

## **Audit Committee – 1 December 2008**

### **Corporate Financial Performance 2008/9**

#### **Summary of report**

This report details the corporate financial performance for quarter 3 of the financial year. The current year-end forecast for 2008/9 shows a revenue overspend of c£2m (0.3% of the current gross budget) and unspent resources of c£4.3m on the capital programme.

#### **Recommendations**

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



**James Walsh**  
**Chief Finance Officer**  
21 November 2008

#### **Governance**

Managers are required to deliver their service targets and improvements within budget. Small variations are normal on a gross revenue budget of £665.78m. Monitoring of performance against budget takes place on a monthly basis with reports distributed to accountable officers. Corporate Financial Performance is reported to cabinet at least 5 times per financial year. Scrutiny panels and Audit Committee also receive quarterly position statements. The primary purpose of this report is to allow Audit Committee to see that appropriate controls are in place in managing financial performance and dealing with overspends.

Where overspends are reported, these are required to be managed in year wherever possible. Corrective actions plans are drawn up and reported to CMT, 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. Any call of reserves is required to be replenished in the next budget round.

Managers in each directorate currently reporting overspends are taking corrective action, including a non-essential post vacancy freeze and ceasing of non-essential expenditure to bring spending back in line with the budget. This is beginning to work and the final position is expected to be lower than that currently forecast. These actions are closely monitored by both scrutiny panels and cabinet. Action continues to be taken and any overspend as at 31 March 2009 will need to be replenished if reserves fall below the minimum level.

## Resource and legal considerations

### Economic Environment

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 a dramatic increase in the cost of oil, which has fed a continuing increase in the cost of energy. The initial pressure will be on gas, fuel and electricity which will move with the 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.

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 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. In addition, increased costs of borrowing will impact on the council's treasury management function and borrowing targets.

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.

### General Reserves

If currently predicted overspends arise, year end general reserves would be c£5.36m as detailed below

<b>TABLE 1: PREDICTED YEAR END POSITION 2008/9</b>	
<b>REASON</b>	<b>2007/8 £M</b>
General reserves as at 01.04.08 (post-audit)	-7.776
Predicted revenue overspend ( <b>Appendix A</b> )	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
<b>Estimated general reserves @ 31.03.09</b>	<b>-5.364</b>

## 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 B**.

## **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 below gives details:

<b>TABLE 2: PREDICTED YEAR END POSITION 2008/09</b>		
<b>Project</b>	<b>Slippage</b>	<b>Underspend</b>
	<b>£m</b>	<b>£m</b>
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	
<b>Total</b>	<b>3.843</b>	<b>0.434</b>

#### **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.

## **Performance and risk management issues**

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.

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.

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 C** 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.

## **Equality implications**

None directly associated with this report.

## **Consultation**

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

## **Background papers**

Various financial performance and budget monitoring reports and Medium Term Financial Strategy

## **Author**

Vicky Buckley – Head of Corporate Finance,  
☎ 01922.652349, [buckleyv@walsall.gov.uk](mailto:buckleyv@walsall.gov.uk)

## 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 contactors 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 to balance costs of service.  
Remaining 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.

