

## **Audit Committee – 2 March 2009**

### **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£1.8m (0.26% of the current gross budget) and unspent resources of c£1.05m and potential slippage of c£5.32m on the capital programme.

#### **Recommendations**

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

R B

**Rory Borealis**  
**Executive Director (Resources)**  
19 February 2009

#### **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 (MTFS). Any call of reserves is required to be replenished in the next budget round. The 2009/10 budget currently includes provision for replenishment of up to £2m.

Managers in each directorate currently reporting overspends are taking corrective action, including a non-essential 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 be replenished to maintain reserves within the MTFS requirements.

## 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 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 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 also noticing a reduction in income generated, from reduced planning applications, land sales, through to reduced sport centre income.

### General Reserves

If currently predicted overspends arise, year end general reserves would be c£5.621m as detailed below.

<b>TABLE 1: PREDICTED YEAR END POSITION 2008/9</b>	
<b>REASON</b>	<b>£M</b>
General reserves as at 01.04.08 (post-audit)	-7.776
Predicted revenue overspend ( <b>appendix A</b> )	1.758
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 Children's family law cases	0.220
<b>Estimated general reserves @31.03.09</b>	<b>-5.621</b>

Managers currently reporting overspends are taking action to bring spending back into line with the budget. **Appendix A** details the financial position of each service, whilst the main areas of variance and the main reasons for them are detailed 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 £5.320m and underspends of £1.054m. The table below gives details:

<b>TABLE 2: PREDICTED YEAR END POSITION 2008/09</b>		
<b>Project`</b>	<b>Estimated Slippage £m</b>	<b>Underspend £m</b>
Schools projects	3.260	
Regeneration projects	0.377	
Aids and adaptations	1.000	0.750
Uninsured property	0.100	0.050
New build short breaks unit		0.184
New build Fallings Heath	0.064	
Improving security in local neighbourhoods	0.233	
Palfrey park		0.070
Benefit application forms software	0.080	
Walsall arboretum restoration programme	0.128	
Local history centre air conditioning	0.060	
Minor Slippage	0.018	
<b>Total</b>	<b>5.320</b>	<b>1.054</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£6.093m 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£1.1m.

### **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. £0.647m of the leasing provision has been used to date and forecast spend amounts to £4.070m.

### **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.

### **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

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## Main Services Variances From Budget

### Regeneration +£1.208m

- Regeneration +£0.073m – under achievement of markets income (+£0.02m), delivery & development (-£0.125m) mainly through vacancies, regeneration management (+£0.032m) unbudgeted staff costs relating to head of development and delivery post and shortfall in contributions to BCC.
- Planning Services +£0.717m – unachievable planning and land charges income
- Property Services +£0.810m- facilities management (+£0.287m) relates in the main to Tameway Tower unbudgeted move costs, additional agency staff costs and part non-achievement of carry forward of overspend from 2007/8; building services, design and estates management (+0.522m) combination of external legal costs and projected overspend on salary, premises, agency costs and suppliers and services.
- Performance Management -£0.111m – due to vacancies and restraint on non essential spend
- Business support -£0.094m – reduction in agency staff costs due to restraints on non essential spend.
- HRD and strategic transformation -£0.080m - restraint on non essential spend
- Communications +£0.048m – unbudgeted agency staffing costs.

### Neighbourhood Services + £0.206m

- Engineering and Transportation +£0.518m - additional contactors charges (+£0.151m) due to delay in DPC contract; under recovery of income within road works management due to delays in implementation of a new income stream (+£0.022m) and loss of car parking income (+£0.403m); savings from non essential spend (-£0.060m).
- Street pride -£0.547 - additional recycling income due to increased market prices (-£0.065m); a reduction in waste disposal costs (-£0.375m), reduced transport costs due to the closure of the transfer station in Fryer Road and waste being taken direct to disposal sites (-£0.085m); other small variances and savings from non essential expenditure (-£0.258m); fuel costs within fleet due to price increases (+£0.236).
- Public protection (+£0.167m) mainly due to under-recovery of income within bereavement services arising from falling mortality rates.
- Leisure, culture and lifelong learning +£0.319m - shortfall in income for sports and leisure centres (+£0.148m); shortfall in income within catering (+£0.101m) Art Gallery (+£0.070m) – unrealised additional income from costa coffee and additional utilities costs.
- WBSP +£0.050m – additional income from external partners
- SWBP -£0.190m and neighbourhood partnership and programmes -£0.092m – restraint on non essential spend

### Children's, ICT and Procurement Services +£1.422m (including council wide procurement)

- ICT +£0.208m – (+£0.180m) due to project based posts not being fully met from projects and remainder due to disputed charges with external customers.

