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Organisation de Coopération et de Développement Economiques
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English - Or. English

COUNCIL

Council

PART II OVERHEADS CHARGING

(Note by the Secretary-General)

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1. Since late 2004, the Organisation has been reviewing the costing and charging of overheads for Part II programmes. This reform is important to end many years of concern, mainly appropriate accounting for costs between Part I and Part II budgets; to improve clarity and transparency about 'who pays for what'; and to permit resources to be allocated more efficiently so as to improve the capacity of the OECD to deliver the quality of work and service expected by Members.

2. In June and July 2005, an Informal Working Group (IWG) of the Budget Committee on Corporate Overhead Charges to Part II programmes, presented its recommendations in a report to the Committee [EXD/BC(2005)18]. These recommendations improve the rationale for the sharing of support costs between Part I and the different Part II programmes. They establish the basis for clear rules for allocating a fair and equitable share of overheads to existing or newly-created Part II programmes. They also acknowledge that Part II programmes should receive value for money for corporate services and that there should be no 'discrimination' against Part II programmes in terms of the provision of corporate services.

3. The IWG report was discussed by Heads of Delegation on 28 November 2005. Part II programmes were consulted during the process and the comments and questions about the methodology were taken into account. Discussions in the Budget Committee on 24 February and 18 July 2006 addressed the issue of how the IWG recommendations were to be implemented, with respect to the specific issue of overhead charges, and to other aspects, such as the billing for corporate services and the quality of the provision of such services [EXD/BC(2006)2 and BC(2006)1].

4. In his paper on Budget Assumptions and Priority Proposals for 2007-08 [C(2006)106], the Secretary-General stated that he placed "great store on the smooth and effective implementation of this proposal, including by all the Part II programmes, to put our budgeting on a more transparent and accountable basis." The Budget assumptions contained in that document were *inter alia* that implementation would proceed from 1 January 2007 in accordance with the approach set out in BC(2006)1.

5. The conclusions of the Budget Committee meeting of 18 July [BC/M(2006)3/REV1] called for a decision to be taken by Council on the implementation of the reform. There is now a need to confirm that the new methodology will indeed be implemented from January 2007. The decision will assist in the process of finalising the Programmes of Work and Budgets of Part I and of each Part II programme, especially for some non-consolidated Part II programmes. Several Part II programmes currently are seeking confirmation that the reforms will actually proceed before settling the content of their Budgets for 2007.

6. Against this background, Council is invited to agree to a new overhead charging system and on the timing of its application. The draft decision recognises that the actual budget implications of the application of the new system are currently being settled and that the final determination thereof should be completed before the end of 2006 as part of the decision about the PWB for 2007-08. The terms of the draft Council decision, on which the Part II programmes have been consulted, are set out below.

7. In light of the preceding, the Secretary-General invites the Council to adopt the following draft conclusions:

THE COUNCIL

- a) noted document C(2006)144/REV1;
- b) noted the report of the Informal Working Group (IWG) of the Budget Committee on Corporate Overhead Charges to Part II programmes which includes a review

of the costing and charging of support costs to Part II programmes [EXD/BC(2005)18];

