

Cabinet – 19 November 2008

Corporate Financial Performance 2008/9

Portfolio: Councillor A Griffiths – Finance and Personnel

Service: Corporate 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 reflects the impact of action plans in place to reduce expected overspends. The report highlights a council wide revenue overspend of c£2m after corrective action, the reasons for which are highlighted in the report. The capital programme is currently forecast to be underspent.

2. Recommendations

That the following currently predicted year end forecasts be noted:

- a net revised revenue overspend of £2m (0.3% of the current gross budget) following corrective action.
- unspent resources of c £4.277m on the capital programme some of which is expected to be carried forward into 2009/10.
- To note that further corrective action is being sought to mitigate the remaining overspend.

3. Background information

Cabinet receives regular financial reports to allow cabinet to monitor the financial performance of the council and approve plans for corrective action where necessary. Maintaining financial stability is a key requirement. The budget setting process for 2008/9 took into account the economic conditions prevailing at that time taking into account market predictions and government guidelines.

Since that time there has been a significant and rapid change in the economic conditions particularly around energy, food and the availability of credit. These factors have had an impact on the market conditions under which our suppliers operate, on land sales and capital receipts and on income generated from service fees and charges as follows:

There has been an increase in the cost of oil, which has fed a continuing increase in the cost of energy; this is predicted to continue for the medium term although there has been a recent moderation in the prices. There will be a direct and indirect impact on the council of this increase.

The initial pressure is on gas, fuel and electricity which will move with market conditions. Contracts are relatively short term and therefore the direct impact will be felt relatively quickly. What may take longer are those areas where services we receive are reliant upon the significant use of fuel or energy, i.e. those services where transport is a major element such as domiciliary care, community meals, people transport and waste transport, which are second generation.

There are other third generation supplies which are oil based products or require the use of oil in their production which will tend to increase by a lesser extent over a period of time but nonetheless will add to inflationary pressures.

The recent e-auction on food highlighted the significant cost increases in this area. The increasing cost of food will therefore impact on the cost of other residential type services both in adults and children's services.

The availability and cost of credit will affect providers of accommodation in particular. The cost of borrowing for the existing assets and investment in future adaptation will create more challenging operating conditions for a number of businesses. The recent banking collapses and the apparent evaporation of confidence in the business sector as a result will make extracting value from contracts more difficult to achieve. The recent reduction in interest rates is likely to impact on the council's treasury management function and investment targets.

Some service contracts which have a longer duration normally have indexation clauses and the use of deferred increases as a means of delivering savings may be limited in the future given these inflationary pressures. Indications show that the retail price index has risen sharply from a steady of around 3.2% to 5.3% over a 6 month period. Equally seeking to extract value through negotiation will be more difficult given the inflationary pressures on operating costs particularly where providers are being affected by more than one of the above factors. Residential and Nursing Care is one of those areas where work is underway but, as a consequence of these adverse conditions, a review of our approach has been undertaken to ensure that the approach does not adversely affect the market to such an extent that our ability to fulfil our functions is prejudiced.

Land sales have fallen sharply impacting on receipts that can be achieved to support the capital programme. Targets receipts for 2008/9 have not been achieved, reducing available resources for funding new capital investment going forward.

Services are noticing a reduction in income generated, from reduced planning applications, land sales, through to reduced sport centre income. A more detailed assessment of the achievability of future income targets is in hand to inform the current year financial position and budget setting processes.

4. Resource and legal considerations

4.1 Managers are required to deliver their service targets and improvements within budget. Small variations are normal on a gross revenue budget of £665.78m. The RAG status of this report is red as the forecast revenue outturn is an overspend of c £2m (0.3% of the current gross budget). Reasons for this largely arise from the impact of the economic conditions mentioned above. Year-end unspent capital resources of c £4.277m @ 31.3.09 is forecast, some of which is expected to be carried forward into 2009/10 to fund slippage on approved capital projects.

4.2 General Reserves

If currently predicted overspends arise, year end general reserves would be c £5.36m as detailed below, requiring replenishment in the 2009/10 budget setting process.

TABLE 1: PREDICTED YEAR END POSITION 2008/9	
REASON	2007/8 £M
General reserves as at 01.04.08 (post-audit)	-7.776
Predicted revenue overspend (Appendix A)	2.015
Funding of one-off costs relating to print and design	0.150
One-off funding in respect of Sports England grant	0.027
One-off funding in respect of family law charges	0.220
Estimated general reserves @ 31.03.09	-5.364

4.3 Earmarked Reserves and Central Contingency

Central contingency for 2008/9 is £0.611m. **Appendix B** shows how this has been spent to date and **Appendix C** shows expected spend in relation to earmarked reserves.

