

## **Building Design Services: Revenue Budget**

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### **Executive of the Council**

**12 December 2006**

### **Purpose of report**

- 1 To present the result of the analysis of the revenue budget for Building Design Services (BDS) following the transfer of the section to City Development

### **Main report**

#### **Background**

- 2 In August 2006, the Director of Finance reported to the Council Management Team (CMT) on the out-turn of the revenue budget for BDS. The report related to the BDS section prior to the transfer of part of the section to City Development earlier this year.
- 3 The gross expenditure budget in 2005/06 for BDS was reported to be £2.032m, with an income budget of £2.780m. The total deficit was given as £1.42m.
- 4 The budget difficulties for BDS have been present for some time. There is a variety of contributory factors relating to changes in workload, the use of external design teams for specialist work such as the Usher Hall, decline in core workload and the requirements to use revenue rather than capital budgets for feasibility work. At the core of the problem is a historical income budget that no longer relates to fee-earning capacity coupled with the historically unrealistic nature of this income budget.
- 5 A variety of remedial measures were put in place and the Executive subsequently agreed to divide the carried forward budget deficit between Services for Communities and City Development.
- 6 The impact of the foregoing on the City Development budget was to allocate a deficit of £446,000 to be funded from departmental efficiency measures.

## Present Position

- 7 BDS is now embedded within the Corporate Property and Emergency Planning division of City Development. The Director of Finance has carried out further analysis of the BDS revenue budget. The Director of City Development has also undertaken a review of the operation of the section and the projected workload based on the Capital Investment Programme.
- 8 The 2006/07 revenue expenditure and income budgets for BDS have been disaggregated by the Director of Finance. The following analysis demonstrates that BDS expenditure of £1.584m is balanced by income of £1.584m. The budgets transferring to City Development are currently being finalised and are expected to be as follows:-
- |   |                |
|---|----------------|
| 1. Revenue expenditure budget:                | £1.584m        |
| 2. Income budget:                             |                |
| a) Charges to capital projects                | £2.606m        |
| b) Charges to revenue (licensing inspections) | <u>£0.109m</u> |
| Total Income                                  | <u>£2.497m</u> |
- 9 The above income budget of £2.606m is a share of the overall BDS budget of £2.820m based on the number of staff transferring to City Development.
- 10 The income figures are based on the section being fully employed on Capital projects apart from the licensing work which is funded from the Corporate Services budget. No work of a revenue nature, including feasibility studies can be undertaken unless a budget is provided by the departments requesting the work.
- 11 The BDS design staff are now fully committed to existing projects. The core issue facing BDS in terms of charges is the requirement to comply with the Capital Accounting code. Revisions to this in 2004 govern the level of recharge of staff costs against capital projects. In essence this restricts recharges to around 1.5 times staff costs against the 2.5 times multiplier that would be required to meet income targets, even assuming these were compatible with market rates.
- 12 Analysis of the fee earning capacity of the BDS section transferring to City Development to comply with the Accounting Code of Practice has established a maximum fee earning capacity of £1.562m, inclusive of the licensing inspection charges.

- 13 Incorporating the allocated £446,000 overspend for financial year 2005/06 results in the following projected 2006/07 budget position:

	<u>£</u>
BDS Income budget	2,819,628
Fee earning capacity	<u>- 1,797,670</u>
Shortfall in income for 2006/07	1,021,958
Shortfall from 2005/06 allocated to CD	<u>446,000</u>
Total shortfall	<u><b>1,467,958</b></u>

- 14 It is not practical for City Development to compensate for the above shortfall of £1.468m in the current financial year and the projected ongoing annual shortfall of £1,022m in the following year. Staff reduction as a means of reducing the deficit is counter-productive in the short term as it reduces earning capacity.
- 15 Analysis of the Capital Investment Programme shows a substantial potential drop in workload for BDS over the three year period. Current projections show there is sufficient work in financial year 2006/2007 and 2007/2008, but there is a shortfall of £720,000 in fee income in year 2008/09.
- 16 Consideration is currently being given to options for the future of BDS as part of the Corporate Property Review and these will be the subject of a future report to the Executive.
- 17 The above analysis demonstrates that the operating cost of the section is matched fully by fee income (£1.584m). However, the budget income target of £2.497m is unrealistic as it cannot be achieved using the recharge levels consistent with the new Accounting Code of Practice.

#### **Financial Implications**

- 18 The Code of practice on Local Authority Accounting in the UK, prescribes the recharge of Administration and General overheads to Capital. An increased recharge is therefore prohibited as the section is engaged purely on Capital work.
- 19 It is not possible to address the shortfall in income through reduction in staffing and the shortfall cannot be contained within City Development budget for 2006-7.
20. The issue for future years will be taken forward as part of the Revenue Budget Process 2007-10. members should also note that a similar 2005/06 shortfall exists in Services for Communities.

**Recommendations**

21 The Executive notes the results of the analysis of the revenue budget of Building Design Services and the implications for the Council Revenue budget.



**Andrew M Holmes**  
Director of City Development

4.12.06

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<b>Appendices</b>	None
<b>Contact/tel</b>	Bill Ness, Head of Corporate Property and Emergency Planning Tel 0131 529 4915 Andrew Holmes, Director of City Development Tel 0131 529 3524
<b>Wards affected</b>	City-wide
<b>Background Papers</b>	Previous reports to the CMT

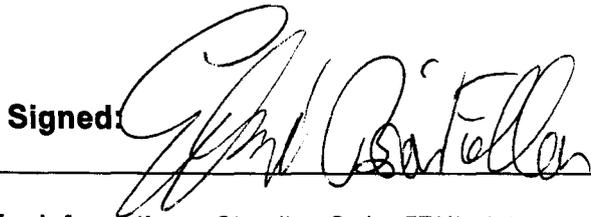
**Agenda item:**

**Report title: Building Design Services: Revenue Budget**

In accordance with the Council's Standing Orders, the contents of this report have been noted by the appropriate Executive Member.

Without prejudice to the integrity of the report, and the recommendations contained within it, the Executive Member expresses his/her own views as follows:

Signed:



Date:

4-12-06

**For information** – Standing Order 57(1) states:

“Heads of Department will prepare reports, with professional advice and recommendations, on matters requiring decisions by the Executive:

- a report seeking decisions on matters of corporate strategy, corporate policy and corporate projects will be submitted direct to the Executive
- a report seeking decisions on matters relating to the special responsibilities allocated to an individual member of the Executive will be submitted, in the first instance, to that member. The member will add his or her own recommendation to it before submission to the Executive. Where the Executive member disagrees with the advice and the recommendation of the officers, the Executive member will also state his or her reasons.”