

## Cabinet – 16 September 2009

### Corporate Financial Performance 2009/10

**Portfolio:** Councillor C Towe – Finance and Personnel

**Service:** Finance – council wide

**Wards:** All

**Key decision:** No

**Forward plan:** No

#### 1. Summary of report

This report is to inform cabinet of the year-end forecasts for both revenue and capital. The report highlights a revenue overspend of c £5.613m, the reasons for which are highlighted in the report. The capital programme is currently forecast to be underspent by c £1.682m due to rephasing and slippage of projects into 2010/11.

#### 2. Recommendations

That Cabinet:

- Note net revenue overspend of c£5.613m (0.8% of the current gross budget) which includes the effects of identified corrective action plans.
- Note and approve the amendments to revenue due to new or increased grant allocations as set out in **Table 1** since the budget was approved by Council on 23 February 2009.
- Note slippage on the capital programme of £1.682m, which is expected to be required to be carried forward into 2010/11.
- Note and approve the amendments to the capital programme and additional grant approvals received since the programme was approved by Council on 23 February 2009 as set out in **Appendix C**.
- Note the additional measures being taken by Executive Directors to mitigate the overall position, as detailed in section 4.9.

#### 3. Background information

- 3.1 Cabinet receives regular financial reports to allow it to monitor the financial performance of the council and consider plans for corrective action. Maintaining financial stability is a key requirement. The 2009/10 budget, approved in February 2009, took into account the economic conditions at that time, including market predictions and government guidelines. These conditions included energy cost

pressures, availability of credit, availability of disposable income, on land values and capital receipts and on income generated from service fees and charges.

- 3.2 On 23 February, the Council sets its budget for 2009/10. The expected impact of the recession includes cost pressures and income shortfalls over and above those previously reported to cabinet in July and experienced in 2008/09, some of which are expected to continue and cannot be fully mitigated by corrective action plans.
- 3.3 Unemployment is rising fast, with the West Midlands (285,000) experiencing the fastest rate of increase. Applications for housing benefit have increased significantly and there are increasing numbers of people who are unable to meet their council tax payments. The loss of earnings combined with reduced business activity, and property development is reducing significantly the amount of income the council was expecting to receive this year.

#### **4. Resource and legal considerations**

- 4.1 Managers are required to deliver their service targets and improvements within budget. The RAG status of this report is RED. Continued action is being taken to reduce the impact of these pressures. The reason for the pressures largely arises from the impact of the economic conditions mentioned above.

##### **4.2 General Reserves**

Should corrective action not be fully identified for the above pressures, there will be a need for some replenishment within the 2010/11 budget and this has been taken into account in the medium term financial planning forecasts.

##### **4.3 Progress of efficiencies/fees and charges/policy changes**

In February Council approved c£13.412m of savings/efficiencies and increases in fees and charges. To date c£1.489 (11%) is not expected to be realised, although alternative options are being identified where feasible.

##### **4.4 Progress of spend approved for new investment in 2009/10**

Council approved investment of £4.344m which includes new investment and the full year effect of previously approved investment. To date this is projected to be fully utilised against the purpose for which it was given.

##### **4.5 New or increased revenue grant allocations 2009/10**

The following table identifies new grant received since the budget was set and allocations.

<b>Table 1: New / Increased revenue grant allocations 2009/10</b>		
<b>Grant</b>	<b>£</b>	<b>Allocation</b>
ABG - climate change (new)	22,500	Walsall Partnership
ABG – children's trust fund (new)	11,066	Children's services
ABG – designated teacher funding (new)	17,899	Children's services
ABG – young person substance misuse grant (increase)	38,065	Children's services
<b>Total</b>	<b>89,530</b>	

#### 4.6 Revenue Budget 2009/10

Managers currently reporting overspends are continuing to identify and take action to bring spending back into line with the budget. The main areas of variance and the reasons for them are detailed in **Appendix A**.

