



Belfast City Council

Report to:	Strategic Policy and Resources Committee
Subject:	Report on: Budget Monitoring for the Year Ended 31 March 2007 Financial Reporting 2008/09 Budget Cycle 2009/10
Date:	20 June 2008
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Relevant Background Information

Revenue Budget 2007/08

At the monthly Meeting of Belfast City Council (BCC) held on the 1st February 2007 Council approved the minutes of the Strategic Policy and Resources Committee meeting of 19th January 2007 and determined an increase in the Revenue Estimates of the Council for the forthcoming financial year of 2.83% resulting in a Non-Domestic Rate of 21.16 pence and a Domestic Rate of 0.2423 pence in the pound. This amounted to departmental net expenditure of £107,879,710 exclusive of capital charges.

Capital Programme 2007/08

The draft Capital Programme for 2007/08 and future years outlines a programme of expenditure of £27,704,280 to be financed through loans and a further £3,371,200 to be financed through revenue contributions. This programme of expenditure was presented to the Council Improvement Board on 12 December 2006.

The purposes of this report are as follows:

- To inform Members of the corporate year end actual position as compared to budget for 2007/08.
- To highlight for Members the key issues arising from this budget monitoring and to make recommendations for improvement.
- To propose a financial reporting framework for 2008/09.
- To discuss the financial planning process for 2009/10.

BCC Summary Revenue Outturn 2007/08

Expenditure

The Council's net budget for the year was £107,879,710. Outturn for the year was £107,229,800 giving a net under-spend for the year of £649,910. This underspend is 0.60% of the budget set for 2007/08, representing a significant achievement. This successful outcome is the result of much hard work done by Financial Services, Departmental Business Support Managers and senior officers.

Income

Finalisation of rate income has shown a recent trend of significant variation. The finalisation in 2005/06 was £3.9m compared to a claw back of £630,000 in 2006/07. The fluctuation in the finalisation is due to Central Government miscalculating the estimated product of a penny (EPP) which was principally brought about by policy changes in respect of industrial de-rating and vacant properties. Consequently, in the 2007/08 final accounts no allowance has been made for additional income being received through the finalisation of rates process.

When setting the rate for the year BCC was advised by DOE (Local Government Division) that the General Exchequer Grant would be £4,495,640. The actual grant received was £4,040,970 – £454,670 less than budget. The loss of grant was attributed to the impact of rating policy.

After considering departmental outturn, the reduction in the General Exchequer Grant and the impact of finalisation on rate income the Council has a net under-spend on the year's activity of £195,240 – Table 1.

Table 1 - BCC Income and Expenditure 2007/08

	<u>Budget (£)</u>	<u>Actual (£)</u>	<u>Variance (£)</u>
Net Dept. Expenditure	107,879,710	107,229,800	649,910
Gen Exchequer Grant	-4,495,640	-4,040,970	-454,670
Contribution from Reserves	-1,000,000	-1,000,000	0
Rate Income	<u>-102,384,070</u>	<u>-102,384,070</u>	<u>0</u>
	Nil	-195,240	195,240
Plus			
Finalisation accrual 2007/08			<u>0</u>
Surplus for the year			<u>195,240</u>

BCC Summary Capital Outturn 2007/08

Expenditure on capital projects was £22,900,650 for the year. This high level of expenditure was driven by Grove Wellbeing Centre and the Waste Transfer Station which incurred costs of £8,398,400 and £2,716,700 respectively. The capital programme was financed by loans (Grove Wellbeing Centre £11.2m) grants (£8.2m) and revenue contributions (£4.1m).

At the 31st March 2008 the capital account is under-financed by £140,625. There are no issues with schemes running over budget.

Members at the special Strategic Policy and Resources Committee meeting on 13 June will be presented with details of a new process to manage the development of future capital programmes.

Key Issues

An analysis of the outturn for 2007/08 has highlighted a number of corporate issues which need addressed. These are discussed below.

Major Projects

As a result of the new corporate planning process, the Council is moving more and more to delivering its priorities through a combination of functional service delivery and corporate and thematic project work. The Annual Governance Statement 2007/08 has identified the need to ensure effective financial management, at a corporate level, of large projects. Under the Scheme of Delegation, in year management and virement of budgets rests with Directors in consultation with the Director of Corporate Services. As we move to more thematic working and new reporting arrangements, revised governance arrangements will be required which will enable more input from Members, Committees and Council. It is therefore recommended that an independent report is commissioned with the purpose of developing revised governance arrangements to address these issues which will be presented to Committee in September.

Direct Employee Costs

Direct employees costs consist of salaries, wages, overtime, agency staff, and national insurance and superannuation contributions. These payroll costs continue to be our largest area of spending amounting to 68% of net expenditure in 2007/08. It is therefore essential that these budgets are tightly managed. A factor in managing these costs is control over staff numbers which rose last year. It is therefore recommended a report is brought to Strategic Policy and Resources Committee in September with recommendations as to how the Committee can better exercise oversight on establishment numbers.

The Director of Corporate Services has also completed a value for money review of overtime and associated costs. The review examined the key drivers of overtime, the relationship between overtime and other costs such as agency workers and the organisational barriers to reducing overtime without adversely impacting on service deliver. An improvement plan will be shortly presented to the Audit Panel based on the recommendations of this review.