4.4 Progress of efficiencies/fees and charges/policy changes

In February Council approved c £7.6m of savings/efficiencies and increases in fees and charges. To date £7.155m (94%) is expected to be realised in full.

4.5 Progress of spend approved for new investment in 2008/9

Council approved investment of £6.5m which includes new investment and full year effect of previously approved investment. To date this is all projected to be fully utilised against the purpose for which it was given.

4.6 Revenue Budget 2008/9

Managers currently reporting overspends are taking action to bring spending back into line with the budget. The main areas of variance and the reasons for them are detailed below and further detail on each directorate is provided in **Appendix D**.

4.7 CAPITAL PROGRAMME 2008/9

Detailed capital budget issues

The main areas of variance between budget and estimated outturn are:

Mainstream funded

The mainstream capital programme currently shows predicted slippage of £3.843m and underspends of £0.434m. The table overleaf gives details:

TABLE 2: PREDICTED YEAR END POSITION 2008/09		
Project`	Slippage	Underspend
	£m	£m
Schools projects	2.936	
Regeneration projects	0.728	
Aids and adaptations	0.029	0.250
New build short breaks unit		0.184
New build Fallings Heath	0.104	
Darlaston health centre	0.046	
Total	3.843	0.434

Prudential Programme

In line with the treasury management strategy, last year £9.49m additional unsupported borrowing was used as a more effective source of funding than capital receipts. This allowed capital receipts of £11.398m to be carried forward in line with the approved capital programme. Once again in 2008/9 whether to use unsupported borrowing or capital receipts will be considered in light of prevailing markets and the corporate financial position.

Non-mainstream funded

The non-mainstream capital programme currently shows an unfinanced debtor of c£7.919m to be carried forward to 2009/10. In general, grant income is received after the expenditure takes place so a time lag of funding is expected and accounted for. Continual monitoring is undertaken to ensure that grant is being claimed and received on a regular basis. It is important to note that no scheme will be allowed to commence unless an approval from the funding provider has been received to ensure that there will be no call on mainstream resources.

Capital Receipts

The mainstream capital programme is influenced by the level of capital receipts available. With the decreasing number of assets available to be sold to generate receipts and the unpredictability of the market it is important to regularly review the certainty of the receipts. It had been planned to carry forward c£5m of capital receipts to support the 2009/10 capital programme, however current sales are below target and forecasted usable capital receipts for 2009/10 are now predicted at c£2m.

Leasing

Leasing minimises the call on capital resources by spreading the cost over a number of years, financing the cost from revenue. Services bid for £4.717m of capital expenditure to be financed by leasing in 2008/9. £0.328m of the leasing provision has been used to date and forecast spend amounts to £3.2m.

5. Citizen impact

- 5.1 The 2008/9 policy-led budget is aligned with activity in service plans. Investment is targeted at service improvement, stability and user demand. 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. The figures in this report represent the most likely outcomes based on currently available information.
- 8.3 A number of assumptions have been made in the forecast figures by managers, including that corrective action plans continue to deliver reductions as planned. There are risks attached to this, which are highlighted in **Appendix E** that could impact adversely on the current position and which require continued active management. These amounts to a total of c £3.7m; however they are actively being managed.

9. Equality implications

None directly associated with this report.

10. Consultation

The report is prepared in consultation with the CFO, relevant managers and executive directors.

Background papers

Various financial working papers.

Author

Vicky Buckley – Head of Corporate Finance,
☎ 01922.652349, buckleyv@walsall.gov.uk



James Walsh
Chief Finance Officer
30 October 2008



Councillor A Griffiths
Portfolio Holder - Finance & Personnel
30 October 2008

APPENDIX B

USE OF CENTRAL CONTINGENCY	
	£
Budget approved for 2008/9	611,382
Less allocations:	
Electrical works at Collingwood centre	-3,200
Essential works at Blakenhall Centre	-6,000
Counterfeiting enforcement (fall out of specific grant)	-22,325
Administration of stray dogs out of hours service	-17,848
Works at Gala baths	-4,852
Consultancy work for procurement for supporting people	-35,000
Costs of safety auditor in response to HSE assessment	-17,000
Staff costs to deliver compliance action plan agreed with GOWM	-81,000
Highways procurement	-50,000
Back dated NNDR costs – Brownhills library	-46,091
Staff costs to comply with Charity Commission rules and regulations	-22,500
Festive decorations – sponsorship income not realised	-43,000
Union time relating to job evaluation for local authority school based staff	-21,153
Staff costs relating to the LLPG	-16,687
Legal costs – procurement	-1,757
Legal – charity land valuation	-2,000
Balance remaining as at 31.03.09	220,969

