

Cabinet – 23 October 2013

Corporate Financial Performance 2013/14

Portfolio: Councillor C Towe – Resources (Lead Portfolio)

Related Portfolios: All

Service: Finance – council wide

Wards: All

Key decision: No

Forward plan: No

1. Summary of report

- 1.1 The report details the year-end forecast for revenue and capital, which is based on the financial position for the second quarter of the year (to 30 September). The report sets out:
- A forecast revenue overspend of £2.94m, equivalent to 3.4% of the net council tax requirement.
 - Action being taken to mitigate this.
 - A capital programme underspend of £410k.

2. Recommendations

- 2.1 Cabinet are requested to:
- Note the current revenue forecast position as at 31 March 2014 of £2.94m (equivalent to 3.4% of the net council tax requirement).
 - Note that action is being taken to manage the cost pressures arising (see section 3.5) and that progress will be reported to Cabinet on a regular basis.
 - Note the current transfer of windfall income which is maintained centrally to manage any unexpected pressures which may arise over and above normal budgetary provision. Dependent on the success of corrective action plans to mitigate the current position, consideration should be given to consider using some or all of this to support the position in the short term whilst actions to ensure overspends are reduced permanently are taken.
 - Approve the used of general reserves as detailed in section 3.2.
 - Note and approve new revenue funding allocations received in year as detailed in section 3.7.
 - Note the forecast underspend on the council funded element of the capital programme, after re-phasing, of £410k, to be utilised to support the funding of the 2014/15 capital programme.
 - Note and approve the amendments to the capital programme set out in section 3.10.

- Formally respond to Audit Committee's recommendation concerning the current medium term financial strategy, as set out in section 3.15.
- Note the financial health indicators for quarter 2 summarised in Appendix 1.

3. Report Detail

3.1 Cabinet receive regular financial reports to allow it to monitor the financial performance of the council and consider plans for corrective action. Nationally councils are experiencing severe funding challenges and it is not unusual for there to be projected variances during the course of any financial year. The council has a strong track record of managing financial pressures and action is being taken to mitigate the current cost and pressures. Maintaining financial stability is a key organisational requirement.

3.2 General Reserves

Corporate Management Team (CMT) have requested the use of £25k of general reserves to fund the extension of the counselling service for a period of six months and £55k to cover the costs of an investigating officer for a period of 18 months within human resources.

Additionally, it is proposed to earmark £2.5m of funds to support wave 2 of the City Deal initiative.

3.3 Progress of efficiencies/fees and charges/policy changes/new investment 2013/14

Council approved a total of £15.9m of planned savings. To date, c£2.37m has been identified as not being fully achieved. Action plans are being worked on to mitigate the shortfall and the impact of these are included in the outturn position in Table 1.

3.4 Budget 2013/14

The council, similar to many others, is facing significant financial pressures and an increase in demand for certain services. As a result, this is now translating into some significant cost pressures, particularly within Children's services and Social Care. The current revenue forecast for 2013/14 is an overspend of £2.94m. Table 1 summarises the 2013/14 budget and forecast outturn.

Directorate	Budget £m	Predicted year end £m	Variance as at Sept £m	RAG
Children's Services	52.76	54.87	2.11	R
Neighbourhood Services	45.28	45.68	0.40	A
Regeneration	6.09	6.31	0.22	A
Resources	26.34	25.98	(0.36)	G
Social Care & Inclusion	66.66	67.75	1.09	R
Capital Financing	23.13	22.88	(0.25)	G
Corporate contracts	(1.50)	0	1.50	R

Directorate	Budget £m	Predicted year end £m	Variance as at Sept £m	RAG
Central budgets	29.82	28.05	(1.77)	G
Net Budget Position	248.58	251.52	2.94	
Central Government Funding	(163.03)	(163.03)	0.00	
Net Council Tax Requirement	85.55	88.49	2.94	R

* The budget is required to be shown as a council tax requirement i.e. as the amount of budget required to be financed by council tax. This change was implemented by Central Government.

3.5 Pressures and Corrective Action

Children's Services – the two principal causes for overspend on Children's Services are the use of agency staff to cover vacant posts (c£1.0m) and increased cost of placements of Looked After Children (LAC) (c£1.1m). An action plan is in place. Agency staff pressures are being targeted by recruitment processes being run. Several vacancies are in the process (as at September) of being recruited to. Further work will continue to reduce agency numbers over time. Placements costs are driven principally by a budget based on LAC numbers of 541 and current numbers of 605. There is ongoing work to reduce the number of LAC where appropriate and also work is ongoing to reduce the cost of placements through more effective and efficient purchasing arrangements.

