



Belfast City Council

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| Report to: | Strategic Policy and Resources Committee |
| Subject: | Financial Reporting – Quarter 2 2010/11 |
| Date: | 19 November 2010 |
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Relevant background information

The Strategic Policy and Resources Committee agreed at its meeting on 18 June 2010 that:

- the Council would produce financial reporting packs for the Strategic Policy and Resources Committee and each Standing Committee on a quarterly basis
- the Budget and Transformation Panel would also receive monthly financial updates if there were any significant issues to report.

The reporting pack contains a summary dashboard of the financial indicators and an executive summary explaining the financial performance (Appendix 1). It also provides a more detailed explanation of each of the relevant indicators covering the year to date and forecast financial position, progress in year on the capital programme, implications for reserves, payments to creditors and recovery of debt.

As we previously advised the Committee, we will continue to develop the style and contents of the reports in liaison with Members. In particular, the Members' financial training at the end of September 2010 provided a good opportunity for discussion and feedback on the reports. It is therefore intended to make some amendments to style and layout for the quarter 3 financial reports.

Central finance and departmental management teams have worked together to develop the information within the financial reporting packs.

Key Issues

A. Current and Forecast Financial Position 2010/11 and Implications for Reserves

The current year to date financial position for the Council is an underspend of some £1.4m (quarter 1: £1.1m) which is 3% of estimated net expenditure. There is a forecast end of year underspend of some £2.1m (quarter 1 : £2.9m) which is 2% less than budget.

As in quarter 1, the reasons for this underspend relate mainly to the current unutilised pay rise budget, additional electricity generation income, fuel costs being lower than anticipated and the deferred rollout of food collection as part of waste management, as well as departmental underspends.

The financial position now reflects the utilisation of £1.1m of the 2010/11 underspend, which was agreed at Strategic Policy and Resources Committee on 22 October 2010. In addition, whilst there have been increased savings in some departments (Health and Environmental Services, Chief Executive's and Property and Projects) compared to the quarter 1 forecast, these have been partially offset by two concerning changes in external variables. These are:

- (a) the latest rates income forecast for 2010/11 from the LPS which shows a **reduction of £0.6m compared to our planned rates income**. There are concerns about the number of vacant properties and the level of bad debt.
- (b) A **reduction of £0.2m in the industrial de-rating grant** received from DOE, which reflects an increase in the number of industrial vacant properties

These issues reflect the downturn in the wider economy and are significant risk factors for 2010/11 and the 2011/12 rates setting process. Given that the district rate represents some 74% of the funding received for Council activities, any reduction in the rates base will significantly impact on our future financial planning. These external variables are therefore a key reason why the Council needs to prudently plan for the future and ensure it has an adequate level of reserves.

It is proposed to prepare a report on rates/LPS issues for SP&R and Budget and Transformation Panel in December to provide an update on the implications for rates income for 2010/11 and future years.

The financial reporting pack contains more detail on both the overall Council position and the financial performance in each of the Committees.

We would like to emphasise that the end of the financial year is still several months away and that there are significant uncertainties which could impact on the forecast. Nevertheless, a half-year forecast is helpful to Members in making financial decisions for the remainder of 2010/11 and to inform the 2011/12 rates setting exercise.

The district reserves of the Council were planned to be some £9.1m by 31 March 2011, being the opening reserves of £4.6m at 1 April 2010 and the £4.5m contribution from the rates to reserves, agreed as part of the 2010/11 rates setting exercise. The current forecast underspend of £2.1m would lead to reserves of some £11.2m by 31 March 2011, unless Members agree alternative uses of the forecast in-year underspend (section B and C below).

B. Recommended Actions on the Forecast Financial Position

Members agreed a report on 'Proposals for Use of the 2010/11 Underspend' at their meeting of 22 October 2010 which utilised some £1.1m of the forecast 2010/11 underspend and is reflected in the current financial position. In addition, it was agreed at that meeting that further proposals of up to £0.8m (that met the agreed criteria) could be put forward by Members through their party group leaders.

This issue was discussed at the Budget and Transformation Panel on 11 November. Members expressed concern about the recent changes notified by LPS and DOE as outlined above. **They therefore suggested that only a further £0.1m should be recommended to be utilised at this stage** (section C below). This would leave a forecast underspend of £2m which would be considered at quarter 3, based on the latest forecast at that time. This represents sound financial planning which will provide a contingency against any further reductions in the rates base and enable resources to be invested in reserves, when the financial position is clearer.

C. Proposal for Utilisation of £0.1m of 2010/11 Underspend

This proposal is to assign £100,000 to the delivery of local area-based initiatives on a North, South, East, West basis. There is a separate report on the Committee agenda on the Revenue Estimates. This includes an option to invest £1m in piloting new and innovative approaches to integrated service delivery at a neighbourhood level in 2011/12. This proposal is to use £100,000 of the 2010/11 underspend on local area initiatives within the current year which would, in effect, allow Members to pilot this approach in the coming months and begin allowing local people to see action being taken and resources being applied to local issues.

The roll-out of this pilot approach would of course be Member-led. This process could be supported by information from the SRFs, the Public Consultation Survey and the My City, My Neighbourhood programme, which is a Member led local engagement programme. A separate report on the Committee agenda outlines progress on the My City, My Neighbourhood agenda and the proposed next steps. This could be used to support Members in showing local people how the £100,000 is being used to make an immediate difference locally.

It is essential that this process is guided by a set of over-arching principles to ensure that there is clarity about the purpose of the pilot and the way in which decisions about the allocation of resources are made. These principles require consideration by Members but in order that the process can get underway and so that funds can be spent in-year, a number of guiding principles are set out below: *(Need advice from CQ)*:

- Alignment with the Council's current corporate priorities;
- Alignment to the priorities and requirements of local people;
- The process should be assured as fair and equitable;
- Initiatives should allow the budget to be spent by end March 2011;
- Expenditure to be within the Council's legal powers and subject to any criteria and financial procedures determined by SP&R;
- Regular reports on progress to the SP&R Committee;
- All learning from pilot to inform future development of integrated service delivery at a local level.

D. Other Financial Indicators

The financial reporting pack also includes information on a number of other financial indicators - progress in year on the capital programme, payments to creditors and recovery of debt. Of these indicators:

- recovery of debt is currently red and cause for concern. A further report went to Committee in October on the current processes for billing and collection and proposals for improvement
- although we expect to incur £1m more in the capital programme than we had forecast for the year, this is because two projects will be completed earlier than expected – we expect both to complete within the agreed budget

Resource Implications

There is a year to date underspend of £1.4m and a forecast underspend of some £2.1m.

Recommendations

Members are recommended to:

- (i) Note the above report and associated financial reporting pack;
- (ii) Note that a report will be provided to the December Committee on the LPS/rates issues;
- (iii) Agree that £0.1m of the underspend is utilised in line with Section C above and that the remaining £2m underspend is considered at quarter 3, based on the forecast at that time

Decision Tracking

Key to Abbreviations

Documents Attached

Financial Reporting Pack