APPENDIX C

USE OF EARMARKED RESERVES			
Reserve	Value of Reserve £	Currently expected to be used in year £	Balance remaining £
Community engagement LNP's	236,249	N.K	236,249
Finance Direct (Oracle)	261,672	0	261,672
Transformation	323,357	-143,357	180,000
Landfill Tax Scheme	287,955	N.K	287,955
Education contract	129,843	-129,843	NIL
LABGI	2,028,131	-1,191,810	836,321
Mediation	250,000	-250,000	NIL
Environmental warranties	400,000	N.K	400,000
Commutation	2,528,998	N.K	2,528,998
Shopmobility	45,000	-45,000	NIL
New waste summer work / waste tipping	195,000	-195,000	NIL
Job evaluation manager / trade unions	100,000	-100,000	NIL
Building schools for the future	500,000	-189,000	311,000
LATS – build up	117,000	N.K	117,000
Local land and property gazetteer	32,000	-32,000	NIL
Property review / Tameway Tower	110,000	-110,000	NIL
Criminal records bureaux	95,000	-95,000	NIL
Mayors civic awards	6,750	-6,750	NIL
Health and safety	1,000,429	N.K	1,000,429
Benefits subsidy	300,000	N.K	300,000
Insurance	779,130	N.K	779,130
Building control fees	126,745	N.K	126,745
Street lighting PFI *	7,002,015	N.K	7,002,015
St Thomas Moore PFI *	1,151,500	N.K	1,151,500
Total	18,006,774	-2,487,760	15,519,014

The service figures currently expected to be used in year have been collated from service monitoring reports.

N.K. = not known at this point in the year

* Relates to sinking fund of reserves required to deliver the PFI over full contract period.

Main Services Variances From Budget**Regeneration +£0.521m**

- Under achievement of markets income (+£0.02m), projected shortfall in land charges income (+£0.300m) and planning income (+£0.358m), due to housing market slowdown; property services (+£0.280m) due to a part year shortfall on savings from the Tameway Tower move alongside unbudgeted move costs, additional agency staff costs and part non-achievement of carry forward of overspend from 2007/8; business support (-£0.100m) due to planned reduction in agency staff; performance management (-£0.028m) arising from staff vacancies. The above is partly offset by ceasing remaining non-essential spend of £0.256m.

Neighbourhood Services + £0.945m

- Engineering and Transportation - additional contractors charges (+£0.048m); under-recovery of income for pollution control (+£0.025m); road works management due to delays in implementation of a new income stream (+£0.025m) and loss of car parking income (+£0.423m).
- Street pride – fleet services hire of highways equipment (+£0.090m) and additional fuel price inflation (+£0.250m) offset by an underspend within waste arising from additional recycling income due to increased market prices (-£0.100m); a reduction in waste disposal costs (-£0.250m), reduced transport costs due to the closure of the transfer station in Fryer Road and waste being taken direct to disposal sites (-£0.025m); savings on the disposal of wood (-£0.030m); and other small variances within waste (+£0.045m).
- Public protection (+£0.216m) mainly due to under-recovery of income within bereavement services arising from falling mortality rates.
- Leisure, culture and lifelong learning +£0.378m:
Sports management: a shortfall in income for sports and leisure centres (+£0.178m);
Catering (+£0.121m) – shortfall in income.
Non-essential spend has been identified totalling £0.065m which will be used to offset the above.

Children's, ICT and Procurement Services +£1.26m (including council wide procurement)

- ICT (+£0.326m) – This is caused by disputed charges to external customers (New Deal) from 2007/08 (£70k). Also, non-recovery of project income and project related costs. There is a review of the service budget underway, actions to mitigate this are underway with ceasing of non-essential spend and an analysis of invoicing.
- Procurement (+£0.950m) – Negotiations and actions to generate procurement savings are ongoing however there is a significant risk that these savings will not be achieved, and therefore it is prudent to plan for this. Additional projects and work on existing projects are being reviewed to mitigate this, however the challenging economic environment is making savings targets more difficult to achieve.

- Non-essential expenditure of £0.068m has been identified to reduce the directorate overspend.

Social Care and Inclusion -£0.156m

- The directorate is currently predicting variances in residential and nursing care as the impact of rising costs in domestic fuel, petrol, property costs and bank rates affects on the market. An action plan is in place to eliminate any overspend and further non-essential spend has been identified by the directorate which has produced an anticipated underspend to contribute to the overall corporate position.

