

Cabinet – 10 September 2014

Corporate Financial Performance 2014/15

Portfolio: Councillor S Coughlan – Leader of the Council

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 as at 31 July 2014. The report sets out:

- A potential revenue overspend of £1.58m, after use of reserves and assuming successful delivery of corrective action plans produced to date to mitigate in year pressures.
- That directorates continue to work on mitigating action to reduce areas of overspend.
- A number of amendments to the capital programme for approval, as set out in table 3 of the report.
- The forecast underspend on the council funded capital programme of £300k.

2. Recommendations

2.1 Cabinet are requested to:

- Note the pressures outlined in the report and that directorate corrective action plans have been produced to mitigate the potential overspend down to £1.58m.
- Note action being taken to manage the cost pressures arising.
- Note the risks to the forecast.
- Note the forecast underspend on the council funded capital programme of £300k.
- Approve the use of the Care Act implementation funding to be utilised by Social Care and Inclusion as detailed in section 3.5
- Approve the amendments to the capital programme and the release of match funding as detailed in section 3.7.

3. Report Detail

3.1 Cabinet receive regular financial reports to allow it to oversee the financial performance of the council and consider plans for corrective action.

3.2 Revenue Forecast 2014/15

Walsall Council, similar to many others, is facing significant financial pressures and an increase in demand for certain services. As a result, this has translated into some significant cost pressures, particularly within Children's services (£2.60m) and Social Care (£2.96m). Given the size and diversity of the organisation, the functions and services provided and the demand placed on it, it is not unusual for there to be projected variances during the course of any financial year.

The current level of pressures is such that, if not managed, could result in a potential overspend of £5.04m. Walsall Council has a strong track record of managing financial pressures and action is being taken to mitigate current and future cost pressures. Maintaining financial stability is a key organisational requirement. Table 1 summarises the 2014/15 budget and forecast outturn, including £3.46m of corrective action being taken to mitigate the pressures.

Table 1: Forecast revenue analysis 2014/15 by Directorate						
Directorate	Net Budget £m	Year end forecast £m	Forecast Under/ Over- spend £m	Mitigating Action £m	Revised year end forecast £m	Forecast Under/ Over- spend £m
Children's Services	48.97	51.57	2.60	(1.42)	50.15	1.18
Neighbourhood Services	41.21	41.22	0.01	(0.05)	41.17	(0.04)
Regeneration	5.60	5.60	0.00	0.00	5.60	0.00
Resources	22.67	22.67	0.00	(0.12)	22.55	(0.12)
Social Care & Inclusion	60.75	63.71	2.96	(1.87)	61.85	1.09
Capital Financing	22.93	22.91	(0.02)	0.00	22.91	(0.02)
Central budgets	(115.37)	(115.88)	(0.51)	0.00	(115.88)	(0.51)
Total council tax requirement	86.76	91.80	5.04	(3.46)	88.34	1.58

3.3 Pressures and Corrective Action

3.3.1 *Children's Services* – the two causes for the forecast position on children's services relate to demand on looked after children (LAC) services (£1.07m), including the supplementary costs of LAC such as disability packages, contact and support and adoption allowances; and recruitment difficulties in securing social workers, requiring the need to use temporary agency staff (£2.18m), both of which are national as well as local issues.

Placements costs are driven principally by a budget based on LAC numbers of 560 against current numbers of 615. There is ongoing work to reduce the number of LAC where possible and reduce the cost of placements through more effective and efficient purchasing arrangements. Children's have produced an action plan in these areas which mitigate the pressures by £739k; however there are some risks to

delivery of these, for example, one key action is dependent on a reduction in LAC numbers to 585 by 31 March 2015.

Further actions totaling £679k have been identified, leaving a revised potential overspend of £1.18m. These actions include a review of existing commissioning activity, reduction in taxi costs, reviewing use of grant such as care matters and SEN in relation to staffing, review of charges and a non-essential expenditure freeze on non pay budgets, review of early years budget, and use of an unused earmarked reserve, some expected windfall income and new un-ringfenced grant, approval for which was granted by Cabinet in July.

- 3.3.2 *Social Care and inclusion (SCI)* – Adult social care has also experienced pressures arising from service demands and cost pressures and has identified ongoing actions to deal with c£4.8m of pressures which arose in 2013/14. These actions are focussed on increasing income collection and reducing commissioning through a new approach to social work which will deliver quick and sustainable results.

Further pressures have arisen, including income received from benefits based charging and the timing of reviews of respite and response resulting in an overspend of £2.96m. An action plan has been developed to part mitigate these pressures in year, which is estimated to leave the directorate with a forecast overspend of £1.09m. However, there are a number of risks to this forecast including assumptions that there are no additional costs arising from new care packages or changes in care needs (net of reductions in care needs elsewhere) or unfunded costs arising during the winter period.

- 3.3.3 *Neighbourhood Services* – the directorate is currently forecast to outturn on budget.

