

## CFO LT

## Indirect costs for financial reporting

## Background

1. Indirect costs are operating costs that don't directly sit within a division's P&L, but which support the operations of the business. These costs have generally sat within Professional Services and Group Items, and represent largely back office costs of Finance, HR, Health & Safety, Comms and Tech & Data. Costs are apportioned to divisions based on a calculation largely based on staff levels, but also including ticket sales (to apportion revenue collection).
2. Indirect costs have been included in the Quarterly Performance Reviews (QPRs), Business Plans/ Budgets, and help drive the tills method of presenting divisions.
3. In addition to indirect costs, TfL also apportions back office costs for the management fee. This process and apportionment is similar to that of indirect costs, but total allocated costs do not include all indirect costs: e.g. some costs including Secretariat, , Crossrail 2 costs are not allocated to divisions, as these are not activities that directly help support divisions.
4. The management fee allocation has been systemised so costs are allocated to the correct company for Statutory Accounts purposes. However, the allocation of indirect costs has been completed offline, and has not been systemised.

## Recommendations

5. From 2021/22, indirect costs and the management fee will be merged, so we have one way of looking at 'indirect costs'
6. It is also proposed that the allocation percentage is simplified, with a single percentage used for each period (based on the annual Budget), with a final true up in P13 to reflect actual performance. This percentage will also be updated as we move to new reporting baselines (e.g. when we move to reporting against Revised Budget)
7. Indirect costs will also be systemised, with direct access for divisions.

## Management fee and Indirect costs

8. From 2021/22, indirect costs and the management fee will be merged, so we have one way of looking at 'indirect costs'. The table below sets out what costs are currently included in the management fee and indirect costs, as well as the proposed definition from 2021/22.

	2020/21 Indirect costs	2020/21 management fee	2021/22 indirect costs/ management fee £m
Finance (incl. divisional Finance teams)	X	X	20
Commercial	X	X	36
HR	X	X	32
City Planning	X	X	33
Estates & Facilities	X	X	86
Central contingency	X		195
LTM	X		5
Treasury	X		3
Insurance	X	X	26
CCT (excluding Media)	X	X	308
General Counsel	X	X	18

Business Services	X	X	21
Safety, Health & Environment	X		23
Other Professional Services	X		(3)
<b>Total indirect costs/ management fee</b>			<b>800</b>

9. In order to meet Statutory Accounting requirements only costs in company codes in 1001 and 1004 will be re-allocated. The below table shows the Budgeted amounts (from internal Budget version B221) to be re-allocated by company code and that the unallocated amount is immaterial.
10. For Actuals a true up exercise will need to be undertaken at the end of the year to ensure the unallocated amount is close to zero.

Company Code		Profit Centre		£
1001	TfL Corporate	1001CP-DI3014	City Planning	32,611,610
1001	TfL Corporate	1001CP-DI3025	Customer & Revenue	43,506,245
1001	TfL Corporate	1001CP-DI3075	MD Office CCT	1,528,104
1001	TfL Corporate	1001CP-DI3106	News and External Re	5,944,884
1001	TfL Corporate	1001CP-DI3126	Technology & Data	153,455,484
1001	TfL Corporate	1001CP-BU3016	Finance & Commercial	54,854,639
1001	TfL Corporate	1001CP-BU3017	General Counsel	17,618,558
1001	TfL Corporate	1001CP-BU3022	HR	32,329,095
1001	TfL Corporate	1001CP-BU3033	Office of the Commis	1,235,978
1001	TfL Corporate	1001CP-BU3034	Business Services	20,801,531
1001	TfL Corporate	1001CP-BU3035	Transformation	8,836,849
1001	TfL Corporate	1001CP-BU3037	Safety, Health and E	22,569,466
1001	TfL Corporate	1001M3004	Group Items	263,244,195
<b>Total Costs reallocated from cc1001</b>				<b>658,536,637</b>
1004	Transport Trading Ltd	1001CP-DI3126	Technology & Data	94,222,844
1004	Transport Trading Ltd	1001CP-BU3016	Finance & Commercial	1,620,000
1004	Transport Trading Ltd	1001CP-BU3036	TfL International	45,616
1004	Transport Trading Ltd	1001M3004	Group Items	(40,000,000)
1004	Transport Trading Ltd	1001CD-BU3015	Estates Directorate	85,843,583
<b>Total Costs reallocated from cc1004</b>				<b>141,732,042</b>
<b>Total Reallocation</b>				<b>800,268,678</b>
1001	TfL Corporate	1001CP-BU3001	Strategy	2,218,986
1001	TfL Corporate	1001CP-BU3003	Central PS Office	(14,500,000)
1001	TfL Corporate	1001CP-BU3007	Crossrail 2	1,033,548
1002	Surface Transport Corp	1001M906	Indirect Costs	7,248,414
1003	Public Carriage Office	1001M906	Indirect Costs	(10,115,359)
1005	London Underground Ltd	1001CD-BU905	Corporate Other Ops	(5,980,817)
1006	London Bus Services Ltd	1001M906	Indirect Costs	15,300,013
1011	London's Transport Museum	1001OC-BU02	LT Museum	5,544,662
1015	London Trpt Ins. Guernsey	1001OC-BU01	London Transport Ins	(53,416)
1024	LT Museum Trading Ltd	1001OC-BU02	LT Museum	(668,105)
<b>Not reallocated</b>				<b>27,926</b>

