therefore the inspection charge reduced as follows:

Standard inspection charge: £307.00 (£61.40 x 5 hours)

Less: factor based on risk assessment: (£61.40) ($£61.40 \times 1$ hour)

Revised inspection charge: £245.60

(The costs attributable to the building regulations chargeable service would be revised accordingly within the costing methodology, using estimated productive time as the basis of apportionment as a result of the decrease in the estimated productive time for this particular standard charge).

- 73** Having regard to the competitive environment that the local authority building regulations chargeable service operates in and providing value for money to the public, it is important that charges are set within this context and are not set too high. This may mean that following the assessment of demand, costs and productive time, the resultant charges are not competitive. Local authorities may therefore need to be more efficient and either increase productivity (through increased demand) or scrutinise fixed costs. The efficiency of an authority's building regulations chargeable service through the use of management information is further explained in chapter 6.
- 74** Local authorities will need to estimate the demand for the building regulations chargeable service and it is envisaged that the process of calculating accurate costs, productive hourly rate(s) and individual charges of the building regulations chargeable service, will be built up over time, when a relationship can be established between efficient chargeable productive hours and costs. The requirement to monitor demand for the service and the use of predetermined productive hourly rate(s) as a mechanism for management information are further explored in chapters 5 and 6 respectively.

INDIVIDUALLY DETERMINED CHARGES

- 75** Calculating an individually determined charge on a project-by-project basis when considered appropriate, follows the process for standard charges described above. A local authority is required to confirm to the applicant in writing any individually determined charge and the factors that the local authority has taken into account in determining the charge.

Monitoring and Governance

- 76 This chapter offers guidance on monitoring the recovery of the building regulations chargeable costs, the use of earmarked reserves and governance arrangements.

MONITORING

- 77 Once local authorities have determined their charges based on estimated costs of carrying out their building control services and demand it is essential that local authorities continually monitor the breakeven position¹³. Local authorities are required to demonstrate 'taking one financial year with another' that the income from the charges they have levied for carrying out their building regulations chargeable service 'as nearly as possible equates to the costs incurred', ie local authorities should always aim to 'break-even'. Local authorities are also required to review their charges at the end of each financial year for the purpose of achieving this overall objective.
- 78 The requirement to 'take one financial year with another' recognises the inevitable variation over time in the level of building activity and the fluctuating demands on the building control service and the practical difficulties local authorities may therefore have in estimating income and calculating charges to accurately recover their costs each year. This requirement establishes the idea of balancing the income and expenditure over a reasonable period of time. Local authorities will be required when setting their charges for a year to take account of surpluses and deficits made in earlier years and to offset these against projected future costs resulting in reduced or increased charges, as appropriate, and income received for that year and subsequent years so that over a reasonable period income matches costs.
- 79 To demonstrate taking 'one financial year with another', local authorities may find it beneficial to illustrate their cumulative net surplus or deficit balance within the financial statement (the suggested format is illustrated in appendix B). For the purposes of this guidance document this statement is referred to as the 'Building Regulations Chargeable and Non-chargeable Account'.
- 80 The Charges Regulations 2010 does not define 'a reasonable period' as this will depend on each local authority's circumstances, but in CLG's view (as stated in their general guidance that supports the Charges Regulations 2010) it would normally be good practice for local authorities to achieve 'break-even' over a rolling period of three years, although five years may be more appropriate where unusually large surpluses or deficits have occurred.

13. The Charges Regulations 2010 **excludes** the 'derogation' principle in the Charges Regulations 1998, which allowed local authorities to recover 90% of their total costs. This applied where their costs did not exceed £450,000 over the relevant accounting period, or where at least 65% of all charges received over this period related to small domestic buildings, garages, carports and extensions to dwellings.

- 81** Local authorities might therefore want to review their charging scheme over a rolling three-year period, as follows, to comply with the above:
- (a) Towards the end of year 1 a local authority considers whether they want to revise their charging scheme as it will apply to year 2. They will use estimates of the outturn for year 1 to judge whether charges need to be adjusted to reflect their costs and whether there will be any surplus or deficit in year 1 that needs to be offset in year 2 or in subsequent years. On this basis they will decide on the charges for year 2.
 - (b) After the end of year 1 they must carry out the review of that year as required by the Charges Regulations 2010. This will show whether the estimates mentioned in (a) above were sufficiently accurate. If there was a serious divergence they might want to change the charging scheme for year 2, or they might decide to hold over the adjustments until they form a judgement on year 3 – the ‘one financial year with another’ provision allows this discretion.
 - (c) Towards the end of year 2 the local authority will consider the charges for year 3, taking account of the estimated outturn for year 2 and any outstanding surplus/deficit from year 1.
- 82** Producing the financial information in the suggested format of the Building Regulations Chargeable and Non-chargeable Account (as shown in appendix B) will help local authorities to:
- (a) monitor the breakeven position of the chargeable service
 - (b) ensure all costs have been included
 - (c) justify the apportionment of costs (ie support service) to the chargeable service
 - (d) monitor the level of non-chargeable work and its impact on the total costs of the building regulations service
 - (e) transparently show the offsetting of surpluses or deficits against future building regulation charges, or reinvestment of surpluses in improving the quality of delivery of the building regulations chargeable service.
- 83** To assist local authorities in monitoring the breakeven position, the Charges Regulations 2010 require local authorities to produce an annual financial statement at the end of the financial year within which they have made a charging scheme. The financial statement will include the total income and expenditure, and any surplus or deficit in relation to the building regulations chargeable service.
- 84** It is important that local authorities have regard to the full cost recovery of individual charges and not just in relation to full cost recovery of the building regulations chargeable service taken as a whole.
- 85** The predetermined productive hourly rates for the two activities, chargeable and non-chargeable, can be used as a basis for recharging costs to the Building Regulations Chargeable and Non-chargeable Account, using actual staff timesheet information (a staff timesheet template that local authorities can adapt to their own requirements is shown in appendix B). To enable the costs of the chargeable and non-chargeable activities to be presented in the standard classification format within the Building Regulations Chargeable and Non-chargeable Account, the predetermined productive hourly rates have to be split into the standard classification format. This is achieved through the detailed costing