- 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.
- Print & Design +£0.154m – shortfall in income due to a decline in internal demand for printing requirements across the council.
- Education +£0.040m – cost of schools long service awards
- Specialist services +£0.079m – service is currently predicting an overspend of £0.965m. An action plan has been implemented but leaves a small underspend for which further options are currently being investigated.

### **Social Care and Inclusion -£0.130m**

- 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. Increase in demand in mental health clients and increase in agency staff costs on occupational therapy to clear back log. 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 -£0.125m**

- Finance -£0.223m – due to a high number of vacant posts being held to aid the corporate position and reduction in external audit fees.
- Legal +£0.059m shortfall in fair funding income due to reduced take up by schools and conveyancing income due to fall in planning fees.
- CWSS +£0.080m – shortfall of income of £0.356m within right to buy sales which is currently being partly offset by tight management of other council wide budgets.
- CMT -£0.041m – due to executive director post being vacant until February partly offset by recruitment costs.

### **Central -£0.822m**

- 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.
- It has been identified that -£0.276k of ABG will not be required in year and is being used to reduce the overall Corporate position.
- Capital financing -£0.746m – sound treasury management and higher investment returns has resulted in additional income being received.

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	%								
<b>Regeneration</b>																
Regeneration	4.110	-2.223	1.887	4.813	-2.203	2.610	0.723	38.31	-0.725	-0.071	0.000		-0.073	-3.87	R	
Planning Services	2.455	-2.680	-0.225	2.529	-1.935	0.595	0.819	-364.48	-0.112	0.000	0.000		0.707	-314.66		
Property Services	16.873	-14.132	2.740	19.445	-15.933	3.512	0.771	28.15	0.158	-0.120	0.000		0.810	29.54		
Performance Management	1.790	0.000	1.790	1.771	0.000	1.771	-0.019	-1.08	-0.092	0.000	0.000		-0.111	-6.21		
Strategic Transformation	0.720	0.000	0.720	0.739	0.000	0.739	0.018	2.56	-0.050	0.000	0.000		-0.032	-4.38		
Business support	8.467	-0.053	8.414	8.563	-0.053	8.510	0.096	1.14	-0.190	0.000	0.000		-0.094	-1.11		
Human Resource Development	6.492	-1.908	4.584	6.777	-1.684	5.092	0.509	11.10	-0.540	-0.017	0.000		-0.048	-1.05		
Communications	0.452	-0.040	0.412	0.500	-0.040	0.460	0.048	11.68	0.000	0.000	0.000		0.048	11.68		
<b>Total Regeneration</b>	<b>41.359</b>	<b>-21.036</b>	<b>20.323</b>	<b>45.136</b>	<b>-21.848</b>	<b>23.289</b>	<b>2.966</b>	<b>14.59</b>	<b>-1.551</b>	<b>-0.208</b>	<b>0.000</b>		<b>1.208</b>	<b>5.94</b>		
<b>Neighbourhood Services</b>																
Street Pride	32.345	-15.774	16.572	32.641	-16.066	16.575	0.003	0.02	-0.335	-0.215	0.000		-0.547	-3.30	R	
Engineering & Transportation	14.702	-5.733	8.969	14.812	-5.275	9.536	0.568	6.33	0.000	-0.050	0.000		0.518	5.77		
Public Protection (inc. licensing, emergency planning,	5.602	-3.890	1.712	5.629	-3.723	1.905	0.194	11.31	-0.026	0.000	0.000		0.167	9.77		
Leisure, Culture and Lifelong Learning	30.696	-14.603	16.093	32.516	-15.936	16.580	0.488	3.03	-0.049	-0.119	0.000		0.319	1.98		
Neighbourhood Partnerships and Programmes	2.136	-0.781	1.355	2.802	-1.427	1.374	0.019	1.41	-0.111	0.000	0.000		-0.092	-6.81		
Walsall Borough Strategic Partnership	0.704	-0.548	0.156	0.788	-0.631	0.157	0.000	0.17	-0.050	0.000	0.000		-0.050	-31.80		