#### 4.7 Forecast Analysis 2009/10: by type

**Table 2** illustrates the financial pressure by category of spend.

<b>Table 2: Forecast analysis 2009/10: Spend Type</b>				
	<b>July £'m</b>	<b>Favourable /Adverse Compared to Budget</b>	<b>June £'m</b>	<b>Variance June to July £'m</b>
Shortfall in Income	1.774	Adverse	2.038	-0.264
Demographics/demand	2.811	Adverse	2.210	+0.601
Contractual increases	0.087	Adverse	0.070	+0.017
Salaries/Employees	(0.304)	Favourable	(0.357)	+0.053
Supplies & Services	1.239	Adverse	1.359	-0.120
Premises	0.259	Adverse	0.148	+0.111
Other	(0.253)	Favourable	(0.202)	-0.051
<b>Total</b>	<b>5.613</b>	<b>Adverse</b>	<b>5.266</b>	<b>0.347</b>

4.7.1 Current predictions show an expected shortfall in income of £1.774m as shown in **table 2**. Reduced levels of income are being experienced across all service areas as fewer people use our leisure centres, car parks and search enquiries. As the business, building and property sectors shrink, there is reduced income from the markets, planning, estate-managed property and building design fees.

4.7.2 A secondary effect of the economic situation is the increase in demand for services. This is particularly noticeable in children services. As financial pressures impact on family relationships, there are an increasing number of relationships breaking down leading to a rise in the number of children looked after. This position is further exacerbated by the effect of the baby P case, as partner organizations are increasingly risk adverse in matters relating to child protection. As at the end of July the council has 482 looked after children, 32 more children than was anticipated and budgeted for, at an additional expected cost of £2.945m.

#### 4.8 Forecast Analysis 2009/10: by Directorate

**Table 3** illustrates the financial pressure by Directorate.

<b>Table 3: Forecast analysis 2009/10: By Directorate</b>					
	<b>July £'m</b>	<b>Favourable /Adverse Compared to Budget</b>	<b>June £'m</b>	<b>Variance June to July £'m</b>	<b>Favourable / Adverse to previous position reported</b>
Regeneration	0.719	Adverse	0.787	-0.068	Favourable
Neighbourhood Services.	0.113	Adverse	0.281	-0.168	Favourable
Social Care	0.382	Adverse	0.458	-0.076	Favourable
Children's	2.458	Adverse	1.877	+0.581	Adverse
Resources	1.942	Adverse	1.863	+0.079	Adverse
<b>Total</b>	<b>5.613</b>	<b>Adverse</b>	<b>5.266</b>	<b>0.347</b>	<b>Adverse</b>

- 4.9 Corrective action plans have been developed and implemented by all directorates and this is now making some inroads into overspends in some areas, however there continues to be pressure within children's services in particular. Further action is now being taken council wide to restrict spend and restrain all non-essential expenditure whilst minimising impact on service delivery.

#### 4.10 Capital Programme 2009/10

The capital programme approved by Council on 23 February 2009 totalled £58.645m. Since then £25.435m of capital spend which was due to take place in 2008/09 has been re-phased into 2009/10. This will be funded via grant income, unsupported borrowing and roll forward of capital receipts from 2008/09 as approved by Cabinet on 24 June 2009. Further changes as detailed in Appendix C have arisen since the programme was approved which has resulted in a revised programme of £93.768m.

In 2009/10 we expected to generate £0.137m in capital receipts to part fund the 2009/10 capital programme. To date we have received £0.062m.

The mainstream capital programme currently shows predicted slippage of £1.628m as follows:

<b>Table 4 : Slippage 2009/10</b>	
<b>Project</b>	<b>£m</b>
Eldon House refurbishment (currently reviewing re-provision)	1.008
Bloxwich library communications room	0.013
Repairs to Norfolk Place depot	0.064
Palfrey park	0.075
Walsall arboretum restoration programme	0.468
<b>Total</b>	<b>1.628</b>

**Appendix C** details the amendments to the capital programme since approval on 23 February 2009.

- Table 1 – confirmation of additional TCTP grant which has allowed the release of reserve list projects.

- Table 2 – amendments to the capital programme since it was approved.
- Table 3 – new grants received.
- Table 4 – Grant allocations that have had final figures confirmed.

## **5. Citizen impact**

Demonstration of financial stability and sound financial management promotes public confidence and credibility.

## **6. Community safety**

None directly associated with this report.

## **7. Environmental impact**

None directly associated with this report.

## **8. Performance and risk management issues**

- 8.1 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.
- 8.2 Risk management is embedded in budget preparation, 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, which are highlighted in **Appendix D** that could impact adversely on the current position and which require continued active management. These amounts to a total of c £7.268m; however they are actively and robustly being managed.

## **9. Equality implications**

None directly associated with this report.

## **10. Consultation**

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

## Background papers:

Various financial working papers.