methodology as described in chapter 3 and illustrated in the fully worked example in appendix A.

- 86** The breakeven position of the chargeable service needs to be continually monitored throughout the year and the forecast outturn position kept under review to identify any material variances. There may be many reasons for variances, including:
- (a) an increase in variable costs,¹⁴ eg consultants
 - (b) a decrease in productivity, eg spending more time on projects than the estimated standard productive time
 - (c) an increase in productivity, eg spending less time on projects than the estimated standard productive time.
- 87** Where material variances are highlighted at an individual job level or the summary level within the Building Regulations Chargeable and Non-chargeable Account, local authorities will need to thoroughly investigate these variances through the comparison of estimated and actual types of job using the productive hourly rates and staff timesheet analysis. Local authorities will also need to monitor the actual number of productive hours (ie to ensure that time booked to management and administration is as forecast).
- 88** Regular monitoring information is essential for management purposes; points (a) to (c) of paragraph 86 are further discussed in chapter 6.
- 89** The Charges Regulations 2010 provide a power for local authorities to decrease a charge for which payment has been received and request a supplementary charge, where appropriate, to ensure full recovery of costs of carrying out building regulation functions relating to the individual building project, for example where the applicant requests additional support from a local authority and thus more inspections are needed leading to additional officer time and hence additional costs. This power should be used fairly and consistently applied, and be fully justified by an authority sending out a written statement setting out the reasons and calculation of the refund or supplementary charge.
- 90** Local authorities should also monitor the non-chargeable costs and investigate thoroughly the reasons for any variances to the budgeted position. There may be many reasons for variances, eg a decrease in demand for the chargeable service resulting in more costs being apportioned to the non-chargeable service than estimated. This is further discussed in chapter 6.
- 91** Income should be credited to the Building Regulations Chargeable and Non-chargeable Account using the accruals accounting concept.

EARMARKED RESERVES

- 92** The Charges Regulations 2010 introduced flexibility into the charging regime. Local authorities must relate their charges to the recovery of costs through standard charges or determine charges on an individual basis, allowing them to revise charges where appropriate.

14. The majority of costs of the building regulations service will be fixed, ie directly employed employee costs, but this should not distract from the fact that some costs will vary with demand for the service, eg consultants, and therefore will need to be monitored closely to identify any material variances against those costs estimated at the time when the standard charges were set.

Therefore within this flexible charging framework it is envisaged that there will not be material surpluses or deficits arising on the building regulations chargeable service at the year end.

- 93** There is no legislation that requires local authorities to ring-fence surpluses or deficits of the building regulations chargeable service because this would be inconsistent with government policy to give local authorities greater discretion and more local accountability, although authorities are free to ring-fence this service if they consider this to be appropriate. For example, where appropriate, surpluses can be invested in improving the quality of delivery of the building regulations chargeable service but this should be reflected in the following year's expenditure account. Local authorities should view the use of surpluses and funding of deficits in the context of the Charges Regulations 2010, which sets out the new charging principle for local authorities of relating their charges to the recovery of the costs of providing services for individual building projects in relation to the chargeable functions and chargeable advice.
- 94** Therefore it is implicit that local authorities consider the use of an earmarked reserve where surpluses or deficits occur, to demonstrate 'taking one financial year with another' that the charges they have levied for carrying out their building regulations chargeable service is equal, as far as practical, to the actual costs. This is emphasised in the inclusion of the 'brought forward net surpluses or deficits' in the Building Regulations Chargeable and Non-chargeable Account illustrated in the 'Workbook' section of this guidance document.
- 95** This will mean local authorities having a local approved reserves policy for the use of surpluses and funding of deficits, ie offsetting surpluses or deficits against future building regulation charges, or reinvesting surpluses in improving the quality of delivery of the building regulations chargeable service; for example, funding the purchase of a new IT system.
- 96** Local authorities may be in a position where there are no surpluses in the earmarked reserve to fund an in-year deficit. Local authorities in this position will have to fund the in-year deficit from the General Fund unallocated balance, and subsequently set the charges or reduce expenditure in the following year to 'replenish' the General Fund unallocated balance. This process must be transparent to enable the funding of deficits and replenishment of the General Fund unallocated balance to be easily tracked.

