

ABERDEEN CITY COUNCIL

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COMMITTEE	Finance and Resources
DATE	29 September 2011
DIRECTOR	Stewart Carruth
TITLE OF REPORT	Removal of Internal Charges
REPORT NUMBER:	CG/11/134

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1. PURPOSE OF REPORT

This report provides Members with an update on the removal of internal recharges – effectively where one service charges another for the provision of certain services. The Council, as part of the 2011/12 budget, agreed the removal of such charges.

2. RECOMMENDATION(S)

Members are asked to approve:-

- a) The virement of budgets as detailed within the body of the report totaling approximately £40 million.

3. FINANCIAL IMPLICATIONS

There are no immediate financial implications arising from the report other than the approval to transfer budgets between various services. This will mean that budgets are aligned to the Director responsible for the provision of services.

There will be a potential requirement for Service Level Agreements to be in place between individual services to ensure that the level of service is clearly articulated.

4. OTHER IMPLICATIONS

The removal of internal recharges will require the Council's financial system to be updated and this has already been identified. The exact timing of the virement will be discussed with relevant staff to determine the most appropriate timing of the adjustments.

It should therefore be noted that the regular financial reporting to Committees will mean that Services will begin reflecting the changes as outlined in this report.

## 5. BACKGROUND/MAIN ISSUES

The Council in setting the 2011/12 budget approved the review and where possible the removal of internal recharges. This review focused on the three elements of internal charges:

- Trading Accounts
- Inter departmental accounts
- Re-allocation of business unit costs

There is an outstanding remit under the Committee business to instruct officers to submit a report advising of areas where the Council remained the client and the contractor and the recharge method used. This report provides a response to this item.

The work that has been done to date is a full review of the trading accounts as well as inter-departmental accounts. As indicated, all but two of the trading accounts are proposed to be removed.

This will allow budgets to be aligned to one Head of Service who will need to work with other Services to develop and agree a form of Service Level Agreement going forward.

### **Trading Accounts**

The review of the trading accounts has shown that, subject to agreement with the Council's external auditors, they can be removed with the exception of commercial property letting and car parking. While two others will remain (building and road maintenance) these will be the subject of further discussion between Heads of Service to see how these can operate in the future.

The removal of these particular two will create a number of operational difficulties that cannot be resolved within this financial year due to the utilisation of detailed management systems that are required to allow the service to operate effectively and to demonstrate Best Value. However they will be further analysed as part of the Council's review of its 5 year business plan.

### **Inter-departmental Accounts**

Inter-departmental accounts are primarily where one service will undertake work on behalf of another service and then effectively recharge them.

There are a number of examples of this practice across the Council and to facilitate this review each income stream for Services have been examined. Where possible these are being removed as the income relates to income from another Service.

This will also underpin the 2012/13 budget review, such that budget papers will be presented to demonstrate all income streams that a service receives – both internal and external. This will also allow a more corporate understanding of the pricing policy that is in place across the Council.

In relation to the review of inter-departmental accounts the internal recharge computer system has not been re-activated since the Annual Accounts process to ensure that recharges continued and would therefore make it difficult to implement any changes within the current financial year.

While there are likely to be individual instances where this may need an alternative or continuing process the review has not indicated any material impact on the removal of this system. Where this is the case then there is a method that has been identified (for example in relation to two of the remaining trading accounts, and where there is a potential impact on the Alternative Delivery models that services are currently undertaking).

#### **Business Unit Cost Allocation**

Finally, the re-allocation of business unit costs focused on the allocation of overheads – such as corporate properties, back office staff costs and other service allocations not otherwise covered above.

This element of internal recharges relates to the Council having to comply with the Accounting Code of Practice with which the Council is obliged to adhere to.

While these charges will have to remain, the process for identifying and recording these charges is now being reviewed as the Council's Annual Accounts audit process draws to a close. As indicated the Council cannot remove these, however the final element of this review will focus on ensuring that the costs incurred are directly allocated to the relevant service (rather than one service incurring the cost and recharging it to other services).

This will reduce the number of internal transactions that have to be processed and therefore make the whole Annual Accounts process more streamlined and straightforward.

#### **Current Position**

In total, the above review has looked at approximately £80 million of internal charges – representing the majority of internal charges. The findings show that almost £42 million of recharges be removed. The remainder relate to charges to external funding sources (Housing Revenue Account, Common Good and Capital Accounts), the two remaining trading accounts and other miscellaneous items.

In order to ensure that the review was comprehensive an external review was done of the recharges. The removal proposed within this report is based on the findings of the external review.

The review to date has required a large amount of resources from within the Finance Service as well as individual services impacted on the internal recharges reviewed. The final implementation will also require further resources but this can be accommodated within the Finance service current business plan.

Also achieved through this process is the successful delivery of the Priority Based Budgeting service option. This showed a cost in 2011/12 of £40,000 (which has been less) and saving in future years.

This has been achieved within the overall context of the review and it is anticipated that Services will be able to identify even further efficiency gains as the Council undertakes its review of the 2012/13 budget process and updates the 5 year business plan.

The timing of the actual budget transfers will be worked on between individual Heads of Services. The Head of Finance will be in a position to begin viring these budgets during October 2011 where both services are in agreement that it is operational viable to do so.

The total amount of budget virements are summarized within the table below:

<b>Budget Transfers In</b>				
	<b>Budget Transfers Out £'000</b>	<b>Enterprise Planning and Infrastructure £'000</b>	<b>Housing and Environment £'000</b>	<b>Total Budget Transfers In £'000</b>
Janitors Ancillary Costs	(169)	169	0	169
School Transport	(2,661)	2,961	0	2,961
School Catering	(987)	987	0	987
Cleaning	(3,092)	3,850	0	3,850
Grounds (Trading)	(6,460)	0	8,016	8,016
Environmental (Trading)	(10,819)	0	11,464	11,464
Fleet Total	(8,945)	8,782	0	8,782
PTU / Fleet Recharges	(1,069)	1,217	0	1,217
R&M Fund	(4,084)	4,084	0	4,084
Miscellaneous	(3,245)	0	0	0
<b>Total Movements</b>	<b>(41,530)</b>	<b>22,049</b>	<b>19,481</b>	<b>41,530</b>

6. IMPACT


The primary impact on the outcome of this report is a more streamlined year end process, more accurate financial monitoring and will allow the Council to identify clear accountability for Service budgets.

There will also be an impact on Revenue monitoring within individual services as the virements above are processed. This will be notified within each individual service revenue monitoring report over the forthcoming Committee cycles.

7. BACKGROUND PAPERS

2011/12 General Fund Revenue Budget.

8. REPORT AUTHOR DETAILS

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