- c) noted the importance for both Part I and Part II programmes of providing a basis for transparent and coherent rules for the allocation of overhead costs between the Part I programmes and current and future Part II programmes, as well as the importance of the cost-effective provision of corporate services throughout the Organisation;
- d) agreed that the calculation and allocation of overhead costs for all existing and any new Part II programmes should be based on the methodology set out in the Annex to document C(2006)144/REV1;
- e) agreed that, consistent with this methodology of classifying overheads, 'Category 1' costs correspond to services available and applicable to all programmes and that they should be allocated on the basis of staff costs; that 'Category 2' costs correspond to services available to some programmes by nature of their physical location and that they should be allocated on the basis of the cost of staff employed in the building benefiting from the service concerned; and that 'Category 3' costs correspond to services considered to be an integral part of the Organisation as a whole and that, as such, are not reasonably divisible by programme; the functions covered by 'Category 3' costs are set out in the Annex to document C(2006)144/REV1;
- f) agreed that the share of each Part II programme towards 'Category 3' costs is set at 1.5% of each programme's substantive budget;
- g) noted the potential budgetary impacts, set out in BC(2006)1, of the new overhead charging system;
- h) noted that the final budgetary implications for each Part II programme and for Part I have yet to be determined and that the precise budgetary implications will be established as part of the PWB preparatory process and decided by Council when adopting the PWB;
- i) agreed that this new overhead charging system will be implemented as from January 2007;
- j) agreed that, in order to smooth the adjustment for both Part I and Part II programmes, the Secretary-General should implement the system progressively over a period of four years; should the Secretary-General consider that there are exceptional circumstances applying to a limited number of small programmes that would justify an extension of the implementation period, he would propose such an adjustment for approval by the Budget Committee;
- k) invited the Secretary-General to:
 - i) reinforce consultations with Part II programmes on the provision of corporate services and ensure that they are reviewed regularly with a view to continued improvement in efficiency and effectiveness;

- ii) determine urgently with each Part II programme the precise costs of implementation of the reform using as a basis the recommendation set out in BC(2006)1 with a view to incorporating these in the PWB proposals to be approved by Council by the end of the year;
- l) invited the Budget Committee to review the new overhead charging system for Part II programmes two years after its implementation, with the on-going participation of Secretariat representatives, including those from Part II programmes; the review team may consider *inter alia* general overheads, billables, and the budget impact; the review should be completed within six months.

ANNEX

CORPORATE OVERHEADS COSTS FOR PART II PROGRAMMES – CALCULATION AND ALLOCATION METHODOLOGY

1. All corporate functions whether they are re-billed to Part II programmes on a consumption basis, such as Translations or Document Reproduction services, or shared on a pro rata basis with Part I programmes were listed explicitly.
2. The accounting analysis was performed on the basis of the actual budgetary expenditure for 2004. Where appropriate, amendments were made to correct this analysis to comply with 2005 budgetary structural changes. The figures have been reconciled to the 2004 Budget Outturn.
3. The methodology recommended by the IWG can be summarised in two steps as follows:
 - A. Calculation of the direct costs of corporate services;
 - B. Categorisation of the relevant corporate services into appropriate charging bases.

A. Calculation of the direct costs of corporate services

4. This involves:
 1. Grouping the direct annual costs of all of the corporate services;
 2. Isolating and excluding those costs which relate only to Part I activities;
 3. Segregating and excluding those costs related to services which can be billed on a usage basis;
 4. Excluding those costs relating to the incremental corporate costs of managing voluntary contributions.

B. Categorisation of relevant corporate services into appropriate charging bases

5. The group has separated the direct expenditure into three distinct categories as shown below:

TABLE 1: CATEGORISATION OF OVERHEAD COSTS – 2004 Data

Categories	K EUR
Category 1	21,652
To be shared on a Common Basis	
Category 2	5,522
To be shared on a Common Basis according to Building Occupied	
<i>Proportion excluding Federation (IEA)</i>	<i>2,923</i>
<i>Proportion excluding Independently Housed Programmes</i>	<i>2,544</i>
<i>(Federation, IEA; Issy, NEA, DEV, SAH; Louis David, EMCT, RTR)</i>	
<i>Louis David and Issy</i>	<i>55</i>
Category 3	6,701
% Contribution to the OECD Structure	
TOTAL	33,875

Category 1

6. Services that are available to all programmes and can be shared on a common basis using a simple method of allocation. This category covers the areas which are used by all programmes.
7. They cover principally the Human Resources Management Service, Budget and Finance Service, some of the Procurement and Contract Management Function, Information Management Services and those Building Services applicable to all programmes.