GOVERNANCE

- 97** It is important that the principles local authorities use to calculate charges are transparent so that elected members can understand and scrutinise this area as part of a coherent framework of fees and charges and that the general public and other stakeholders can understand what action the local authority has taken.
- 98** Local authorities are required by the Charges Regulations 2010 to publicise, not less than seven days before the date on which the scheme is to come into effect, the fact that they have made a new charging scheme in their areas, the date on which it comes into effect and the address where it may be inspected by a member of public free of charge. This also applies when a charging scheme is amended or replaced.

- 99** Local authorities have the discretion to choose which media to use in order to publicise making and amending a charging scheme and how it can be accessed. Local authorities should consider publicising their charging scheme in the context of addressing the issues of accountability and transparency through their own reporting and governance frameworks. This may include a notification in the local newspaper or a link added to the authority's website or other published material such as leaflets/council newspaper (for those that do not have access to the internet). Local authorities are free to publish summary information from their charging scheme, such as lists of standard charges, on their website or in other published leaflets, which will reduce the need for the public to assess the full charging scheme.
- 100** The Charges Regulations 2010 require local authorities to publish a financial statement relating to the Building Regulations Chargeable and Non-chargeable Account not more than six months after the end of the financial year to which the statement relates. The statement must be approved by the section 151 officer¹⁵ or, in the case of the Common Council of the City of London, by the section 6 officer.¹⁶ The publication of this statement is further discussed in paragraph 102.
- 101** With the removal of the disclosure note relating to the Building Regulations Chargeable and Non-chargeable Account (previously referred to as the Building Regulations Charging Account) from the annual Statement of Accounts with effect from 2009/10, local authorities should consider carefully how their arrangements for publishing their financial statement meet the needs of stakeholders and local people. For example, local authorities may wish to include the statement in their charging scheme and their annual report and/or on their website. Authorities are required by the Charges Regulations 2010 to make provision in their charging scheme about handling and considering complaints relating to their charges and this should extend to any complaints about a financial statement. It is also open to anyone who is not content with a local authority's response to a complaint about the statement to raise the matter with the local authority's appointed auditor.
- 102** The Department/the National Assembly for Wales propose to monitor on a three-yearly basis from 2012/13 whether local authorities are achieving the overriding accounting objective of 'taking one financial year with another' that the charges they have levied for carrying out their building regulations chargeable service 'as nearly as possible equates to the costs incurred'. They also propose to carry out a wide review of the impact of the Charges Regulations 2010 in 2013 to ensure they meet their policy objectives.

15. Section 151 of the Local Government Act 1972.

16. Section 6 of the Local Government and Housing Act 1989.

Management Information

- 103** This chapter offers guidance on how predetermined productively hourly rates for the two activities, chargeable and non-chargeable, can be used to provide useful management information for local authorities to use in making informed decisions in order to keep building regulations chargeable costs within income.

PRODUCTIVE HOURLY RATE(S)

- 104** Chapter 4 (see figure 4.1) described how predetermined productive hourly rate(s) for chargeable activity can be used to set standard charges and individually determined charges to recover the actual costs (as far as practically possible) associated with the building regulations chargeable service.
- 105** It should be noted that productive hours of an employee will not equal 100% of the total hours worked. There will be time associated with annual leave, sickness, training and management meetings that are not directly related to carrying out the activities of the building control service and will therefore be excluded from the calculation of productive hourly rates. This time is classed as 'unproductive time' and will have to be estimated and monitored throughout the financial year.
- 106** Predetermined productive hourly rates can also be used to produce management information to enable the breakeven position to be kept under review. In particular the productive hourly rate(s) can be used for the following:
- (a) as standard absorption rates that can be used as a mechanism to measure the efficiency and spare capacity of the building control service
 - (b) to assess the impact of changes in unproductive and productive time on cost recovery
 - (c) to assess the impact of variances in variable costs.

STANDARD ABSORPTION RATES

- 107** Chargeable productive hourly rate(s) can be used as a measure of efficiency of the building control service. The predetermined productive hours can be used as standard adsorption rates. The standard chargeable productive rate(s) are prepared on the basis of the total number of chargeable productive hours estimated to be worked under efficient working operations (see paragraphs 23 and 24) as a result of an estimated demand for the chargeable service, as described in chapters 3 and 4.
- 108** The process of calculating accurate standard chargeable productive hourly rates may only be possible after a passage of time when a relationship can be established between differing levels of demand and the total number of efficient chargeable productive hours. Establishing

a relationship will inevitably involve some degree of judgement and the use of individual job costing and detailed staff timesheet analysis.