Safer Walsall Borough Partnership	2.269	-0.738	1.531	2.172	-0.750	1.422	-0.109	-7.11	0.000	0.000	0.000		-0.109	-7.11		
<b>Total Neighbourhood Services</b>	<b>88.454</b>	<b>-42.066</b>	<b>46.388</b>	<b>91.358</b>	<b>-43.808</b>	<b>47.550</b>	<b>1.162</b>	<b>2.51</b>	<b>-0.572</b>	<b>-0.384</b>	<b>0.000</b>		<b>0.206</b>	<b>0.44</b>		
<b>Corporate</b>																
Finance (inc internal audit, insurancel)	4.840	-0.316	4.524	4.664	-0.316	4.348	-0.176	-3.89	-0.047	0.000	0.000		-0.223	-4.93	G	
CWSS, NDC'S & C&DC	3.031	-0.544	2.487	2.641	-0.544	2.097	-0.390	-15.68	0.000	0.000	0.470		0.080	3.22		
CMT	1.118	-0.002	1.115	1.075	0.000	1.075	-0.041	-3.66	0.000	0.000	0.000		-0.041	-3.66		
Legal and constitutional	3.325	-0.262	3.063	3.339	-0.211	3.128	0.066	2.14	-0.007	0.000	0.000		0.059	1.92		
Revenue & benefits (incl. welfare services)	98.783	-95.862	2.921	99.040	-96.039	3.001	0.080	2.74	-0.080	0.000	0.000		0.000	0.00		
<b>Total Corporate</b>	<b>111.096</b>	<b>-96.986</b>	<b>14.110</b>	<b>110.758</b>	<b>-97.110</b>	<b>13.649</b>	<b>-0.461</b>	<b>-3.27</b>	<b>-0.134</b>	<b>0.000</b>	<b>0.470</b>		<b>-0.125</b>	<b>-0.89</b>		
<b>Children's, ICT and Procurement Services</b>																
Education	243.246	-234.349	8.897	244.686	-235.199	9.487	0.590	6.63	-0.630	0.000	0.080		0.040	0.45	R	
Specialist services	28.101	-3.208	24.894	28.523	-3.331	25.192	0.298	1.20	-0.220	0.000	0.000		0.078	0.32		
Universal services	12.050	-6.564	5.486	13.045	-7.567	5.478	-0.008	-0.15	0.000	0.000	0.000		-0.008	-0.15		
Print and design	0.912	-1.368	-0.456	0.972	-1.124	-0.152	0.304	-66.72	-0.150	0.000	0.000		0.154	-33.84		
ICT	4.494	-0.286	4.207	5.457	-1.125	4.332	0.125	2.96	0.083	0.000	0.000		0.208	4.94		
Procurement	-1.065	0.000	-1.065	0.046	-0.161	-0.115	0.950	-89.18	0.000	0.000	0.000		0.950	-89.18		
<b>Total Children's, ICT and Procurement Services</b>	<b>287.738</b>	<b>-245.774</b>	<b>41.963</b>	<b>292.729</b>	<b>-248.507</b>	<b>44.222</b>	<b>2.259</b>	<b>5.38</b>	<b>-0.917</b>	<b>0.000</b>	<b>0.080</b>		<b>1.422</b>	<b>3.39</b>		
<b>Social Care &amp; Inclusion</b>																
Housing	11.834	-10.223	1.611	11.693	-10.256	1.437	-0.174	-10.80	0.000	0.000	0.000		-0.174	-10.80	G	
Adult's social care	98.720	-38.120	60.600	98.020	-37.263	60.757	0.157	0.26	-0.067	0.000	0.000		0.090	0.15		
Support services	2.509	-1.056	1.453	2.697	-1.290	1.407	-0.046	-3.17	0.000	0.000	0.000		-0.046	-3.17		
<b>Total Social Care &amp; Inclusion</b>	<b>113.062</b>	<b>-49.399</b>	<b>63.663</b>	<b>112.409</b>	<b>-48.809</b>	<b>63.600</b>	<b>-0.063</b>	<b>-0.10</b>	<b>-0.067</b>	<b>0.000</b>	<b>0.000</b>		<b>-0.130</b>	<b>-13.820</b>		
<b>Centrally Held Budgets</b>																
Capital Financing	22.441	-3.778	18.663	23.629	-5.712	17.917	-0.746	-4.00	0.000	0.000	0.000		-0.746	-4.00	G	
Other Central Items	8.913	0.000	8.913	9.255	0.000	9.255	0.342	3.84	-0.600	0.000	0.458		0.200	2.24		
ABG	0.000	0.000	0.000	0.000	-0.426	-0.426	-0.426	0.00	0.000	0.000	0.150		-0.276	0.00		
<b>Levies</b>																
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	0.00		
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	0.00		
<b>Total Centrally Held Budgets</b>	<b>44.753</b>	<b>-3.778</b>	<b>40.974</b>	<b>46.282</b>	<b>-6.138</b>	<b>40.144</b>	<b>-0.830</b>	<b>-2.03</b>	<b>-0.600</b>	<b>0.000</b>	<b>0.608</b>		<b>-0.822</b>	<b>-2.01</b>		
<b>Net Position as at 31.03.09</b>	<b>686.462</b>	<b>-459.041</b>	<b>227.421</b>	<b>698.674</b>	<b>-466.220</b>	<b>232.454</b>	<b>5.033</b>	<b>2.21</b>	<b>-3.841</b>	<b>-0.592</b>	<b>1.157</b>		<b>1.758</b>	<b>0.77</b>		