Corporate Services -£0.755m

- Capital financing -£0.671m - sound treasury management and higher investment returns has resulted in additional income being received.

Central

- Car Allowance/Mileage review +£0.200m. The saving is unlikely to be met in 2008/9, however an action is being implemented to ensure this is fully delivered by 2009/10.

PREDICTED 2008/9 CORPORATE REVENUE YEAR END POSITION

SERVICE	ANNUAL BUDGET 2008/9			YEAR END FORECAST 2008/9 BEFORE USE OF RESERVES						USE OF RESERVES	ALLOCATION OF ITEMS HELD CENTRALLY UNTIL FULLY UTILISED	TRANSFER TO RESERVES	YEAR END FORECAST 2008/9 OVER / (UNDER)		Directorate RAG Status	
	EXPENDITURE £M	INCOME £M	NET £M	EXPENDITURE £M	INCOME £M	NET £M	OVER / (UNDER)									
							£M	%								
Regeneration																R
Regeneration	4.136	-2.223	1.913	4.541	-2.203	2.338	0.425	22.22	-0.405	0.000	0.000	0.000	0.020	1.05		
Planning Services	2.471	-2.684	-0.213	2.585	-2.028	0.557	0.770	-361.68	-0.112	0.000	0.000	0.000	0.658	-309.07		
Property Services	19.359	-16.587	2.772	22.347	-19.354	2.993	0.221	7.99	0.058	0.000	0.000	0.000	0.280	10.10		
Performance Management	1.940	0.000	1.940	2.004	0.000	2.004	0.064	3.29	-0.092	0.000	0.000	0.000	-0.028	-1.44		
Strategic Transformation	0.706	0.000	0.706	0.757	0.000	0.757	0.051	7.21	-0.050	0.000	0.000	0.000	0.001	0.13		
Business support	8.467	-0.053	8.414	8.557	-0.053	8.504	0.090	1.07	-0.190	0.000	0.000	0.000	-0.100	-1.19		
Human Resource Development	6.635	-1.908	4.726	7.212	-1.908	5.303	0.577	12.20	-0.635	0.000	0.000	0.000	-0.058	-1.23		
Communications	0.449	-0.040	0.409	0.453	-0.040	0.413	0.004	0.86	0.000	0.000	0.000	0.000	0.004	0.86		
Corrective action plans (inc. non essential expenditure)	0.000	0.000	0.000	-0.256	0.000	-0.256	-0.256	0.00	0.000	0.000	0.000	0.000	-0.256	0.00		
Total Regeneration	44.163	-23.495	20.668	48.200	-25.586	22.614	1.946	9.41	-1.425	0.000	0.000	0.000	0.521	2.52		
Neighbourhood Services																R
Street Pride	31.811	-15.774	16.038	32.744	-15.974	16.770	0.732	4.57	-0.572	-0.250	0.000	0.000	-0.090	-0.56		
Engineering & Transportation	14.761	-5.789	8.971	15.212	-5.719	9.492	0.521	5.81	0.000	0.000	0.000	0.000	0.521	5.81		
Public Protection (inc. licensing, emergency planning, registrars and coroners)	5.587	-3.865	1.722	5.686	-3.723	1.964	0.242	14.05	-0.026	0.000	0.000	0.000	0.216	12.52		
Leisure, Culture and Lifelong Learning	30.676	-14.783	15.893	30.966	-14.391	16.575	0.681	4.29	-0.054	-0.249	0.000	0.000	0.378	2.38		
Neighbourhood Partnerships and Programmes	1.968	-0.611	1.356	1.966	-0.611	1.354	-0.002	-0.14	0.000	0.000	0.000	0.000	-0.002	-0.14		
Walsall Borough Strategic Partnership	0.504	-0.348	0.156	0.792	-0.598	0.193	0.037	23.51	-0.050	0.000	0.000	0.000	-0.013	-8.46		
Safer Walsall Borough Partnership	1.255	-0.114	1.140	1.656	-0.114	1.541	0.401	35.16	0.000	-0.401	0.000	0.000	0.000	0.00		
Corrective action plans (inc. non essential expenditure)	0.000	0.000	0.000	-0.065	0.000	-0.065	-0.065	0.00	0.000	0.000	0.000	0.000	-0.065	0.00		
Total Neighbourhood Services	86.562	-41.285	45.277	88.955	-41.132	47.824	2.547	5.62	-0.702	-0.900	0.000	0.000	0.945	2.09		
Corporate																G