- 109** Caution must be exercised when coming to any firm conclusions regarding inefficiencies and efficiencies caused by working more or less hours respectively, than the estimated standard number of hours expected for a level of charges income, ie if the chargeable productive hours are higher or lower than the standard number of hours estimated, it may be because of the nature and complexity of the applications received and not due to the inefficiencies or efficiencies of the building control staff. In these cases local authorities may increase or decrease charges to recover the additional or reduction in costs in line with the Charges Regulations 2010. This should be borne in mind when reading the following paragraphs.
- 110** If actual demand is less than estimated when the standard chargeable productive hourly rate(s) were calculated (and hence actual charges income is less than anticipated), the level of chargeable productive hours could be expected to reduce because the level of work has reduced.
- 111** Therefore when levels of charges income are falling but the levels of chargeable productive hours stay constant or increase when compared to the standard chargeable hours, it may highlight that the building control staff are taking longer to do individual building projects compared to the standard number of chargeable productive hours estimated to be worked.
- 112** A simple illustrative example is shown in figure 6.1 of how an efficiency variance can be calculated.

Figure 6.1: Calculation of an efficiency variance (reduction in efficiency)

Tumble Town District Council has estimated that 10,336 standard chargeable productive hours is required to recover the £634,750 cost of the building regulations chargeable service, under efficient working operations.

The estimated standard productive hourly rate is £61.42 (£634,750/10,336) (rounded to £61.40).

At the end of the year demand had decreased by 10% against the estimate, ie from 10,336 to 9,302 standard hours. However, the actual chargeable productive hours remained at 10,336.

The calculation of the efficiency variance is as follows:

Expenditure:	£
Standard chargeable productive hours for actual output at fixed absorption rate (9,302 x £61.40)	571,143
Actual standard chargeable productive hours at fixed absorption rate (10,336 x £61,40)	<u>634,750</u>
Variance	(63,607)

The negative variance of £63,607 is caused by the number of hours spent in the chargeable activities being higher than the standard expected for the level of work. Charges income will be decreased in line with demand; so the chargeable activity would be in deficit, as opposed to a breakeven position if building control staff had worked the standard number of hours for the level of work.

- 113** The efficiency variance as shown in figure 6.1 could also be calculated at an individual building project level, in order to assess the efficiency of individual building projects.
- 114** Chargeable productive hours can also be used as a measure of the spare capacity of the building control service. Using the simple illustrative example shown in figure 6.1, if the building control staff had worked the standard number of chargeable hours, ie 9,302, for the level of demand this would have resulted in a breakeven position. There would, however, be spare capacity of 1,034 productive hours (ie 10% of 10,336 chargeable productive hours) and therefore an under recovery of the chargeable activity costs of £63,607. This under-recovery highlights the need to review options to fully utilise the spare capacity of 1,034 productive hours and apportion the £63,607 costs. Options include doing work for the non-chargeable activity and other building control services (see figure 3.1). Should time be reallocated to the non-chargeable activities, this would have consequences for an authority as a whole; unless there was an increased demand for services internally and the budgets adjusted accordingly, costs reductions would be needed. There may be a need to consider cost reductions if it is not possible to utilise the spare capacity of the building control service in order to recharge the under-recovered cost of £63,607. This illustrates how local authorities can use chargeable productive hours as a basis for standard absorption rates that can be used as a mechanism for reducing the costs of the building regulations chargeable service.
- 115** If demand is the same as estimated when the standard chargeable productive hourly rate(s) were calculated (and hence actual charges income is the same as anticipated), the level of actual chargeable productive hours could be expected to be the same as estimated.
- 116** Therefore when levels of charges income are the same as estimated but the level of chargeable productive hours decreases when compared to the standard chargeable hours, it may highlight that building control staff are taking less time to do individual building projects compared to the standard number of chargeable productive hours estimated to be worked.
- 117** A simple illustrative example is shown in figure 6.2 of how an efficiency variance can be calculated.

Figure 6.2: Calculation of an efficiency variance (increase in efficiency)

Tumble Town District Council has estimated that 10,336 standard chargeable productive hours is required to recover the £634,750 cost of the building regulations chargeable service, under efficient working operations.

The estimated standard productive hourly rate is £61.42 (£634,750/10,336) (rounded to £61.40).

At the end of the year demand had matched the estimate, requiring 10,336 standard hours. However, the actual chargeable productive hours reduced to 9,302.

The calculation of the efficiency variance is as follows:

Expenditure:	£
Standard chargeable productive hours for actual output at fixed absorption rate (10,336 x £61.40)	634,750
Actual standard chargeable productive hours at fixed absorption rate (9,302 x £61.40)	<u>571,143</u>
Variance	<u>63,607</u>

The positive variance of £63,607 is caused by the number of hours spent on chargeable activities being lower than the standard expected for the level of work. Fee income will remain constant in line with demand; so the chargeable activity would be in surplus, as opposed to a breakeven position if building control staff had worked the standard number hours for the level of work.

