

Cabinet – 27 September 2006

Corporate Financial Performance 2006/7

Portfolio: Councillor John O'Hare – Deputy Leader

Service Area: Corporate finance

Wards: All

Key decisions: No

Forward plan: No

Summary of report

The currently predicted revenue outturn is an overspend of c£1.14m but several actions are underway, which if successful are expected to improve this position. A year end capital surplus of c £8.06m @ 31.3.07 is forecast, which is expected to be largely carried forward into 2007/8 to fund slippage on approved capital projects.

Recommendations

To note the following currently predicted year end forecasts:

- A net revenue overspend of up to £1.14m which, if no action is taken, would leave estimated general reserves of c £4.5m, but that actions are currently being implemented to seek to further improve this position;
- A surplus of c £8.06m on the capital programme.

Resource and legal considerations

Managers are required to deliver their service targets and improvements within budget. Small variations are normal and insignificant on a gross revenue budget (excluding internal charges) of £611.226m. **Table 1** summarises the impact of the predicted year end position on general reserves. Work is underway to reduce the current forecast overspend. Action plans have been received from most overspending services and their impact is included within the report.

General Reserves

If currently predicted overspends are not reduced, year end general reserves would be c £4.5m (c£4.6m required), needing replenishment when setting the 2007/8 budget. All successful action to reduce the overspend reduces this need. Where positive action has already been identified by services it is reflected in this report. The potential risks to the forecast outturn are identified later in this report.

TABLE 1: PREDICTED YEAR END POSITION 2006/7	
REASON	2006/7 £M
General reserves as at 31.03.06 (pre-audit)	-5.295
Plus: planned contribution to reserves	-0.355
Sub total	-5.650
Predicted revenue overspend (appendix 1)	1.140
Estimated general reserves @ 31.03.07	4.510

Earmarked Reserves and Central Contingency

Use of these prudent reserves is closely monitored to ensure that it does not exceed balances available. Central contingency for 2006/7 is £372k. **Appendix 2** shows how this and the earmarked reserves are planned to be spent.

Citizen impact

The 2006/7 budget is policy-led and aligned with activity in service plans. Investment is targeted at service improvement, stability and user demand. Demonstration of financial stability and sound financial management promotes public confidence and credibility

Community safety

None directly associated with this report.

Environmental impact

None directly associated with this report.

Performance and risk management issues

The council's performance management system requires service and improvement targets to be delivered by managers within the budget allocated.

We have an embedded risk management approach in preparing budgets, financial monitoring and forecasts. This enables potential budget variances to be identified early and action taken to ameliorate risks and the financial impact of operational issues can be identified, evaluated and managed.

The figures in this report represent the most likely outcomes based on currently available information. **Appendix 3** lists risks that could impact adversely on the currently reported position. These are significant and require active management.

Equality implications

None directly associated with this report.

Consultation

The report is prepared in consultation with relevant managers and executive directors

Vision 2008

Robust financial management enables the council to maintain financial stability and ensure best value allocation of resources. Budgets are also linked to vision headings to deliver key priorities as part of the budget setting process via decision conferencing.

REVENUE BUDGET

Service Predicted Variances and Action Taken to Mitigate Overspends

Managers currently reporting overspends must take action to bring spending back into line with the budget. The main overspends and the reasons for them are:

➤ **Regeneration +£570k**

- Planning and building control and land charges due to predicted under recovery of income from fewer planning applications and search requests and under recovery of income within markets. An action plan is currently being formulated to bring spend back in line with budget.

➤ **Neighbourhood Services +£867k**

- Street pride +£301k – mainly due to additional staffing and hire equipment tender costs and additional vehicle costs within grounds, street cleaning and public convenience.
- Leisure and culture +£152k – arising from additional costs as the result of new electoral legislation, additional staffing and running costs of the first stop shop and closure costs of the study support team.
- Sports and operational services +£320k due to new healthy eating legislation which has increased costs within Catering and has also reduced the take up of the number of school meals within primary schools reducing income levels.

An action plan is currently being formulated to bring spend back in line with budget.

➤ **Corporate Services -£425k**

- Finance -£315k - mainly due to savings on salaries, supplies, services and external audit core fees.
- Revenue and benefits -£146k – increase in housing benefit payment recovery.
- Human Resources +£141k - from additional criminal records bureau (CRB) checks and increases in doctor's salary costs.