Financial Risk Assessment - Revenue Budget 2008/9

POTENTIAL RISK	LOWEST COST £M	ASSESSMENT OF RISK	HIGHEST COST £M	ASSESSMENT OF RISK	TOTAL FINANCIAL EXPOSURE TO RISK £M	TOTAL ESTIMATED EXPOSURE £M
<b>REGENERATION</b>						
Property Services - Costs on buildings / sites awaiting sale	0.000	LOW	0.200	HIGH	0.200	0.200
Property Services - Fee income recovery	0.000	LOW	0.450	MEDIUM	0.450	0.450
Property Services - Property maintenance	0.000	LOW	0.250	MEDIUM	0.250	0.250
Property Services - Contractors claims	0.000	LOW	0.100	MEDIUM	0.100	0.100
Property Services - Legal costs	0.000	LOW	0.025	LOW	0.025	0.025
<b>Total Regeneration incl. HRD, Transformation and CPM</b>	<b>0.000</b>		<b>1.025</b>		<b>1.025</b>	<b>1.025</b>
<b>NEIGHBOURHOOD SERVICES</b>						
Public Protection - Disinfestation increase in charges	0.000	LOW	0.010	HIGH	0.010	0.010
Public Protection - legal proceedings costs	0.000	MEDIUM	0.100	LOW	0.100	0.022
Public Protection - Stray Dogs	0.000	LOW	0.010	HIGH	0.010	0.010
Public Protection - major emergencies	0.000	LOW	0.500	LOW	0.500	0.000
Sports Management - Darlaston MPC remains open until June 2008 additional costs for security/demolition - unachieved saving	0.008	MEDIUM	0.010	HIGH	0.010	0.010
Sports Management - Merging green spaces building maintenance and pool fitters unachieved saving	0.005	MEDIUM	0.015	MEDIUM	0.015	0.010
Sports Management - Conversion costs of systems	0.010	HIGH	0.015	MEDIUM	0.015	0.010
Sports Management - Unachievement of energy savings	0.015	HIGH	0.015	HIGH	0.015	0.015
Marketing and Box Office - unachievement of income on venue hire	0.000	LOW	0.020	HIGH	0.020	0.020
Illuminations - overspend on print and design costs	0.008	HIGH	0.008	HIGH	0.008	0.008
NPP - Equalities salary costs	0.000	LOW	0.050	HIGH	0.050	0.050
Engineering & Transportation - Major projects & minor improvements - Highwayways Sec 38 /278	0.000	LOW	0.004	HIGH	0.004	0.004
Engineering & Transportation - Traff & Trans - Engineering support	0.000	LOW	0.015	HIGH	0.015	0.015
<b>Total Neighbourhood services</b>	<b>0.046</b>		<b>0.772</b>		<b>0.772</b>	<b>0.184</b>
<b>CORPORATE SERVICES</b>						
Legal costs of equal pay	0.200	HIGH	0.500	LOW	0.500	0.200
Subsidy grant not as high as estimated	0.000	MEDIUM	1.000	LOW	1.000	0.300
Right to buy income shortfall	0.000	LOW	0.400	MEDIUM	0.400	0.300
<b>Total Corporate services</b>	<b>0.200</b>		<b>1.900</b>		<b>1.900</b>	<b>0.800</b>
<b>CHILDREN'S, ICT AND PROCUREMENT</b>						
<b>Specialist Services</b>						
Specialist services action plan to reduce the projected overspend on Looked After Children placements is unachievable	0.000	MEDIUM	0.450	LOW	0.450	0.000
Specialist services - contact, support & taxi's - large overspend due to increased looked after children	0.000	MEDIUM	0.427	LOW	0.427	0.000
Specialist services - legal fees overspend - due to increased fees & increased number of looked after children	0.000	HIGH	0.100	LOW	0.100	0.000
Specialist service - high spend on agency staff - various areas - looked after children, vulnerable children, family placements because permanent posts are difficult to recruit to	0.000	LOW	0.450	LOW	0.450	0.000
Universal services - prevention & local services - family support & direct payment income reduction action plan required	0.000	LOW	0.113	MEDIUM	0.113	0.113
Youth offending - Increase in service occupancy of Blakenhall Village	0.021	HIGH	0.040	MEDIUM	0.040	0.021
Youth Services outstanding orders still to be reviewed and quantified	0.000	MEDIUM	0.200	MEDIUM	0.200	0.200
Education - increase in CRB checks	0.000	MEDIUM	0.050	MEDIUM	0.050	0.050
Education - premises, demolition & security costs - no budget 2008/09, 2007/08 actual £0.2m	0.000	HIGH	0.100	MEDIUM	0.100	0.100
Education - redundancy payments, difficult to estimate the impact of change in school status for Sheffield	0.000	MEDIUM	0.100	MEDIUM	0.100	0.100
ICT - increase in agency staff to support vacant posts	0.100	LOW	0.125	LOW	0.125	0.100
Non delivery of 2008/09 procurement savings	0.000	HIGH	0.500	MEDIUM	0.500	0.000
If print & design is not fully utilised by other departments there is a potential risk to forecast income	0.000	MEDIUM	0.200	MEDIUM	0.200	0.100
<b>Total Children's, ICT and Procurement</b>	<b>0.121</b>		<b>2.855</b>		<b>2.855</b>	<b>0.784</b>
<b>SOCIAL CARE AND INCLUSION</b>						
YADS - ICES overspend on pooled budget	0.326	LOW	0.326	LOW	0.326	0.326
YADS - In house social work and OT Teams (Underspends on vacant posts are mitigating this pressure)	0.123	LOW	0.123	LOW	0.123	0.123
YADS/LD Merger (underspends on vacant posts are mitigating this pressure)	0.155	MEDIUM	0.155	MEDIUM	0.155	0.155
OP service - income for community alarms, invoices disputed by WHG	0.094	LOW	0.094	LOW	0.094	0.094
Support services - shortfall of CSED/DOH income	0.080	MEDIUM	0.080	MEDIUM	0.080	0.080
All SCI - independent sector home care and day care (awaiting new tender to start. Risk that we don't transfer old clients to new tender)	0.125	MEDIUM	0.125	MEDIUM	0.125	0.125
<b>Total Social Care and Inclusion</b>	<b>0.903</b>		<b>0.903</b>		<b>0.903</b>	<b>0.903</b>
<b>TOTAL</b>	<b>1.270</b>		<b>7.455</b>		<b>7.455</b>	<b>3.696</b>