- 118 The efficiency variance as shown in figure 6.2 could also be calculated at an individual job level, in order to assess the efficiency of individual building projects.
- 119 As highlighted in paragraph 114, chargeable productive hours can also be used as a measure of the spare capacity of the building control service. Using the simple illustrative example in figure 6.2, if building control staff had worked the standard number of chargeable hours (ie 10,336) for the level of charges income (ie £634,750), this would have resulted in a breakeven position, and an over-recovery of the chargeable activity costs of £63,607 (assuming this time was used elsewhere). This over-recovery of the chargeable activity costs highlights the need to review the options for the utilisation of the hours (ie 1,034) created through building control staff being more efficient. These options are discussed in paragraph 114.
- 120 In addition, standard chargeable productive hours can be used to measure the demand for each employee category and the resultant impact on the recovery of the chargeable activity costs. For example, the productive hourly rate (see paragraph 65) will include assumptions about hours required from each employee. Total hours could remain the same, but an increased demand for an employee paid at a higher rate, and a corresponding decrease for an employee at a lower rate, would result in an under-recovery of the chargeable activity costs that the efficiency variance described in paragraphs 107 to 119 would not explain.

CHANGES IN UNPRODUCTIVE AND PRODUCTIVE TIME

- 121 The previous paragraphs illustrate how standard chargeable productive hours can be used to measure efficiency, spare capacity and demand for each employee within the building regulations chargeable service when the level of actual charges income is the same or lower than estimated. Conversely, standard chargeable productive hours can be used to measure

efficiency and spare capacity when charges income increases above the estimated level (having regard to the nature and complexity of the applications received).

- 122** There may be scope within a building control service to increase productivity by increasing the chargeable productive hours and reducing unproductive time (ie time spent attending management meetings); in which case this would result in an over-recovery of the costs of the chargeable activity (ie using figure 6.1, the standard chargeable productive hourly rate of £61.40 is based on the estimate of 10,336 chargeable productive hours recovering costs of £634,750). If there were a reduction in the unproductive hours and an increase in the chargeable productive hours due to an increase in demand, the standard chargeable hourly rate(s) would need to be altered (ie decreased) to reflect the increase in the overall productivity of the building control service and to enable the chargeable hourly rate(s) to accurately reflect the true cost the chargeable and non-chargeable activities. Alternatively, if there were a decrease in demand that led to an increase in unproductive time, the standard chargeable hourly rate(s) would need to be altered (ie increased) to reflect the decrease in the overall productivity of the building control service.

VARIABLE COSTS

- 123** It is important for local authorities to recognise that there will be some costs that will vary with demand, eg car allowances. It is not anticipated that these costs will be material; nevertheless, local authorities need to consider their impact on the chargeable productive hourly rate and, hence, on the cost recovery of individual building projects.
- 124** It would not be considered practical to allocate the cost of car allowances directly to individual building projects because this would result in the costing and charging methodology becoming very complicated and would have a disproportionate impact on those applicants who happen to be remote from the local authority (building control) offices. Therefore these costs should be included in the chargeable productive hourly rate (see chapters 3 and 4).
- 125** Local authorities will need to make an estimate of the variable costs in order to calculate the standard charges, based on an estimate of demand. However, it is important that local authorities closely monitor variable costs during the year. If these costs increase materially, local authorities should consider adjusting their charges accordingly (within their charging schemes) to recover the additional variable costs, eg the appointment of specialised consultants to carry out a specific individual job.
- 126** To facilitate the accuracy of revising chargeable productive hourly rate(s) to reflect changes in individual costs of the total building control service, eg increases in car allowances, local authorities should consider splitting the predetermined productive hourly rates into the standard classification format (see paragraph 26). This is achieved through the detailed costing methodology described in chapter 3 and illustrated in appendix A.

TIMESHEET ANALYSIS

- 127** Local authorities may need to consider analysing hours on a process basis rather than in total. For example, before setting a standard charge, an estimate of the amount of time required to perform an inspection will be needed. This will include an element of travel time, but this element will vary depending on the location of the property. As set out in paragraph 124, it would not be considered practical to allocate the cost of car allowances directly to individual building projects, but for internal management information purposes local authorities may wish to monitor the actual travel time of individual building projects. For example, if local authorities recorded inspection time, travel time, and office time as separate processes, when actual hours varied from standard hours they could see if the time required for a particular process had been under- or over-estimated and take action accordingly.

APPENDIX A

Fully Worked Example – Allocation and Apportionment of Building Control Service Costs to the Three Building Control Activities and the Calculation of Building Regulation Charges

(This is an illustrative example only – local authorities should note that many other costing methodologies could be used. Local authorities should consider using the most appropriate costing methodology.)

STEP 1: ALLOCATION AND APPORTIONMENT OF COSTS TO THE CHARGEABLE AND NON-CHARGEABLE BUILDING REGULATIONS ACTIVITIES AND OTHER BUILDING CONTROL ACTIVITIES

Tumble Town District Council's building control service net budget for 2010/11 is £800,000. The net budget has been calculated with regard to the publication *Building Control Performance Standards* produced by the Building Control Performance Standards Advisory Group.

