Audit Committee – 8 December 2009

Corporate Financial Performance 2009/10

1. Summary of report

1.1 This report details the corporate financial performance for quarter 2 of the financial year, including financial pressures and their potential effect on year-end forecasts for both revenue and capital. The report highlights a revenue overspend of c£3.247m, the reasons for which are highlighted in the report. The capital programme is currently forecast to be underspent by c £1.942m due to rephasing and slippage of projects into 2010/11. The draft budget 201011 makes provision to replenish reserves as at 1.04.2009 to ensure opening reserves are in line with those required by the medium term financial strategy.

2. Recommendations

Audit Committee is requested to note the currently predicted year end forecasts and action being taken to address this.

James Walsh	Rory Borealis
Chief Finance Officer	Executive Director (Resources)
16 November 2009	27 November 2009

3. Governance

3.1 Managers are required to deliver their service targets and improvements within budget. Small variations are normal on a gross revenue budget of £720m. Monitoring of performance against budget takes place on a monthly basis with reports distributed to accountable officers. Corporate Financial Performance is reported to cabinet throughout the financial year. Scrutiny panels and Audit Committee also receive quarterly position statements. The primary purpose of this report is to advise Audit Committee of the position and identify the mechanisms and controls by which the council is managing a challenging financial position in order to provide assurance to them in their role.

3.2 Where overspends are reported, these are required to be managed in year wherever possible. Corrective actions plans are drawn up and reported to Corporate Management Team, senior management teams and members. In addition, the council has a small contingency for use where service pressures arise after the budget is set – for example, introduction of legislation not known about when the budget was put together. The council has established opening general reserves of between 2.25% and 5.00% of the total net general fund revenue budget each year as set out in the Medium Term Financial Strategy (MTFS). Any call of reserves is required to be replenished in the next budget round.

3.3 Managers in each directorate currently reporting overspends are taking corrective action. Action continues to be taken and provision has been made in the draft budget for 2010/11 to replenish reserves as a result of the forecast overspend as at 31 March 2010 in order to maintain reserves within the MTFS requirements.

4. Resource and legal considerations

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

4.2 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 just under £1.9m is not expected to be realised.

4.3 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.

4.4 Revenue Budget 2009/10
Managers currently reporting overspends are continuing to 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.

4.5 Forecast Analysis 2009/10: by type

Table 1 illustrates the financial pressure by category of spend.

Table 1: Forecast analysis 2009/10: Spend Type

	£'m	Favourable/Adverse Compared to Budget
Shortfall in Income	2.167	Adverse
Demographics/demand	2.848	Adverse
Contractual increases	0.079	Adverse
Salaries/Employees	(0.369)	Favourable
Supplies & Services	(1.125)	Favourable
Premises	0.144	Adverse
Other	(0.497)	Favourable
Total	**3.247**	**Adverse**

4.6 Current predictions show an expected shortfall in income of £2.167m. 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 A secondary effect of the economic situation is the increase in demand for services. This is particularly noticeable in children services. As at the end of September the council has 475 looked after children, 25 more children than was anticipated and budgeted for.

4.8 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 continue to be pressures elsewhere. Further action has also been taken council wide to restrict all non-essential expenditure whilst minimising the impact on front line service delivery. The impact of this is reduced spend of £0.742m as detailed below.

4.9 Forecast Analysis 2009/10: by Directorate

Table 2 illustrates the financial pressure by Directorate. Further analysis is provided below.

Table 2: Forecast analysis 2009/10: By Directorate		
	£'m	Favourable/Adverse Compared to Budget
Regeneration	0.512	Adverse
Neighbourhood Services	(0.091)	Favourable
Social Care	0.204	Adverse
Children's	2.599	Adverse
Resources	0.023	Adverse
Total	**3.247**	**Adverse**

Table 3 shows directorate position before and after the effects of the non-essential spend freeze.

Table 3: Forecast of non-essential spend : By Directorate			
	Forecast prior to non essential spend £m	**Identified non essential spend £m**	**Revised forecast including non essential spend £m**
Regeneration	0.554	(0.042)	0.512
Neighbourhood Services.	0.064	(0.155)	(0.091)
Social Care	0.448	(0.244)	0.204
Children's	2.626	(0.027)	2.599
Resources	0.297	(0.274)	0.023
Total	**3.989**	**(0.742)**	**3.247**

4.10 <u>Capital Programme 2009/10</u>

The capital programme approved by Council on 23 February 2009 totalled £58.645m. Amendments reported to cabinet since that date of £35.215 include spend which was due to take place in 2008/09 which was re-phased into 2009/10 and additional grant funding steams being approved. This is to be funded via grant income, unsupported borrowing and roll forward of capital receipts from 2008/09 as approved by Cabinet, resulting in a revised programme of £93.860m.

4.11 The mainstream capital programme currently shows predicted slippage of £1.942m due to rephasing and slippage of projects into 2010/11.

5. Performance and risk management issues

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 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.

6. Equality implications

6.1 None directly associated with this report.

7. Consultation

7.1 The report is prepared in consultation with finance and senior officers across the council.

8. Background papers

8.1 Various financial performance and budget monitoring reports

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Appendix A

Major Variances to Budget

Regeneration

- Property services (+£0.129m) arising from shortfall in fee income, survey income and additional costs on redundant buildings.
- Housing (+£0.151m) due to under recovery of agency fees and additional staffing costs.
- New Deal (+£0.186m) succession costs arising from the costs of the succession strategy in preparation for closure of the New Deal programme in March 2011.

Neighbourhood Services

- Streetpride (-£0.353m) – reduction in waste tonnage for waste disposal offset by additional disposal costs for recycling and loss of income from trade waste due to closure of local firms (-£0.395m) partly offset by various small variances,
- Public protection (+£0.152m) – additional coroner charges and under recovery of fee income within bereavement services
- Leisure and culture (+£0.132m) staffing costs due to delay in redundancies (+£0.044m); loss of income in sports centres (+£0.163m); catering services (-£0.086m) due to additional income and reduction in provision costs. The remaining variance is due to a number of small variances within the services.

Social Care and Inclusion

The main reasons for the overspend include the temporary delay in charging for transport (£0.388m), additional staffing costs at Links to Work (£0.386m) and placement costs for all Disability Services and Mental Health clients (£1.5m and £0.800m respectively). A number of compensatory underspends are being made to mitigate this position including vacant posts being held and savings on home care. An action plan is also in place totalling £1.984m and non essential spend reductions (£0.244m), without which an overspend of £2.432m would be reported.

Areas of increasing pressure continue to be on placement budgets within disability services and mental health and a review of funding panels and placement costs is underway

Children's Services

The forecast overspend is primarily 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 475 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 to be associated with revised deprivation indicators (IDACI) and the effect of reassessment of risk since the death of Baby Peter. Courts also have an expectation for care cases to have high levels of contact with birth families, particularly during care proceedings which have resulted in increased costs in supervision and transport.