Social Care and inclusion (SCI) – pressures include:

- Housing 21 contract c£640k (net of reserves)
- Provider services c£630k
- Non-achievement of the saving to re-provide Suttons Drive clients c£970k
- Although there are less clients than budgeted for across the service areas, the cost of average care has increased in domiciliary care.
- Budget savings targets across all services have not been realised due to higher cost packages and client costs overall are higher than budgeted

The total underlying pressure is c£4.41m which unless managed, would be ongoing into 2014/15. This is currently being mitigated by the use of off reserves in 2013/14 of £3.32m which leaves a £1.09m variance against budget. A progress report will be sent to the next available Cabinet meeting on actions being taken to mitigate the position.

Neighbourhood Services – the directorate is overspent largely due to shortfalls in car parking income for which £250k of investment has been allocated in 2014/15. There is also an overspend relating to a saving concerning sharing anti-social behaviour work with partners.

Regeneration – property services savings for 2013/14 relating to reducing the number of buildings (£573k) will not be fully realised with an expected shortfall of £243k.

Resources – within "Money Home Job" key pressures have been identified due to the use of temporary staff to manage work pressures arising from welfare reform

changes and adapting to new ways of working, and a forecast reduction in court costs income within Revenues. An action plan has been put in place to reduce spend on temporary contracts and to hold posts vacant, which will reduce the overspend to £84k by year end. Further work is being undertaken to seek approval to extend the scope of the crisis support awards funding to offset the remaining pressures within "Money Home Job".

Corporate Contracts - the programme to deliver council wide procurement savings of £1.5m has recently been transferred to the leadership of the Chief Finance Officer and he is currently assessing the contract review programme and its target, with the aim of developing the work program to identify the actual level of savings that can be realised during 2013/14. Until this work is completed the savings have been identified as not achieved.

- 3.6 A number of services have identified overachievement of income against budget or receipt of unexpected income totalling c£1.07m. This income is currently assumed to be transferred to earmarked reserves, in line with the approved windfall income protocol.

3.7 New funding allocations

The following new allocations have been received and Cabinet are asked to approve their use as follows:

Implementation of the zero based review of national adult social care data collection

Walsall have received new funding of £59k in relation to the implementation of the zero based review of national adult social care data collection. This funding has been given under the new burdens doctrine and is un-ringfenced. Of the £59k, £12.5k relates to 2012/13 allocations and is currently being shown as windfall income. The remainder of the allocation is requested to be passported to adult social care to cover implementation costs.

Local Reform and Community Voices grant

Walsall has received a notification in relation to the grant for £250k. In a previous notification in December this was expected to be a specific grant allocation and was included in social care budgets. The final notification now details the grant as un-ringfenced. As this has been previously budgeted for within Social Care, Cabinet are requested to passport this funding to the service.

Housing benefit new burdens funding

Walsall has received £55,236 to ease the transition of the housing benefit changes. Although un-ringfenced it is the Government's intention that the funds are used to provide targeted support to help meet the housing needs of claimants affected by the housing benefit reforms such as:

- Preventing homelessness
- Supporting people who need to move
- Giving money advice
- Discretionary housing payments

This funding is currently being held centrally until needed to support the initiatives highlighted by government. Cabinet are requested to approve the allocation of this funding to support the mentioned government intentions and delegate the allocation of the funding to the Chief Finance Officer as and when required.

3.8 Local Authority Mortgage Scheme (LAMS)

Cabinet agreed to adopt the LAMS scheme in conjunction with Lloyds on 24 October 2012 and this was formally approved by Council on 22 February 2013. The scheme is designed to support first time buyers by reducing the deposit they need to purchase a home. The scheme requires the council to place a matching five year deposit to the life of the indemnity of a mortgage. The take up of the scheme has continued to be encouraging 14 Mortgages have now been supported through the LAMS scheme using £281,775 of the indemnity cover, a further 9 mortgage applications are being processed which when completed will use up a further £120,788. Unfortunately Lloyds have decided to put further roll out of the LAMS scheme on hold until they receive further details about the government's Help to Buy scheme. It is currently expected that Lloyds will continue operating the scheme in Walsall until at least December 2013.

3.9 Business Rates Retention Scheme

The new scheme was introduced from 1 April 2013 which was intended to encourage economic growth and transferred risks previously borne by Government to local authorities. Any shortfall in income due to changes in rateable value, successful appeals, exemptions and discounts against what was estimated in January 2013 and included within the council's budget for 2013/14 would result in a deficit on the collection fund. The council would bear 49% of the overall deficit which would need to be included in the budget process for 2014/15 to make good the shortfall of income. The current position on the collection fund is forecast to be breakeven. This will be closely monitored and an update provided to the next Cabinet.