The building control service challenged the justification of recharges by the providers of support services, office accommodation (includes depreciation and impairment), finance, legal, IT, corporate services (director of customer services) and human resources. Following the challenge, the recharge for office accommodation was reduced; the original recharge was based on the floor area of office space that the building control staff had previously occupied. The resultant total support service recharge was reduced to £160,000.

The £800,000 net budget¹⁷ of the building control service is fully allocated and apportioned to three activities – chargeable and non-chargeable building regulations, and other building control activities – at a consolidated service level to calculate average productive hourly rates (see paragraph 50).

The expenditure that can be allocated directly to the three activities has been identified and the justification for the direct allocation is shown below:

- **Transport** – car allowances; separately identified payments in relation to the three activities, based on previous car allowance claims.

17. Tumble Town District Council has assessed the capital financing costs associated with the building control service and determined that these are immaterial.

- **Supplies and services** – consultant fees; consultants only used in relation to the chargeable building regulation service.
- **Support services** – finance; processing creditor and debtor invoices and receipt of charges income separately identifiable from the other finance recharges, and relate solely to the building regulations chargeable service.
- **Support services** – legal; recovery of charges income identifiable to the building regulations chargeable service.

Tumble Town District Council has chosen productive time as the basis of apportioning the remaining costs to the three activities. The total hours used for each person was 1924, (52 weeks x 37 hours per week). The estimated time to be spent on the three activities is shown in table 1. It should be noted that Tumble Town has treated the estimated time in relation to management and clerical/admin support as an overhead.

Table 1: 2010/11 summary of estimated staff time

	Chief Building Control Officer		Principal Building Control Officers		Senior Control Officers		Building Control Officers		Clerical/Admin Assistants		Total	
Number of FTEs	1		2		3		2		2		10	
	hours	%	hours	%	hours	%	hours	%	hours	%	hours	%
Management	693	36	-	-	-	-	-	-	-	-	693	4
Clerical/Admin Support	-	-	-	-	-	-	-	-	616	16	616	3
Productive*	790	41	2,775	72	4,618	80	3,194	83	2,347	61	13,724	71
Unproductive**	441	23	1,073	28	1,154	20	654	17	885	23	4,207	22
Totals	1,924	100	3,848	100	5,772	100	3,848	100	3,848	100	19,240	100
*Split of Productive Time:												
Chargeable Building Regulations Activities	38	5	1,428	51	4,388	95	2,651	83	1,831	78	10,336	75
Non-chargeable Building Regulations Activities	360	46	889	32	115	2.5	256	8	399	17	2,019	15
Other Building Control Activities	392	49	458	17	115	2.5	287	9	117	5	1,369	10
Totals	790	100	2,775	100	4,618	100	3,194	100	2,347	100	13,724	100
**Split of Unproductive Time:												
Annual Leave	207	47	414	39	606	53	384	59	370	42	1,981	47
Sickness (five days per person)	37	8	74	7	111	10	74	11	74	8	370	9
Other (eg training, management meetings)	197	45	585	54	437	37	196	30	441	50	1,856	44
Totals	441	100	1,073	100	1,154	100	654	100	885	100	4,207	100

The breakdown of the net budget directly allocated (totalling £89,000) and apportioned based on productive time (totalling £711,000) to the three activities is shown in table 2.

Table 2: Allocation and apportionment of the net budget to the three activities – chargeable and non-chargeable building regulations, and other building control activities

CIPFA Standard Classification	2010/11 Net Budget £	Chargeable Building Regulations Activities		Non-chargeable Building Regulations Activities		Other Building Control Activities				
		Allocation £	Apportionment (75%) £	Total £	Allocation £	Apportionment (15%) £	Total £	Allocation £	Apportionment (10%) £	Total £
Employees	558,000	0	441,000	441,000	0	83,700	83,700	0	33,300	33,300
Premises*	0	0	0	0	0	0	0	0	0	0
Transport	50,000	39,000	750	39,750	3,000	150	3,150	7,000	100	7,100
Supplies and Services	35,000	21,000	10,500	31,500	0	2,100	2,100	0	1,400	1,400
Third Party Payments	0	0	0	0	0	0	0	0	0	0
Support Services	160,000	19,000	105,750	124,750	0	21,150	21,150	0	14,100	14,100
Total Expenditure	803,000	79,000	558,000	637,000	3,000	107,100	110,100	7,000	48,900	55,900
Miscellaneous Income**	(3,000)	0	(2,250)	(2,250)	0	(450)	(450)	0	(300)	(300)
Total Income	(3,000)	0	(2,250)	(2,250)	0	(450)	(450)	0	(300)	(300)
Net Expenditure	800,000	79,000	555,750	634,750	3,000	106,650	109,650	7,000	48,600	55,600

* The cost of premises-related expenses is included in the admin buildings support service recharge which included depreciation, impairment and revaluation losses.

** Excludes building regulation charges income.

The capital financing costs (ie notional interest on capital employed) are immaterial and have therefore not been included in the net budget.