- 3.3.4 *Regeneration* – net pressures total £389k including a short-term one-off shortfall of Walsall markets income (net £140k) due to reduced uptake of stalls and reduced rents linked to the move. Property services are additionally forecasting an overspend due to a reduction in design & project management fees (£140k), part of the schools crossing patrol saving (£64k) is not expected to be achieved in full as consultation is ongoing, and dilapidation costs relating to the lease release programme of £45k. These pressures are fully offset by vacancies and over achievement of planning income.

- 3.3.5 *Resources* - pressures arising in Money Home Job has lead to a forecast variance of £639k, mainly in relation to an increase in uncontrollable costs relating to housing benefits for vulnerable clients where the full costs are not reimbursed to the council through housing benefit subsidy. This is offset in year by underspends elsewhere in the directorate, including posts being held vacant pending a review of support services. A further one-off receipt of £120k of income has been approved by Cabinet to be used to fully mitigate the pressures. The bad debt provision for resources has also been reviewed, allowing a £122k reduction.

- 3.3.6 *Central* – this underspend is due to a reduction in leasing costs as it has been more cost effective to purchase vehicles than to lease them.

- 3.3.7 Work is continuing corporately to manage the pressures and mitigate their impact and action plans will be closely monitored and progress reported regularly to CMT and members.

3.4 Local Authority Mortgage Scheme (LAMS)

Up to the end of June 2014, 38 mortgages have been supported through the LAMs scheme using £792,163 of the indemnity cover and a further 8 mortgages applications are being processed which when completed will use up a further £150,750.

3.5 Better Care Implementation Grant 2014/15

Walsall has been awarded £125k grant allocation towards funding the implementation costs of the Care Act for 2014/15. All the implementation costs will fall within Social Care and Inclusion and are expected to cost more than the grant allocation. The grant is un-ringfenced and can therefore be allocated against any expenditure of the council. Cabinet are requested to approve the use of this grant to be allocated to Social Care and Inclusion to use against the Care Act implementation costs.

3.6 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 2015/16 to make good the shortfall of income. The current position on the collection fund is £0.770m which relates to 2013/14 of which Walsall will have to fund £0.377m. No further change is predicted at this time. Further updates will be provided to Cabinet during the year.

3.7 Capital Programme 2014/15

The capital programme reported to Cabinet on 2 July 2014 totalled c£72.11m. Amendments have taken place since that date and these are detailed in Table 3 below, resulting in a revised programme of c£56.08m.

Table 3 : Amendments to Capital Programme 2014/15	
	£m
Capital programme 2014/15 per Cabinet 2 July 2014	72.11
Council Funded Resources	
Kendrick Place – funded via revenue contribution to capital outlay (RCCO)	0.02
Pelsall Road Flood alleviation – funded via RCCO	0.01
Barcroft Primary Additional Classroom – funded via RCCO	0.27
Barcroft Primary Toilet Block – funded via RCCO	0.01
Willenhall EACT Academy Swimming Pool – funded via RCCO	0.04
Refurbishment & Upgrade of the College facilities and premises – funded via RCCO	0.09
New Homes Bonus – funded via RCCO	0.33
N3 Link (data sharing between council and health partners) – funded via RCCO	0.02
Kings Hill Park – funded via RCCO	0.01
Grange Car Park – match funded	0.17
Aids and Adaptations – funded from 2013/14 underspend	0.25
Re-profiling of budgets into 2015/16	(1.45)
LEX site – funded via RRCO	0.28

Table 3: Amendments to Capital Programme 2014/15 cont....	
	£m
Prudential	
Re-profiling of budgets into 2015/16	(2.74)
Specifically Funded / Grant Schemes	
Black Country Enterprise Zone – confirmation of funding	0.05
Re-profiling of budgets into 2015/16	(12.77)
Black Country PIP – reduction in external funding due to lower demand	(0.62)
Revised capital programme 2014/15	56.08

At as previous meeting of the Asset Strategy Group it was agreed to release funding of £250k in relation to the aids and adaptations scheme. The amendment to the scheme was agreed to be funded from the 2013/14 underspend. It was also agreed to release match funding of £170k in relation to the resurfacing of the Arboretum extension car park from capital investment earmarked reserves already approved within the 2014/15 capital programme.

At the meeting of the Asset Strategy Group on 26 August 2014 it was agreed to release match funding of £59,302 in relation to the Art Gallery building maintenance following the confirmation of grant funding of £400k from the Arts Council. This will also to be funded from capital investment earmarked reserves. A further £40,909 match funding will be required in 2015/16 and will be included in the 2015/16 capital programme.

- 3.71 Table 4 summarises the 2014/15 capital programme and an early forecast outturn after the re-phasing of projects into 2015/16.

Table 4: Forecast capital analysis 2014/15					
Directorate	Budget £m	Predicted year end forecast £m	Variance before Carry forward £m	Carry Forward £m	Variance Over / (Under) £m
Council funded	26.72	26.42	(0.30)	0.00	(0.30)
Externally Funded	29.36	29.36	(0.00)	0.00	(0.00)
Total	56.08	55.78	(0.30)	0.00	(0.30)

- 3.72 Additionally, the council funded element of the capital programme currently shows predicted underspends of c £0.30m as shown in **Table 5**.

