# Cost Centres

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| ***A cost centre is a division of a company that adds to the costs of an organisation but only indirectly adds to its profit, for example R&D centres, marketing departments, customer service centres or manufacturers of components for final assembly elsewhere. In the context of appraisals such centres are normally stand alone physical units that do not have separate profit and loss accounts.*** |

**Why is it important?**

Cost centres can present a challenge when measuring the impact of public sector support. This is because, on their own, they do not generate profit, which is traditionally captured in the collection of GVA components. This means the impact needs to be measured in a different way from the more traditional GVA approach.

The issue is further complicated in that many domestic and overseas companies located in Scotland have complex flows of money, depending on where goods are produced or services are delivered, which means understanding of a division is a cost centre can be complicated.

It is therefore important to know under what circumstances the impact of cost centres can be measured and what should be collected to measure impact as accurately as possible.

**When can impact be measured?**

Generally the gross GVA impact of a cost centre will be based on the wage impacts and possibly depreciation measures alone. These are the impacts (especially wages) that will affect the Scottish economy, regardless of any profit element. Employment can be measured in the usual way. These metrics need to be collected from the company for the impact time period. The normal additionality adjustments can then be made.

This approach may underestimate the impact of a cost centre, in terms of its GVA impact and the impact ratios. However, if the other metrics are not available this is something that has to be accepted.

It is possible to make far more complex calculations. However, the merit of doing this may be debatable and it is therefore probably best to err on the side of simplicity.

**Need more help?**

For further information contact:-

Suzanne Fleming, 0141-228-2062

[Suzanne.fleming@scotent.co.uk](mailto:Suzanne.fleming@scotent.co.uk)