TABLE 2: CATEGORY 1 TOTAL DIRECT COSTS CORPORATE SERVICES, 2004

Category 1: To be shared on a common basis according to staff costs	(KEUR)
Human Resource Management & Medical Centre	6 122
Budget & Finance Service	4 601
IT & Network Services ¹⁾	5 288
Security Services – Badges	61
Procurement & Contract Services	2 005
Operations Department	3 575
Total Category 1	21 652

¹⁾ Excluding the maintenance of the ITN Analytical/Statistical Systems

8. The IWG considered that it can be assumed, for simplicity, that these costs are generated in proportion to the staff employed in each programme. Therefore, the sharing of the costs for this category can be based on staff costs. Actual staff costs for 2004 have been used for this study as they were available. It was considered that this was the best indicator of activity. These figures will not be available when budgets are prepared and therefore in practice the estimates from ensuing PWB for total staff costs will be used.

Category 2

9. Services which are available to some of the programmes by nature of their physical location and whose costs will be allocated accordingly. A more detailed analysis was required for this category as some costs (concerning specific building and security services which are not included in rental charges) are applicable only to the Part II programmes occupying particular buildings.

TABLE 3: CATEGORY 2 TOTAL DIRECT COSTS CORPORATE SERVICES, 2004

<u>Category 2:</u> To be shared on a common basis, according to Building	(KEUR)
PCM Office Cleaning & Maintenance Excludes IEA	1 288
CSD All Buiding except Federation (IEA)	1 635
OPS OECD Managed Properties Only	1 967
CSD OECD Managed Properties Only	578
CSD Louis David, Issy only	55
Total Category 2	<u>5 522</u>

10. As for Category 1, it was decided to allocate these costs on the basis of the cost of staff employed in the buildings benefiting from the services concerned.

Category 3

11. Functions that are considered to be an integral part of the Organisation as a whole (serving Part I and Part II) but which are not reasonably divisible by programme on the same basis as Category 1 and Category 2 costs. In the Budget Committee on 3 October 2006 Members agreed that costs related to the Office of the Secretary General and to the Office of the Executive Director would be funded exclusively by Part I.
12. The central functions grouped under Category 3 include:
- i. The Private Office: the Head of the Private Office, one deputy, executive assistants to the Secretary General and his deputies;
 - ii. The Council and Executive Committee Secretariat overseeing the whole Organisation;
 - iii. Legal Affairs: the Legal Director, his deputy, five legal advisers and their assistants working on both Part I and Part II issues;
 - iv. Internal Audit: the Auditor-General and 3 auditors, whose mandate includes the entire Organisation;
 - v. Strategic Planning and PWB: the Programme and Budget Planning Division, including one budget manager fully dedicated to Part II programmes.
13. All the above services dedicate a very significant amount of their time to Part II business. Part II programmes therefore contribute to their costs.
14. The agreed basis for the Category 3 charge is set out below:

TABLE 4: CATEGORY 3 CORPORATE COSTS, 2004

<i>2004 Data in KEUR</i>	<i>Corporate Costs Included in Category 3</i>
Private Office	2,205
Council & Executive Committee Secretariat	874
Legal Affairs	1,240
Internal Audit	593
Strategic Planning & PWB	1,560
Central Costs	228
Total Category 3 - Indicative Costs	6,701

15. The contribution method agreed by Members specifically recognises that programmes do not all make equal use of each different service. For this reason the methodology adopted does not share these costs on a usage basis, but sets a contribution from each programme defined as a percentage of its substantive budget.
16. Members agreed that the charge in respect of Category 3 should be set at 1.5% of the substantive budget of each programme. As a consequence, Part II programmes will contribute approximately 10% of the costs generated by the services included in Category 3. Part II programmes represent almost 30% of the Organisation's budgeted resources. Furthermore, it should be noted that the charge also effectively covers significant intangible benefits accruing to Part II's, such as legal and tax status conventions, and the OECD's reputation and credibility.

NOTE

17. All numbers in this document are presented on a 2004 basis. An updated estimate of the actual charge for 2007 using the latest base data available appears in document BC(2006)1.