Inflationary Pressures

Members will be aware of rising costs in all areas of the economy. For example, the latest inflation figures show food prices rising at 6.6% and oil and other fuels at 59.4%. This has had a negative impact on the financial performance of all Council departments during 2007/08. Parks and Leisure has been particularly hard hit. These inflationary pressures are continuing to impact on the Council and it is imperative that this situation is managed as best we can in order to avoid significant budget overspends in 2008/09. The Director of Corporate Services is currently carrying out an in-depth review of the impact of inflation on Council expenditure for 2008/09 and 2009/10. This information will be brought to Committee at the earliest possible opportunity with particular reference to fuel and utility costs. It will also be used to inform Members as part of the budget setting process for 2009/10.

Financial Reporting 2008/09

The Council is in a transitional phase as we move to implementation of the new corporate plan. Budgets and methods of reporting will need to be revised. This report represents a first step in this process. In 2008/09 this reporting will be further enhanced by the following:

- Half year, three quarter year and full year outturn and forecast reports to Strategic Policy and Resources Committee at Council level.
- Half year, three quarter year and full year outturn and forecast reports to Strategic

Policy and Resources Committee at committee level detail.

- Half year, three quarter year and full year outturn and forecast reports to each departmental committee.

As part of this framework Members will be required to actively manage the allocation of resources within the year as priorities and actions change. To facilitate this evolving role of Members, training specifically for Members in financial management will be offered.

It is also recommended that the effectiveness of the current financial policies and procedures to support this revised reporting framework is reviewed as a matter of urgency.

Members should note that budget monitoring will continue on a monthly basis by Financial Services, business managers and senior officers.

Budget development for 2009/10

The Council will agree a new corporate plan for the next three years which will have significant consequences for the organisation. At the same time the Council is preparing for the implementation of RPA. The new corporate plan will require the Council to deliver its priorities in a more complex way. As stated earlier in this report, if the Council is going to deliver on the priorities set by Members then it will have to deliver on the basis of functions, themes and areas. In terms of the budgets for next year, this means that we need to develop a revised budgeting process which is more integrated with the business planning and performance management of the organisation.

Appendix One provides details of the key elements of a revised planning cycle which was agreed by the Strategic Policy and Resources Committee on 23 May 2008.

The planning cycle requires Members to receive the following information in June:

1. An assessment of the financial performance and standing of the Council for 2007/08.
2. An assessment of key financial external pressures such as inflation.
3. Notification of the district rates finalisation figure for 2007/08.
4. Draft efficiency programme

The first two information requirements have already been provided in this report. The district rates finalisation figure has not been received from Land and Property Services. The Director of Corporate Services has informed LPS of the need for Members to receive this information on a timely basis. If the information is received before 20 June, then it will be tabled at the committee meeting.

Work has already commenced on the draft efficiency programme for 2009/10. Key areas of work include the use of new technology to procure goods and services, a review of vacant properties in Belfast the results of which will be reported to committee today under the rates item on the agenda. The Council has also recently tendered for a review of efficiency and treasury management in the organisation and the successful company – Sector – will commence work at the end of June. A full report on the efficiency programme will be presented to committee in September.

The revised planning cycle also requires Members to provide a range of indicative acceptable rate levels for 2009/10. This information will be needed so that a comparison can be made of draft budgets and plans against the affordability intentions

of Members. The Director of Corporate Services will discuss this issue with Members at the committee meeting on 20th June.

In order to facilitate the implementation of the recommendations in this report, it is further recommended that an independent review of Financial Services takes place as a matter of urgency. This review would include the current financial policies and procedures and the relationship between financial management in the centre of the organisation and the other departments.

Recommendations

Members are requested to agree to the following:

1. Note the results of the financial outturn for 2007/08.
2. Commission an independent report to examine the financial governance implications of combining functional and thematic working.
3. Consider a report in September on how establishment numbers can be better controlled.
4. Consider a report in September on the impact of inflationary pressures on the 2008/09 budgets.
5. Note the revised financial reporting arrangements for 2008/09.
6. Consider a report in September on the efficiency programme for 2009/10.
7. Commission an independent review of Financial Services as a matter of urgency. The review should include the current financial policies and procedures and the relationship between financial management in the centre of the organisation and the other departments.

Appendix One

Planning Cycle Agreed by Strategic Policy and Resources Committee 23 May 2008

June 2008

Members will be requested to agree:

- *Corporate Plan 2008 – 2011*
- *Capital Programme 2008/09*

Members will receive the following:

- *An assessment of the financial performance and standing of the council for 2007/08.*
- *Notification of the district rates finalisation figure for 2007/08.*
- *An assessment of key financial external pressures such as inflation.*
- *Draft efficiency programme*

Members will also be requested to provide a range of indicative acceptable rate levels for 2009/10. This information will be needed so that a comparison can be made of draft budgets and plans against affordability.

September / October 2008

Members will receive the following:

- *Costed options for taking forward corporate priorities for 2009/10*
- *Draft core budgets for delivering business as usual activities*
- *A first indication of the level of income the rates will yield in 2009/10*
- *An assessment of mid year financial position for 2008/09*

October / November 2008

Members will receive the following:

- *A comparison of proposed summary budgets for corporate priorities and business as usual against affordability levels and rate yield indication.*
- *An analysis of funding gaps and trade-off options*
- *A second indication of the level of income the rates will yield in 2009/10*

Members will be requested to:

- *Provide direction on trade off between budget and priorities*

November / December

Members will receive the following:

- *Notification of the level of income the rates will yield in 2009/10*
- *An assessment of the impact of rate yield on plans and budgets*
- *Revised summary budgets aligned to plans*

January / February

Members will be requested to:

- *Agree district rate 2009/10*
- *Agree summary budgets for business as usual and corporate priorities for 2009/10.*

March

Members will be requested to:

- *Agree corporate plan year 2 - 2009/10*

April

Members will be requested to:

- *Agree department plans*