Taking transport as an example (see amounts highlighted in table 2); the budget is £50,000 of which £49,000 has been directly allocated to the three functions (£39,000, £3,000 and £7,000) (see first bullet point in step 1). The remaining budget being £1,000 (ie £50,000 less £49,000) is apportioned to the three functions based on staff time, ie 75%, 15% and 10% (see percentages highlighted in table 1) being £750, £150 and £100 respectively.

STEP 2: CALCULATION OF PRODUCTIVE HOURLY RATES FOR THE CHARGEABLE AND NON-CHARGEABLE BUILDING REGULATIONS ACTIVITIES AND OTHER BUILDING CONTROL ACTIVITIES

Tumble Town District Council has chosen productive hourly rates as an appropriate and suitable cost driver to calculate the individual cost of chargeable building projects and hence the charge to recover the costs of chargeable building control activities. The predetermined productive hours used being those calculated in table 1 and subsequently used for the apportionment of costs to the three activities as shown in table 2.

The predetermined productive hourly rates for the three activities are shown in table 3.

Table 3: Calculation of predetermined productive hourly rates for the three activities – chargeable and non-chargeable building regulations, and other building control activities

CIPFA Standard Classification	Chargeable Building Regulations Activities			Non-chargeable Building Regulations Activities			Other Building Control Activities		
	Total £	Productive Hours	Productive Hourly Rate £	Total £	Productive Hours	Productive Hourly Rate £	Total £	Productive Hours	Productive Hourly Rate £
Employees	441,000	10,336	42.67	83,700	2,019	41.46	33,300	1,369	24.32
Premises	0	10,336	0	0	2,019	0	0	1,369	0
Transport	39,750	10,336	3.85	3,150	2,019	1.56	7,100	1,369	5.19
Supplies and Services	31,500	10,336	3.05	2,100	2,019	1.04	1,400	1,369	1.02
Third Party Payments	0	10,336	0	0	2,019	0	0	1,369	0
Support Services	124,750	10,336	12.07	21,150	2,019	10.48	14,100	1,369	10.30
Miscellaneous Income	(2,250)	10,336	(0.22)	(450)	2,019	(0.22)	(300)	1,369	(0.22)
Totals	634,750	10,336	61.42*	109,650	2,019	54.32	55,600	1,369	40.61

* rounded to £61.40

Tumble Town District Council is to use the predetermined productive hourly rates for the two activities; chargeable and non-chargeable, being £61.42 and £54.32 respectively, as a basis for recharging costs to the Building Regulations Chargeable and Non-chargeable Account, using actual staff timesheet information. To enable the costs of the chargeable and non-chargeable activities to be presented in the standard classification format within the Building Regulations Chargeable and Non-chargeable Account, the predetermined productive hourly rates have been split into the standard classification format as shown in table 3.

STEP 3: CALCULATION OF STANDARD CHARGES

(Local authorities should note that the illustration below is a high-level example of how productive hourly rates and resultant charges per project category would recover the estimated costs of the building regulations chargeable service. Local authorities should refer to the LABC new model charging scheme for a detailed framework of charges. The model, when available, can be found in the members' area of the LABC website (www.members.labc.uk.com/chargesguidance).

Tumble Town District Council has examined the profile of its building regulations chargeable work based on historical and anticipated future trends.

Table 4: Summary of anticipated projects for 2010/2011

Project Category	Hours to Complete	Productive Hourly Rate £	Average Hours to Complete	Estimated Number of Projects	Total Time Hours	Total Charges Income £
Window Replacement (not competent persons)	0.5	61.40	30.70	30	15	921.00
Renovation of Thermal Element	1.0	61.40	61.40	71	71	4,359.40
Small/Medium Domestic Extension	5.0	61.40	307.00	440	2,200	135,080.00
Loft Conversions	5.5	61.40	337.70	300	1,650	101,310.00
Miscellaneous Domestic Alterations	2.0	61.40	122.80	75	150	9,210.00
Large Domestic Extension	6.5	61.40	399.10	200	1,300	79,820.00
Low-rise Housing Units	7.0	61.40	429.80	400	2,800	171,920.00
Flat Developments not Exceeding Three to Six Storeys	70.0	61.40	4,298.00	25	1,750	107,450.00
Major Schemes – Schools	70.0	61.40	4,298.00	2	140	8,596.00
Major Schemes – Commercial	60.0	61.40	3,684.00	1	60	3,684.00
Major Schemes – Retail	50.0	61.40	3,070.00	2	100	6,140.00
Miscellaneous – Other Non-domestic Work	4.0	61.40	245.60	25	100	6,140.00
Totals		61.40			10,336	634,630.40

The anticipated charges income totalling £634,630.40 would recover the estimated cost of the building regulations chargeable service totalling £634,750.

Tumble Town District Council will review workload/resources on a monthly basis, to ensure that charges fully recover the costs of carrying out the building regulations chargeable activities for individual building projects.

