Audit Committee – 1 March 2010

Corporate Financial Performance 2009/10

1. Summary of report

1.1 This report details the corporate financial performance for quarter 3 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£4.017m, the reasons for which are highlighted in the report. The capital programme is currently forecast to be underspent by c £3.473m due to rephasing and slippage of projects into 2010/11. The draft budget 2010/11 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 Chief Finance Officer	Rory Borealis Executive Director (Resources)

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 forecast.

4.2 Progress of efficiencies/fees and charges/policy changes

In February Council approved c £13.412m of new savings/efficiencies and increases in fees and charges. To date £2.358m 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 identify and take action to bring spending back into line with the budget. The main areas of variance and the reasons for them are as previously reported and 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				
	November £'m	**Favourable /Adverse Compared to Budget**	**September (reported to cabinet 18 Nov 09) £'m**	**Variance Sept to Nov £'m**
Shortfall in Income	2.674	Adverse	2.167	0.507
Demographics/demand	3.337	Adverse	2.848	0.489
Contractual increases	0.109	Adverse	0.079	0.030
Salaries/Employees	(0.386)	Favourable	(0.369)	(0.017)
Supplies & Services	(1.034)	Favourable	(1.125)	0.091
Premises	0.136	Adverse	0.144	0.008
Transport	(0.003)	Favourable	0.000	(0.003)
Other	(0.816)	Favourable	(0.497)	(0.319)
Total	**4.017**	Adverse	**3.247**	**0.770**

4.6 Forecast Analysis 2009/10: by Directorate

Table 2 illustrates the financial pressure by Directorate.

Table 2: Forecast analysis 2009/10: By Directorate					
	Nov £'m	**Favourable /Adverse Compared to Budget £'m**	**Sept £'m**	**Variance between Sept & Nov £'m**	**Favourable / Adverse (Sept v Nov) £'m**
Regeneration	0.550	Adverse	0.512	0.038	Adverse
Neighbourhood	(0.178)	Favourable	(0.091)	(0.087)	Favourable
Resources	0.551	Adverse	0.204	0.347	Adverse
Children's	2.599	Adverse	2.599	0.000	No change
Social Care	0.495	Adverse	0.023	0.472	Adverse
Centrally held budgets	0.000	Favourable	0.000	0.000	No change
Total	**4.017**	**Adverse**	**3.247**	**0.770**	**Adverse**

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

The capital programme reported to last Audit Committee was £93.860m. Amendments have since been reported to Cabinet resulting in a revised programme of £93.066m

4.8 The mainstream capital programme currently shows predicted slippage of £3.473m 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. 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. These amounts to a total of c £7m; however they are actively and robustly being managed

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 partly offset by restraint on non-essential spend.
- Housing (+£0.146m) due to under recovery of agency fees and redundancy costs.
- New Deal (+£0.203m) 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 (-£0.427m) – 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); lower than expected costs of containers for roll out of brown bin scheme (-£0.077m) partly offset by various small variances.
- Public protection (+£0.143m) – additional coroner charges and under recovery of fee income within bereavement services partly offset by restraint on non essential expenditure.
- Leisure and culture (+£0.084m) – reduction in income within leisure centres (£0.068m); Grange Golf Club (£0.060m) following cabinet decision not to close facility saving will not be achieved; additional staffing costs at leisure centres (£0.066m); partly offset by additional income (-£0.093m) within Catering and various other small variances.

Social Care and Inclusion

The SCI budgetary position is a predicted overspend of £0.495m after corrective action to reduce the overspend from c £3m.

The main reasons for the overspend are:-

- Temporary delay in charging for transport (£0.388m)
- Additional staffing costs at Links to Work (£0.521m) including £0.127m redundancy costs.
- Placement costs for all disability services and mental health clients (£2.3m and £0.800m respectively

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 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 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.

Resources

- Finance (-£0.273) – restraint on non-essential spend and efficiencies within external audit work
- Council wide (+£0.161) - a combination of dwindling stock and the global financial situation has resulted in an under recovery of income from the sale of former council houses.
- Business support (+£0.103m) – agency savings not to be realised and lower levels of staff turnover has lead to vacancy management not being achieved in full.
- Print and design (+£0.363m) – shortfall in income which has worsened due to impact of services cutting back on their print and design expenditure due to the freeze on non-essential spend.
- Procurement (+£0.117) – due to non-essential spend services are recruiting less agency staff which will result in the agency tax income not being realised in full.
- Information and communication technology (+£0.280m) – shortfall in project income