Table 5: Underspends/savings 2014/15	
Project	£m
Health through warmth	(0.17)
New Invention Car Park	(0.01)
Dilapidations	(0.12)
Total	(0.30)

3.8 Financial Health Indicators

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

- Strong treasury management performance for 2014/15.
- Strong balance sheet financial performance.
- Estimated target for council tax and business rate collection rates is slightly above that budgeted.
- Strong sundry debtors collection rates, showing an average of 26 days for 2013/14 and 24 days to collect debt in quarter 1 of 2014/15.
- Strong creditor performance showing an average 12.47 days in 2013/14 and 10 days in quarter 1 of 2014/15.
- Revenue and capital position for 2013/14 pre-audit and forecast for 2014/15 – as outlined in this report.
- Capital receipts received in 2013/14 and forecast for 2014/15.

4. **Council Priorities**

- 4.1 The budget is set following council priorities, including the implementation of Marmot objectives to help direct existing resources.

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 amber.

- 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£4.39m and 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 and operate within a balanced budget.

8. **Property implications**

- 8.1 None directly associated with this report.

9. **Health and wellbeing implications**

- 9.1 This report is prepared with consideration of health and wellbeing implications.

10. Staffing Implications

10.1 None directly associated with this report.

11. Equality implications

11.1 None directly associated with this report.

12. Consultation

12.1 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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27 August 2014

Signed:

Councillor S Coughlan
Leader of the Council
xx August 2014

Financial Health Indicators

Treasury Management	2013/14 Actual	2014/15 Target	2014/15 Actual
Average Interest Rate (Borrowing)			
- Excluding OLA	4.60%	4.60%	4.60%
- Including OLA	4.73%	4.73%	4.73%
Gearing Effect on Capital Financing Estimates	1.23%	5.0%	1.2%
Net Borrowing Costs / Tax Requirement	5.8%	6.2%	5.9%
Capital Financing Requirement (£m)	301.750	317.293	301.750
Authorised limit for external Debt (£m)	351.207	349.022	349.022
Investment Rate Average	1.2%	0.9%	1.1%

Balance Sheet Ratios	2011/12	2012/13	2013/14 (pre-audit)
Current Assets : Current Liabilities	2.70	2.70	2.83
Useable Reserves : General Revenue Expenditure	0.49	0.59	0.53
Long Term Borrowing : Tax Revenue (Using both council tax and NNDR for tax revenue)	1.25	1.13	1.71
Long Term Assets : Long Term Borrowing	1.89	1.84	1.87
Total School Reserves : Dedicated School Grant	0.07	0.08	0.09

Revenues Performance % collected for financial year	2012/13 Actual Collected in total @ 30.06.14	2013/14 Actual Collected in total @ 30.06.14	2014/15	
			Profiled Qtr	Actual Qtr
Council tax %	98.2	96.8	27.3	27.3
National Non Domestic Rate %	90,833,235	93,507,820	27,000,000	27,012,426
Total Council Tax collected (£m)	98.5	97.3	31.6	31.8
Total NNDR collected (£m)	67,603,082	68,590,958	22,500,000	22,698,301

Debtors and Creditors Performance	2013/14 Actual	2014/15	
		Profiled Qtr	Actual Qtr
Sundry Debtors Collection – Average number of days to collect debt	26 days	30 days	24 days
Average number of days to process creditor payments	12.47 days	14 days	10 days

Management of Resources	Actual 2013/14	2014/15 (budget for monitoring)		
		Target	Actual	Variance
Service Analysis	Pre-audit			
Children's Services	75,628,617	48,974,424	50,147,187	1,172,763
Neighbourhood Services	58,807,949	41,212,295	41,168,217	(44,078)
Regeneration	18,589,664	5,595,870	5,596,109	239
Social Care & Inclusion	72,583,775	60,748,165	61,845,847	1,097,682
Resources	12,390,834	22,669,030	22,546,508	(122,522)
Council Wide	11,286,426	54,015,972	53,490,250	(525,722)
RSG/NNDR	(163,027,571)	(146,452,135)	(146,452,135)	0
Total	86,259,694	86,763,621	88,341,983	1,578,362
General Reserves	14,865,489	Minimum £6.3m Maximum £12.5m	N/A	N/A
Council Funded Capital Expenditure	11,958,013	19,546,671	19,240,259	306,412
Grant Funded Capital Expenditure	25,708,024	29,361,395	29,361,395	0
Prudential Expenditure	2,199,207	7,173,984	7,173,984	0
Total Capital Expenditure	39,865,244	56,082,050	55,775,638	306,412
Capital Receipts	781,250	2,220,000	3,181,380	961,380

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.
Net Borrowing Costs / Tax Requirement	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 Council Tax (%)	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
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.