## Divisional allocation and calculation of indirect costs

11. In selecting which drivers to determine the allocation of indirect costs, we have considered availability of data sources, which data drivers best determine the cost, and how regularly these data sources are updated.
12. The proposed calculation of indirect costs for 2021/22 financial year is based on the following drivers:

Co Code	Profit Centre		Driver
1001	1001CP-DI3014	City Planning	Total Headcount
1001	1001CP-DI3075	MD Office CCT	Total Headcount
1001	1001CP-DI3106	News and External Re	Total Headcount
1001	1001CP-BU3016	Finance & Commercial	Total Headcount
1001	1001CP-BU3017	General Counsel	Total Headcount
1001	1001CP-BU3022	HR	Total Headcount
1001	1001CP-BU3033	Office of the Commis	Total Headcount
1001	1001CP-BU3034	Business Services	Total Headcount
1001	1001CP-BU3035	Transformation	Total Headcount
1001	1001CP-BU3037	Safety, Health and E	Total Headcount
1001	1001M3004	Group Items	Total Headcount
1001	1001CP-OP3066	Customer	% share passenger income
1004	1001CP-DI3126	Technology & Data	% share passenger income
1004	1001CP-BU3016	Finance & Commercial	% share passenger income
1004	1001CP-BU3036	TfL International	% share passenger income
1004	1001M3004	Group Items	% share passenger income
1001	1001CP-DI3126	Technology & Data	Non-op headcount
1004	1001CD-BU3015	Estates Directorate	Non-op headcount

13. Based on the 2021/22 Budget, the following allocations are proposed:

£	LU	EL	BSO	Rail	MPD	PD	Media	Total
CCT	57,102,846	2,080,795	17,920,280	4,839,788	1,122,155	486,497	38,482	<b>83,590,843</b>
T&D	138,952,915	6,133,729	65,806,350	16,114,288	14,068,566	6,118,505	483,975	<b>247,678,327</b>
Finance & Commercial	45,125,595	870,348	7,321,351	903,289	1,535,637	665,757	52,661	<b>56,474,639</b>
General Counsel	14,197,092	261,781	2,196,976	238,738	493,226	213,832	16,914	<b>17,618,558</b>
HR	26,050,890	480,354	4,031,331	438,071	905,042	392,370	31,037	<b>32,329,095</b>
Business Services	16,761,941	309,075	2,593,882	281,868	582,332	252,463	19,970	<b>20,801,531</b>
Transformation	7,120,762	131,300	1,101,926	119,742	247,385	107,251	8,484	<b>8,836,849</b>
SHE	18,186,549	335,343	2,814,338	305,824	631,825	273,920	21,667	<b>22,569,466</b>
Other PS	1,021,960	19,922	167,671	21,253	34,601	15,001	1,187	<b>1,281,594</b>
Group Items	189,319,367	2,545,840	20,945,213	383,304	7,369,432	3,194,928	252,719	<b>223,244,195</b>
Estates	47,682,048	1,631,875	21,157,248	3,808,950	7,870,009	3,422,715	270,737	<b>85,843,583</b>
<b>Total</b>	<b>561,521,966</b>	<b>14,800,363</b>	<b>146,056,564</b>	<b>26,688,507</b>	<b>34,860,209</b>	<b>15,143,237</b>	<b>1,197,832</b>	<b>800,268,678</b>

## Systemising indirect costs

14. It is proposed that indirect costs will be systemised, with direct access for divisions. The allocation will be made at the top level for each division and split by company code for Statutory Accounting purposes; it is not currently planned to extend the allocation to lower level business areas, although this is something that can be explored for the future.
15. Indirect costs will sit below direct operating surplus in the current GL hierarchy. This will be available in direct queries (using SAP Business Explorer and Analysis for Office) and in Business Objects standard reports.

## Advertising Income

16. Currently advertising income sits outside of the Indirect cost reallocation and is reported separately via the Media division. We have explored the option of whether the income could be allocated to the operating division it is generated by.
17. Most of the advertising income can be easily allocated to an operating division as shown in the table below. There are two exceptions:
  - The Global contract – [details of commercial contract removed due to commercial sensitivity]
  - Evening Standard/Metro – [details of commercial contract removed due to commercial sensitivity]

### [ Details of contracts removed due to commercial sensitivity ]

- If this re-allocation method was applied to the income held in the internal Budget it would result in the following amounts for each division:

### [Split of commercial contracts removed due to commercial sensitivity ]

18. There are however, a number of arguments against including the advertising revenue in the systemised indirect cost reallocation:
  - A separate Media division could no longer be reported in the external QPR and so we would lose visibility of the amount of additional revenue we are generating from advertising
  - It would mean changing our basis of reporting again and result in re-stating the prior year management accounts
  - Each period end a piece of work is already done to post the income into the correct company code for statutory accounting purposes. Including it in the indirect cost re-allocation would lead to additional journals being posted, instead the company code information could be used to inform the divisions as to how much income their assets are generating.

