

BABERGH DISTRICT COUNCIL

FROM: HEAD OF FINANCE

REPORT NUMBER **G47**

TO: OVERVIEW & SCRUTINY
(STEWARDSHIP)

DATE OF MEETING: 17 July 2007

MANAGING CAPITAL AND REVENUE BUDGETS

1. **PURPOSE OF REPORT**

Babergh has achieved a good Use of Resources rating from the Audit Commission for certain aspects of the ‘Financial Management’ theme but other areas have only been judged as adequate.

Members have, in addition, raised some specific issues relating to budget setting and management. This report considers an approach and framework for addressing these in order to improve the council’s management of capital and revenue budgets and increase Member awareness and understanding.

2. **RECOMMENDATION**

- 2.1 That Members consider the issues set out in section 5.5 of the report and the suggested approach and framework for improving the management of capital and revenue budgets, as set out in section 5.7 of the report.

The Committee should make appropriate recommendations to Strategy Committee.

3. **FINANCIAL IMPLICATIONS**

- 3.1 None directly.

4. **RISK MANAGEMENT**

- 4.1 The key risks associated with this are summarised below. These link to Significant Business Risk No.7 – Financial, Performance & Risk Management:

Risk Description	Likelihood	Seriousness or Impact	Mitigation Measures
Weaknesses in overall resource allocation and financial management of the council’s budgets, resulting in service delivery outcomes that are below optimum levels	Low	Marginal	<ul style="list-style-type: none">• Clear adherence to Financial Regulations and Procedures• Use of Resources Action Plan• Member and Senior Management commitment to strengthening arrangements• Integration between Corporate Plan And SFP Groups

5. **KEY INFORMATION**

- 5.1 The Council has a number of mechanisms to ensure strong financial management. These range from comprehensive Financial Procedure Rules to a variety of monitoring arrangements at both officer and Member level.
- 5.2 However, it is recognised that more can always be done to:
- Improve and strengthen budget setting and monitoring
 - Increase Member awareness and understanding of variations in planned expenditure and income against actuals and monitoring the position during the year
 - Deliver improved management of resources and outcomes
 - Comparing Babergh's performance with others
- 5.3 At officer level, clear targets have been set to address the above with the associated aim of achieving a level 3 Use of Resources score on all aspects of financial management by 2008. This will be challenging in some areas.
- 5.4 This Committee is already involved in budget setting and financial management – through the annual Service and Financial Planning process and individual Members serving on the SFP Group as well as through regular monitoring arrangements in relation to revenue and capital budgets.
- 5.5 Based on feedback from various Members and Committees, it is believed that the following issues need to be addressed:

Capital Programme

- Increased clarity on setting these and on managing changes within the year and between years - both overall, for key programmes areas and for specific projects.
- Specifically, reviewing the content of the current 3-year HRA capital programme and the amounts for each programme/project in view of the significant variations that occurred in 2006/07 (Paper G13 to Strategy Committee – 31 May 2007 refers)
- Reviewing the current General Fund programme with potential realignment to other priority areas
- Ensuring that the timing of expenditure is carefully considered in setting budgets, that this is realistic in terms of delivery and that processes are in place to manage down the risks of delayed delivery (a number of Members recognise that delays can be inevitable and may be deemed acceptable, providing the desired or better outcomes are achieved, albeit slightly later than anticipated in the budget).
- Generally, strengthening arrangements at officer level in order to provide sufficient assurances to Members that capital programme management and delivery is effective

Revenue Budgets (General Fund and HRA)

- Reviewing existing budgets, having regard to the historical net expenditure outturn position in recent years, with a view to reducing year-end variances, both overall and at service area level. Review carry forward arrangements and options
- Ensuring that the management of budgets is rigorous at officer level and that there is clear ownership for reporting variances, implications and actions to address these
- That future monitoring arrangements include the reporting of key variances and actions to Strategy Committee in order to increase awareness and management of these at Member level
- Increased Member and Senior Management understanding of budget management procedures, the financial limits and thresholds that apply and the flexibilities that can be used to better manage and control budgets

5.6 It is recognised that different Members have different levels of awareness and understanding and that it is important to adopt a proportionate approach and decide how significant these issues are in terms of priorities and the need for improvement. The recently approved Use of Resources Action Plan will look to address most of the above issues and others can be considered as part of the forthcoming SFP process.

5.7 This report does not attempt to provide the answers to the above issues but looks to get Member agreement on the approaches and options for addressing them. A suggested approach and options as part of an overall improvement framework is outlined below. Members views on these are sought.

Suggested Approaches and Options
<ul style="list-style-type: none">a) Early warning system for Senior Management and Members on key capital programme and revenue budget variances during the year. Clear strategies for dealing with year-end variancesb) Reassess Overview & Scrutiny Committee(s) and Strategy Committee roles in reviewing progress and outcomesc) Use of existing Member Groups to manage and monitor the position in specific areas (eg Housing Panel)d) Assess current/future capital requirements, linked to priorities, as part of the new Capital Strategy and Asset Management Plan (SFP Group)e) Officer Group re-established to deal with corporate asset management and capital programme management issuesf) Increased Member awareness and involvement through training workshops; more communication of progress on programmes and projects through agreed meansg) Clear and regular training and awareness programmes for officersh) Review and revise arrangements as part of Use of Resources Action Plan

5.8 In considering the above, officers will seek out best practice from elsewhere, including any assistance that could be provided by the Audit Commission.

5.9 In terms of delivering on the above, this will be done as part of the annual Service & Financial Planning process and through the Use of Resources Action Plan with reports to Committees as appropriate.

6. **APPENDICES**

None

7. **BACKGROUND PAPERS REFERRED TO:**

None

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