3.10 Capital Programme 2013/14

The capital programme reported to Cabinet on 24 July 2013 totalled £80.60m. Amendments have taken place since that date and these are detailed in Table 2 overleaf, resulting in a revised programme of £82.68m.

Table 2: Capital Programme 2013/14	
	£m
Capital programme 2013/14 per Cabinet 24 July 2013	80.60
Council Funded Resources	
Prudential	
Primark and Co-op redevelopment (approved by Council 7 May 2013)	1.83
New Invention car park	0.08
Specifically Funded / Grant Schemes	
Youth Capital Fund – confirmation of funding	0.01
Barcroft Primary new toilet block – new funding	0.12
Leamore Lane – confirmation of funding	0.05
Gypsy and Travellers – confirmation of funding	(0.02)
Local Transport Plan - Footpath reconstruction – confirmation of funding	0.01
Revised capital programme 2013/14	82.68

A further amendment has been made which relates to Willenhall E-ACT Academy swimming pool changing provision. The cost of the scheme of £75k has been funded from contingency and has no impact on the total of the capital programme.

There may be further amendments to specific schemes following the approval of bids and confirmation of funding, which will be reported to Cabinet as they occur.

- 3.11 Table 3 summarises the 2013/14 capital programme and an early forecast outturn after the re-phasing of projects into 2014/15:

Table 3: Forecast capital analysis 2013/14					
Directorate	Budget £m	Predicted year end forecast £m	Variance before Carry forward £m	Carry Forward £m	Variance Over / (Under) £m
Council funded	22.52	16.97	(5.55)	5.14	(0.41)
Externally Funded	60.16	35.47	(24.69)	24.69	(0.00)
Total	82.68	52.44	(30.24)	29.83	(0.41)

- 3.12 The council funded element of the capital programme currently shows predicted re-phasing of c£5.14m from 2013/14 to 2014/15 as shown in table 4.

Table 4: Re-phasing 2013/14 to 2014/15	
Project	£m
Walsall arboretum restoration programme – programme extended until December 2015	0.50
Finance Direct/Oracle – outcomes in the third quarter will determine actual carry forward	0.04
Delivering – Right Fast and Simple – project delays	0.15
Bring your own device security layers – project delayed by 6 months due to staff yet not on site	0.04
Regenerating Walsall – project delays	0.51
PARIS development phase 2 –subject to revised commissioning strategy	0.35
Preventative adaptations - subject to revised commissioning strategy	0.60
Allotment and community garden strategy – Borneo Street – requires Secretary of State approval to proceed	0.05
Smarter Workplaces - project delays due to timing of accommodation moves	0.22
Darlaston Strategic Development Area Access - delay in the public enquiry date set by the department of transport resulting in project delays	1.79
Council wide IT planned rolling replacement and upgrade – Project delays due prioritisation of work with main focus on completing full council upgrade to Windows 7 by 2014.	0.43
Enabling works to office development (Gigaport) - remediation work in 2013/14 with bulk of work in 2014/15	0.45
Allotments – project delays	0.01
Total	5.14

- 3.13 Additionally, the council funded element of the capital programme currently shows predicted underspends of c£0.41m as shown in Table 5. This will be utilised to fund 2014/15 capital programme. There is also a further £300k for risk management and self-insured property damage which to date has no spend against them but due to the nature of these areas spend could occur at any time and these are therefore not currently shown as underspends. If not utilised in year these will be used to fund 2013/14 capital programme.

Table 5: Underspends/savings 2012/13	
Project	£m
Walsall Arboretum restoration programme – illumination Park proposal	(0.11)
Restoration and renovation of Broadway West playing fields	(0.07)
Health through warmth	(0.21)
Delivering – Right Fast and Simple – exchange upgrade	(0.02)
Total	(0.41)

3.14 Financial Health Indicators

The quarterly review of financial health indicators is shown at Appendix 1. This summarises the following:-

- Strong treasury management performance for 2012/13, and forecast for 2013/14.
- Strong balance sheet financial performance for 2012/13 compared to 2011/12 and 2010/11.
- Estimated target for council tax and business rate collection rates is as budgeted.
- Strong sundry debtors collection rates, showing average of 26 days in 2012/13 to collect debt.
- Strong creditor performance showing an average of 12 days in 2012/13 to pay creditor invoices.
- Revenue and capital position for 2012/13 and forecast for 2013/14.
- Capital receipts received in 2012/13, and forecast for 2013/14.