Finance (inc internal audit, insurancel)	4.688	-0.356	4.332	4.661	-0.356	4.305	-0.027	-0.61	-0.047	0.000	0.000	0.000	-0.074	-1.70		
CWSS, NDC'S & C&DC	3.031	-0.544	2.487	2.933	-0.544	2.389	-0.098	-3.92	0.000	0.000	0.114	0.000	0.017	0.68		
CMT	1.118	-0.002	1.116	1.117	-0.002	1.115	-0.002	-0.14	0.000	0.000	0.000	0.000	-0.002	-0.14		
Legal and constitutional	3.331	-0.262	3.069	3.405	-0.262	3.142	0.074	2.40	-0.007	0.000	0.000	0.000	0.067	2.18		
Revenue & benefits (incl. welfare services)	98.798	-95.862	2.936	98.798	-95.862	2.936	0.000	0.00	0.000	0.000	0.000	0.000	0.000	0.00		
Corrective action plans (inc. non essential expenditure)	0.000	0.000	0.000	-0.092	0.000	-0.092	-0.092	0.00	0.000	0.000	0.000	0.000	-0.092	0.00		
Total Corporate	110.966	-97.026	13.940	110.822	-97.026	13.796	-0.144	-1.04	-0.054	0.000	0.114	0.000	-0.084	-0.60		
Children's, ICT and Procurement Services																R
Education	241.981	-233.084	8.897	243.158	-234.010	9.148	0.251	2.82	-0.319	0.000	0.068	0.000	0.000	0.00		
Specialist services	28.086	-3.207	24.878	29.452	-3.904	25.548	0.670	2.69	-0.220	0.000	0.000	0.000	0.450	1.81		
Universal services	12.077	-6.564	5.514	13.407	-7.893	5.514	0.000	0.00	0.000	0.000	0.000	0.000	0.000	0.00		
Print and design	0.878	-1.368	-0.490	0.936	-1.224	-0.288	0.202	-41.22	-0.150	0.000	0.000	0.000	0.052	-10.62		
ICT	4.506	-0.286	4.220	5.581	-1.118	4.463	0.243	5.76	0.083	0.000	0.000	0.000	0.326	7.73		
Procurement	-1.320	0.000	-1.320	-0.370	0.000	-0.370	0.950	-71.98	0.000	0.000	0.000	0.000	0.950	-71.98		
Corrective action plans (inc. non essential expenditure)	0.000	0.000	0.000	-0.518	0.000	-0.518	-0.518	0.00	0.000	0.000	0.000	0.000	-0.518	0.00		
Total Children's, ICT and Procurement Services	286.208	-244.509	41.699	291.645	-248.149	43.497	1.798	4.31	-0.606	0.000	0.068	0.000	1.260	3.02		
Social Care & Inclusion																G
Housing	11.847	-10.223	1.624	11.879	-10.258	1.621	-0.003	-0.18	0.000	0.000	0.000	0.000	-0.003	-0.18		
Adult's social care	98.957	-38.290	60.667	98.122	-37.289	60.833	0.166	0.27	-0.067	0.000	0.000	0.000	0.099	0.16		
Support services	2.562	-1.081	1.481	2.662	-1.315	1.347	-0.134	-9.05	0.000	0.000	0.000	0.000	-0.134	-9.05		
Corrective action plans (inc. non essential expenditure)	0.000	0.000	0.000	-0.118	0.000	-0.118	-0.118	0.00	0.000	0.000	0.000	0.000	-0.118	0.00		
Total Social Care & Inclusion	113.366	-49.594	63.772	112.545	-48.862	63.683	-0.089	-0.14	-0.067	0.000	0.000	0.000	-0.156	-9.070		
Centrally Held Budgets																G
Capital Financing	22.441	-3.778	18.663	23.599	-5.608	17.992	-0.671	-3.60	0.000	0.000	0.000	0.000	-0.671	-3.60		
Other Central Items	10.004	0.000	10.004	10.804	0.000	10.804	0.800	8.00	-0.600	0.000	0.000	0.000	0.200	2.00		
Levies																
PTE	13.319	0.000	13.319	13.319	0.000	13.319	0.000	0.00	0.000	0.000	0.000	0.000	0.000	0.00		
Environment Agency	0.080	0.000	0.080	0.080	0.000	0.080	0.000	0.00	0.000	0.000	0.000	0.000	0.000	0.00		
Total Centrally Held Budgets	45.844	-3.778	42.065	47.802	-5.608	42.194	0.129	0.31	-0.600	0.000	0.000	0.000	-0.471	-1.12		
Net Position as at 31.03.09	687.109	-459.687	227.421	699.970	-466.362	233.608	6.186	2.72	-3.454	-0.900	0.182	2.015	0.89			