APPENDIX B

Workbook – Illustrative Templates

Staff timesheet

Name of Employee [insert name of employee]

Week Commencing [insert Day/Month/Year]

Detail of Activity	Reference Number	Monday	Tuesday	Wednesday	Thursday	Friday	Total Time (minutes)	% of Time
Management								
Clerical/Admin Support								
Productive Time		[total for the three activities]	[total for the three activities]	[total for the three activities]	[total for the three activities]	[total for the three activities]	[total for the three activities]	[total for the three activities]
Chargeable Building Regulations Activity:		[total for activity]	[total for activity]	[total for activity]	[total for activity]	[total for activity]	[total for activity]	[total for activity]
[insert activity, eg Small/medium domestic extension – advice (more than one hour)]								
[insert activity, eg Small/medium domestic extension – inspection]								
Non-chargeable Building Regulations Activities:		[total for activity]	[total for activity]	[total for activity]	[total for activity]	[total for activity]	[total for activity]	[total for activity]
[insert activity, eg General advice to the public/other council departments]								
[insert activity, eg Building adaptations for disabled people]								
[insert activity, eg Small/medium domestic extension – advice (one hour or less)]								
Other Building Control Activities:		[total for activity]	[total for activity]	[total for activity]	[total for activity]	[total for activity]	[total for activity]	[total for activity]
[insert activity, eg Dangerous structures]								
[insert activity, eg Demolitions]								

Detail of Activity	Reference Number	Monday	Tuesday	Wednesday	Thursday	Friday	Total Time (minutes)	% of Time
Unproductive Time		[total for activity]	[total for activity]	[total for activity]	[total for activity]	[total for activity]	[total for activity]	[total for activity]
[insert activity, eg Annual leave]								
[insert activity, eg Sickness]								
[insert activity, eg Management meetings]								
[insert activity, eg Training]								
Check by line manager: [insert name of line manager]								
Name of Employee [insert name of employee]								
Week Commencing [insert Day/Month/Year]								
Summary of Activity	Reference Number	Monday	Tuesday	Wednesday	Thursday	Friday	Total Time (minutes)	% of Time
Management								
Clerical/Admin Support								
Productive Time								
Unproductive Time								

Check by line manager: [insert name of line manager]

The template above could be linked to the detailed employee timesheets (see previous template) and populated automatically.

Summary of estimated staff time

	[insert employee title]	[insert employee title]	[insert employee title]	[insert employee title]	[insert employee title]	[insert employee title]	Total
Number of FTEs	hours	%	hours	%	hours	%	hours %
Management							
Clerical/Admin Support							
Productive*							
Unproductive**							
Totals							
*Split of Productive Time:							
Chargeable Building Regulations Activities							
Non-chargeable Building Regulations Activities							
Other Building Control Activities							
Totals							
**Split of Unproductive Time:							
Annual Leave							
Sickness (five days per person)							
Other (eg training, management meetings)							
Totals							

Allocation and apportionment of the net expenditure budget to the three activities – chargeable and non-chargeable building regulations, and other building control activities

CIPFA Standard Classification	XXXX/YY Net Budget £	Chargeable Building Regulations Activities			Non-chargeable Building Regulations Activities			Other Building Control Activities		
		Allocation £	Apportionment (xx%) £	Total £	Allocation £	Apportionment (xx%) £	Total £	Allocation £	Apportionment (xx%) £	Total £
Employees										
Premises										
Transport										
Supplies and Services										
Third Party Payments										
Support Services										
Depreciation and Impairment Losses										
Capital Financing Costs (notional interest)										
Total Expenditure										
Miscellaneous Income										
Total Income										
Net Expenditure										

Calculation of predetermined productive hourly rates for the three activities – chargeable and non-chargeable building regulations, and other building control activities

CIPFA Standard Classification	Chargeable Building Regulations Activities			Non-chargeable Building Regulations Activities			Other Building Control Activities		
	Total £	Productive Hours	Productive Hourly Rate £	Total £	Productive Hours	Productive Hourly Rate £	Total £	Productive Hours	Productive Hourly Rate £
Employees									
Premises									
Transport									
Supplies and Services									
Third Party Payments									
Support Services									
Depreciation and Impairment Losses									
Capital Financing Costs (notional interest)									
Miscellaneous Income									
Totals									

Financial statement – building regulations chargeable and non-chargeable account

	Chargeable XXXX/YY £	Non-chargeable XXXX/YY £	Total Building Regulations XXXX/YY £
Expenditure			
Employees	xxx	xxx	xxx
Premises	xxx	xxx	xxx
Transport	xxx	xxx	xxx
Supplies and Services	xxx	xxx	xxx
Third Party Payments	xxx	xxx	xxx
Support Services	xxx	xxx	xxx
Depreciation and Impairment	xxx	xxx	xxx
Losses			
Capital Financing Costs (notional interest)	xxx	xxx	xxx
TOTAL EXPENDITURE	xxx	xxx	xxx
Income			
Building Regulations Charges	xxx	xxx	xxx
Miscellaneous Income	xxx	xxx	xxx
TOTAL INCOME	xxx	xxx	xxx
SURPLUS/(DEFICIT) FOR THE YEAR	xxx	xxx	xxx
SURPLUS/(DEFICIT)			
B/F	xxx		xxx
C/F	xxx		xxx



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