Agenda item 16

# Cabinet – 15 July 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 in year financial pressures and their potential effect on year-end forecasts for both revenue and capital. The report highlights a council wide revenue pressure of c£5.309m, the reasons for which are highlighted in the report.

## 2. Recommendations

That Cabinet:

- Note in-year cost pressures of c£5.309m (0.77% of the current gross budget) which currently do not have a fully developed corrective action plan.
- Note the impact on year end reserves, should corrective action not be fully identified for the above pressures, which would be a closing reserve balance of
- Note that the capital programme is expected to be in line with resources available.
- Note that the Corporate Management Team are actively addressing the need to mitigate any overspend which may arise from the pressures identified.

## 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 There have been fluctuations in the cost of oil, which has fed a continuing increase in the cost of energy. The pressures have been on gas, fuel and electricity which move with the market conditions.

3.3 The 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. In addition, increased costs of borrowing are likely to impact on the council's treasury management function and borrowing targets.

3.4 Land sales have fallen sharply impacting on receipts that can be achieved to support the capital programme, reducing available resources for funding new capital investment going forward.

3.5 Unemployment is rising fast, with the West Midlands 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.

3.6 In setting the council budget for 2009/10 it was anticipated that income might fall by approximately £2 million in comparison to 2008/09 levels. However if current levels of income achieved in the first two months continue for the remainder of the year, the reduction is likely to be in the region of up to £4m. 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.

3.7 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 May the council has 481 looked after children, 31 more children than was anticipated and budgeted for.

## 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 £689.556m. Financial pressures, for which a fully developed mitigating action plan is not yet available currently amount to around £5.309m 0.77% of the current gross budget. 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, year-end general reserves would be £2.647m, resulting in the need for replenishment of at least £3m within the 2010/11 budget in order to meet the minimum required level of reserves set out in the medium term financial strategy. It would be prudent to set a higher level of opening reserves than the minimum.

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£0.940m (7%) 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 Revenue Budget 2009/10

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 in **Appendix A.**

4.6 *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 | 1.868 | Adverse |
| Demographics/demand | 2.185 | Adverse |
| Contractual increases | 0.050 | Adverse |
| Salaries/Employees | (0.268) | Favourable |
| Supplies & Services | 1.414 | Adverse |
| Premises | 0.010 | Adverse |
| Other | 0.050 | Adverse |
| **Total** | **5.309** | **Adverse** |

4.7 *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 | 0.870 | Adverse |
| Neighbourhood Services | 0.351 | Adverse |
| Social Care | 0.487 | Adverse |
| Children's | 1.879 | Adverse |
| Resources | 1.722 | Adverse |
| **Total** | **5.309** | **Adverse** |

4.8 **Capital Programme 2009/10**

4.8.1 The capital programme is currently expected to outturn in line with resources available.

## 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 that could impact adversely on the current position and which require continued active management

## 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.

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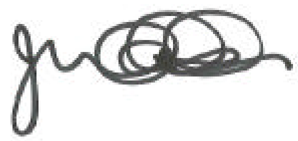
**Rory Borealis – Executive Director (Resources)**
6 July 2009

**Councillor Chris Towe**
**Finance & Personnel**
6 July 2009



**James Walsh - Chief Finance Officer**
6 July 2009

**Appendix A**

## Financial Pressures Currently Identified Without a Developed Corrective Action Plan

### Regeneration +£0.870m

- Shortfall of Income (£0.71m) from planning and land charges (£0.02m), fee income on building design (£0.22m), cleaning & caretaking income (£0.3m), and housing fee income (£0.17m).
- Contractual increase (£0.05m) on markets electrical contracts.
- Salaries / Employees (£0.15m) on agency staff within markets (£0.04m) and in housing standards (£0.11m).
- Supplies & Services (£-0.04m); general underspend on supplies and services budgets.

The directorate management team are reviewing the above forecast pressures and producing an action plan to mitigate these in year pressures.

### Neighbourhood Services +£0.351m

- Shortfall of Income (£0.202m) primarily from a loss of fee income from sports and leisure centres (£0.110m), and from part delivery of achievement of project funding for LNP's from alternate grant sources (£0.05m).
- Part year effect due to a delay in the implementation of specific savings due to redundancy implications (£0.079m)

The directorate management team are reviewing the above forecast pressures and producing an action plan to mitigate these in year pressures.

### Social Care +£0.487m

- Shortfall of income on transport charging for 2009/10 (£0.389m) due to the proposed postponement of the charge until January 2010, and
- Shortfall of income and salary costs of the sheltered employment division (Links to Work - £0.447m).
- The position has been partly mitigated by underspends on staffing in most areas due to recruitment and retention issues in certain areas of assessment and care management but also in an attempt to mitigate overspends elsewhere as part of a targeted action plan. Members and senior officers are working on an alternative plan for Links to Work in the future to avoid the overspend recurring for future financial years.

Within SCI there are total pressures of £2.2m shown on the current risk assessment with £1.117m shown as red risks, including older people with mental health and dementia and younger adults services, and a potential shortfall against the savings target for home care placements due to the suspension of a number of providers and also the block providers who are being paid when the places are not all being taken.

Mitigation via a detailed action plan is being undertaken by holding vacancies, negotiation with providers on placement prices and inflation factors, reduction in spend on supplies and services and reviewing all high cost placements and implementing panel decisions for new placements.

The directorate management team are further reviewing the above forecast pressures and producing a secondary action plan seeking to mitigate the remaining in year pressures as much as is possible.

**Children's Services + £1.879m**

- The forecast overspend is primarily (£1.532m) 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 481 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.
- 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 this will take place.
- Direct payments and family support also have a forecast overspend (£0.249m mitigated by underspends in specialist services of £0.105m) 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 (£0.203m) not budgeted due to late notification of redundancy.

*Mitigation Already Taken*
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. A review of all looked after children's placement costs has also been started to ensure maximum placement cost efficiency is achieved.

**Resources +£1.722m**

- Supplies and services – stretch targets for council wide procurement savings for which there are not yet firm plans in place (c£1.518m).
- Shortfall in income from print and design (£0.181m). This historic issue has been in part tackled by streamlining the print and design team from 24 posts to 14 posts, cutting back on non essential spend and seeking outside contracts – for example the contract with Walsall NHS and possibly Lichfield Council. Further cuts within the council could adversely affect the print room as only around 30% of any "total cost" can be saved as the rest are committed costs (e.g. salaries etc)
- Salaries - minor variations (£0.023m).

The directorate management team are reviewing the above forecast pressures, and will produce an action plan to mitigate these in year. Both of the major issues relate to activity across the whole organisation and can only be dealt with through corporate collaboration.