## Authors

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4 September 2009



**Cllr Chris Towe  
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4 September 2009



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4 September 2009

**Financial Pressures****Regeneration +£0.719m**

- Shortfall of Income (£0.443m) due to less than expected rental and fee income within property services and housing partly offset by additional land charges income.
- Contractual increase (£0.067m) on markets electrical contracts and new stall contracts.
- Salaries / Employees (£0.167m) mainly due to increase in costs within homeless support services.
- Premises (£0.049m) overspend on utility costs on redundant buildings.

The net directorate position includes corrective action amounting to £0.312m, without which the overspend would be £1.031m.

**Neighbourhood Services +£0.113m**

- Shortfall of Income (£0.156m) primarily from a loss of fee income from sports and leisure centres due to a reduction in number of people using the centres (£0.110m), part delivery of achievement of project funding for LNP's from alternate grant sources (£0.050m).
- Salaries / employees - due to a delay in the implementation of specific savings due to redundancy implications (£0.079m).

The net directorate position includes corrective action amounting to £0.099m, and additional income generation of £0.350m without which the overspend would be £0.562m. Senior officers are reviewing the areas of overspend with a view to developing alternative actions to further mitigate this position

**Social Care +£0.382m**

The main reasons for the overspend is due to a shortfall of income arising from reduced client contributions (£0.389m).

An action plan totalling £1.2m is already in place (all classed as amber risk) without which an overspend of £1.5m would be reported. Increased placement costs in learning disabilities, YADS and older people with dementia have occurred over the last month, but efficiencies in older people's day care and home care (£0.372m) have greatly contributed to the reduction in the expected overspend previously reported.

Out of this action plan £0.500m of the £0.750m demand related growth approved as part of the budget setting process, is being used to partially mitigate the current overspend. If client numbers grow as expected and assertive review of existing packages does not generate sufficient savings, then this will need to be reviewed further.

There are 3 items totalling £0.361m which relate to actions which need to be undertaken to offset the shortfall in achieving part of the Learning Disability efficiencies' in relation to the assertive review project.

The remaining £0.310m of the action plan relates to other projects in progress relating to CHC. A detailed review is being undertaken to clarify whether certain clients have been categorised properly for s117. No additional income or expenditure has been included in the forecast for the possible impact of changes in clients' legal status between Continuing Health Care (CHC) and section 117. The Local Authority would reduce costs where clients' transfer to become CHC funded and incur additional costs where they transfer from being Health funded to S117. It is likely that the local authority will receive additional income from NHS Walsall for the costs of brokering and administering CHC home care packages on their behalf. NHS Walsall have been asked to contribute £0.114m and this is currently being negotiated.

### **Children's Services + £2.457m**

- The forecast overspend is due to an increase in the demand for looked after children (LAC) with numbers increasing from the 450 when the 2009/10 budget was set, to a current level of 482 with the cost of an additional child between £0.050m - £0.144m per annum depending on the type of placement. The increase is believed to be associated with revised deprivation indicators (IDACI) and the effect of reassessment of risk since the death of Baby Peter.
- There has also be an increase in the level of contact with birth families associated with the increases in LAC involving increased costs in supervision and transport. New legislative requirements stemming from a new public law outline will create a further overspend of £0.075m. All possible actions to mitigate are taking place.
- Directly commissioned nursing services have a forecast overspend due to the requirement to fund more expensive care packages for disabled children with increasing complex needs.
- Employee costs are also forecasting to overspend due to one off redundancy costs (£0.194m) not budgeted due to late notification of redundancy.

Corrective action planning is being implemented across Children's services to reduce as far as possible the potential overspend without any additional risk to children by holding posts vacant and reviewing all costs to eliminate any non essential expenditure across the service. Further work is also being done to increase partner contributions for looked after children and directly commissioned nursing services. A review of all looked after children's placement costs has also been started to ensure maximum placement cost efficiency is achieved.

### **Resources +£1.942m**

- Supplies and services – stretch targets for council wide procurement savings for which there are not yet firm plans in place (c£1.500m).
- Shortfall in income from print and design (£0.337m) due to reduced take up of the service.
- Salaries (£0.047m) - minor variations within Human Resources and Development (£0.024m) and CMT (£0.023m) due to recruitment costs of Executive Director for Children's services.

Both of the major issues relate to activity across the whole organisation and can only be dealt with through corporate collaboration.