3.15 Audit committee feedback on the Medium term Financial Strategy

At their meeting on the 24 June 2013 Audit Committee received the medium term financial strategy 2013/14 – 2018/19 to consider its contribution to the effectiveness of the internal control environment, the management of risk and corporate governance. Audit Committee asked for the wording in section F3 on local taxation to be reviewed. The following is an extract of section F on Local Taxation:

F: LOCAL TAXATION

CONTEXT: *Our aim is to see that our council tax is appropriate to support the provision of good quality, value for money council services.*

F1 The council will establish and maintain local tax at a level that ensures adequate ongoing income sufficient to support planned levels of expenditure.

F2 In setting the local tax level each year, the council will ensure that the annual increase is sufficient to ensure adequate resources are available to provide both the

current and planned levels of service provision reflected in the annual budget and adequate specific and general reserves in the context of the medium term.

F3 The council will publish indicative increases for future years where this is required, and if not required, where this is possible and appropriate.

F4 The use of future funding mechanisms such as Tax Incremental Financing (TIF), Enterprise Zone business rate uplifts, etc. will require full analysis and approval before adoption.

With reference to **F3** above, the Audit Committee were “unsure as to why the Council would not want to publish any figures on this item (not just indicative) in the interests of the Authority being honest, open and transparent about its finances. Members felt that the current wording could be interpreted as a wish to hide non-indicative figures and in the interest of managing risk, reducing control weakness and preserving the integrity of the Authority, they asked for the wording in F3 to be amended accordingly”.

Cabinet have considered the recommendation from Audit Committee and will provide the following response:

“That Cabinet note the recommendation from Audit Committee and thank them for their consideration of this matter. There is currently no opportunity to give forecasts as the council is subject to the vagaries of Government grant, it’s policy on council tax and council tax freeze grant and referendum legislation”.

4. Council Priorities

- 4.1 The budget is set following council priorities, including the agreement to use Marmot objectives to help redirect existing resources through the implementation and rollout of the working smarter programme and systems thinking approach.

5. Risk Management

- 5.1 Managers are required to deliver service and improvement targets on time, to standard and within budget. The performance management system uses a red, amber, green (RAG) indicator to show the current status. The current position is red.
- 5.2 Risk management is embedded in budget monitoring and forecasting to enable potential budget variances and risks to be identified early and addressed. A number of assumptions have been made in the forecast figures by managers. There are risks attached to this that could impact adversely on the current position and which are being actively and robustly managed. Risks which have been identified as having a high level of certainty of occurring total c£2.34m, however these are being actively managed to minimise any impact on the financial forecast for the year.

6. Financial Implications

- 6.1 The implications are as set out in this report. Any deficit at year end will require funding from general reserves, reducing the level of reserves available for future use.

7. Legal implications

- 7.1 The council is required to set a balanced budget.

8. Property implications

8.1 None directly associated with this report.

9. Staffing Implications

9.1 None directly associated with this report.

10. Equality implications

10.1 None directly associated with this report.

11. Consultation

11.1 The report is prepared in consultation with the Chief Finance Officer, relevant managers and executive directors.

Background papers: Various financial working papers.

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Signed:



James Walsh
Assistant Director – Finance (CFO)
15 October 2013

Signed:



Councillor Towe
Portfolio holder – Resources
15 October 2013

Financial Health Indicators

Treasury Management	2012/13 Actual	2013/14 Target	2013/14 Actual
Average Interest Rate (Borrowing)	4.53%	4.52%	4.53%
- Excluding OLA	4.67%	4.63%	4.67%
- Including OLA			
Gearing Effect on Capital Financing Estimates	2.00%	5.00%	1.19%
Net Borrowing Costs / Net Budget Requirement	3.01%	6.50%	4.19%
Capital Financing Requirement £m	299.452	319.279	312.547
Authorised limit for external Debt (£m)	319.724	351.207	351.207
Investment Rate Average	2.1%	1.0%	1.3%

Balance Sheet Ratios	2010/11	2011/12	2012/13 (pre -audit)
Current Assets : Current Liabilities	2.28	2.70	2.70
Useable Reserves : General Revenue Expenditure	0.29	0.49	0.59
Assuming Revenue Expenditure is equal to Net Operating Expenditure (2008/09)			
Long Term Borrowing : Tax Revenue (Using both council tax and NNDR for tax revenue)	1.25	1.25	1.13
Long Term Assets : Long Term Borrowing	1.83	1.89	1.84
Total School Reserves : Dedicated School Grant	0.06	0.07	0.08

Revenues Performance % collected for financial year	2011/12 Actual Collected in total @ 31.03.13	2012/13 Actual Collected in total @ 30.09.13	2013/14	
			Profiled Qtr	Actual
Council tax %	98.4%	97.6%	54.5%	53.8%
National Non Domestic Rate %	97.9%	97.4%	59.5%	59.9%
Total Council Tax collected (£m)	£90,323,443	£90,218,503	£52,604,124	£52,093,865
Total NNDR collected (£m)	£65,201,884	£66,900,678	£42,418,971	£42,931,630

Debtors and Creditors Performance	2012/13 Actual	2013/14	
		Profiled Qtr	Actual
Sundry Debtors Collection – Average number of days to collect debt	26 days	30 days	26 days
Average number of days to process creditor payments	11.92 days	14 days	13 days

Management of Resources	Actual 2012/13	2013/14 (budget for monitoring)		
Service Analysis	Pre-audit	Target	Actual (pre-audit)	Variance
Children's Services	52,613,725	53,556,519	55,665,451	2,108,932
Neighbourhood Services	60,547,614	43,792,767	44,189,858	397,091
Regeneration	17,280,082	5,862,496	6,081,891	219,395
Social Care & Inclusion	67,500,397	66,535,141	67,625,398	1,090,257
Resources	7,798,112	24,237,172	25,377,129	1,139,957
Council Wide	31,177,268	54,595,391	52,579,650	(2,015,741)
RSG/NNDR	(129,164,992)	(163,027,571)	(163,027,571)	0
Total	107,752,206	85,551,915	88,491,806	2,939,891
General Reserves	16,611,535	N/A	N/A	N/A
Council Funded Capital Expenditure	15,568,567	16,844,449	13,698,532	3,145,917
Grant Funded Capital Expenditure	31,719,243	60,153,262	35,461,255	24,692,007
Prudential Expenditure	4,874,928	5,674,354	3,272,018	2,402,336
Total Capital Expenditure	52,162,738	82,672,065	52,431,805	30,240,260
Capital Receipts	3,239,165	1,500,000	2,996,600	1,466,600

What this tells us

Treasury Management	
Average Interest Rate (Borrowing)	The average interest rate we are paying on the money we have borrowed compared to our target.
Gearing Effect on Capital Financing Estimates	Shows how a 1% increase in interest rates would affect the total interest cost to the council.
Unsupported Borrowing : Net Revenue	Borrowing not financed by a grant from government, as a proportion of our Net Revenue Expenditure
Capital Financing Requirement (£m)	How much money we currently borrow to finance our capital programme.
Authorised limit for external Debt (£m)	The maximum amount of debt we should have at any one time
Investment Rate Average	The average interest rate we are receiving on the money we have invested.

Balance Sheet Ratios	
Current Assets : Current Liabilities	Our ability to meet our liabilities
Useable Reserves : General Revenue Expenditure	If our reserves are adequate to meet potential future variations.
Long Term Borrowing : Tax Revenue Using only council tax for tax revenue Using both council tax and NNDR for tax revenue	The effect of long term borrowing on our budget.
Long Term Borrowing : Long Term Assets	This allows us to understand the relationship between the money we borrow and the assets we have as they both change over time.
Total School Reserves : Dedicated School Grant	If schools reserves are at an appropriate level.

Revenues Performance	
% Collected for Financial Year	As a percentage the amount of council tax we collected during the financial year that runs from 1 April – 31 March. We collect council tax after the year that its related to, but this won't be included in this figure
Council Tax (%)	
National Non Domestic Rate (%)	As a percentage the amount of Business rates we collected during the financial year that runs from 1 April – 31 March. We collect council tax after the year that it related to.
Total Council Tax Collected (£m)	This tells us the amount of council tax we collected during the financial year that runs from 1 April – 31 March. We collect council tax after the year that it relates to, but this won't be included in this figure.
Total NNDR Collected (£m)	This tells us the amount of Business Rates we collected during the financial year that runs from 1 April – 31 March. We collect council tax after the year that it relates to, but this won't be included in this figure.
Sundry Debtors Collection Average number of days to collect debt	How long on average it takes us to collect money owed to us.
Average number of days to process creditors payments	How long on average it takes to pay our bills.

Management of Resources	
Service Analysis	
Children and Young People Neighbourhood Services Regeneration Social Care Resources Council Wide	Shows our forecast for how much we will spend on these services compared to what we planned and compared to how much we spent in the previous year.
General Reserves	Our forecast year end position on reserves against our opening balance.
Contingency	How much we have set aside and for unplanned expenditure, and how much we have left to spend.
Capital Expenditure	Forecast of our spend on capital programmes against our target
Capital Receipts	Forecast of how much money we expect to receive from selling some of our assets, against our target.