➤ **Social Care and Inclusion +£184k**

- Adults +£104k – this is the residual overspend following implementation of the action plan to mitigate a previously predicted overspend of £3.57m.

- ISS +£112k – overspend on consultants costs for transformation project, which will be funded from an earmarked reserve for this purpose.

In May the directorate was predicting and overspend of £2.309m. An action plan totalling £2.639 m details how the overspend will be addressed this year. The plan also aims to mitigate the medium risks for new demand of £0.827m. It will be fully reviewed in October to ensure that all savings are being realised. Any changes to the expected outturn against the plan will be reported at this time.

CAPITAL PROGRAMME 2006/7

Mainstream Capital Programme

The mainstream capital programme currently shows unallocated resources of c£8.059m (**Table 2**). This assumes that capital schemes will continue as currently predicted by project managers and that identified capital receipts have been received to date. The vast majority is expected to be required to be carried forward into 2007/8 to fund slippage and contractual commitments on planned schemes.

TABLE 2 : MAINSTREAM PROGRAMME		
RESOURCES	£m	£m
Supported Borrowing		9.793
Capital Receipts		
Capital receipts secured to 31 July 2006	0.881	
Forecasted capital receipts	7.419	
Receipts brought forward from 2005/06	15.247	
Planned capital receipts to be carried forward to 2007/8	-5.039	18.508
Underspent allocations used to support 2006/7 pressure		
Mainstream resources brought forward from 2005/6		8.412
Total forecasted resources		36.713
EXPENDITURE		
Actual expenditure as at 31 July 2006		4.642
Balance remaining at year (from cashflow forecasts)		24.012
Total forecasted capital expenditure for year		28.654
Forecast surplus mainstream resources		8.059

Prudential Programme

In line with the treasury management strategy, £4.094m additional unsupported borrowing was used in 2005/6 as a more effective source of funding than capital receipts, allowing receipts of £15.247m to be carried forward. In 2006/7 unsupported borrowing or capital receipts will again be used to the best advantage of the council, in the light of prevailing markets and the corporate financial position. Predicted spend is £10.511m against a budget of £12.011m; £1.5m underspent.

Capital Receipts

Table 3 sets out the anticipated level and use of receipts in 2006/7 and shows that the actual performance is in line with budgeted targets.

TABLE 3 : CAPITAL RECEIPTS		
Funding	Actual £m	Target £m
Capital receipts brought forward from 2005/6	15.25	9.10
Receipts received to date in 2006/7	0.88	
Additional receipts expected to be received	7.42	8.30
Total capital receipts as at 31.03.07	23.55	17.40
Use of capital receipts 2006/7	18.51	12.36
Capital receipts carry forward to 2007/8	5.04	5.04

Non-mainstream funded schemes

The non-mainstream capital programme currently shows an unfinanced debtor of £2.349m to be carried forward to 2006/7 (**Table 4**). Grant income is usually received after expenditure is incurred so a time lag of funding is expected and accounted for. Robust monitoring tracks that grants are being regularly claimed and received. 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 there will be no call on mainstream funds.

TABLE 4 : NON-MAINSTREAM FUNDED	
RESOURCES	£m
Grant received as at	9.006
Forecasted grant to be received by 31 March 2007	33.061
Total forecasted resources	42.067
EXPENDITURE	
Actual expenditure as at 31 July 2006	6.795
Balance remaining for year (from cashflow forecasts)	32.939
Total forecasted capital expenditure for year	39.734
Unfinanced debtors brought forward from 2005/5	4.682
Unfinanced debtors to be carried forward to 2007/8	-2.349
Total capital commitment	42.067
Surplus/(shortfall) in forecasted non- mainstream resources	0.000

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 £8.375m of capital expenditure to be financed by leasing in 2006/7. £0.754m of the leasing provision has been used to date and it is planned that a further £6.284m will be used by 31.03.07.

TABLE 5 : LEASING PROGRAMME	£m
Resources available	8.375
Leasing provision utilised as at 31 July 2006	0.754
Leasing provision forecasted to be utilised by 31 March 2007	6.284
Surplus (see note below) in leasing programme	1.337

NB: this does not result in surplus capital resources; the used provision is financed via revenue.

The prudential system allows borrowing to fund the purchase of leasable items. Such expenditure is treated as capital expenditure so the council would buy the assets outright. The decision to lease or buy is informed by several variables including: the cost of borrowing and the residual value of the asset at the end of its leased life. Before each drawdown, our leasing advisors recommend which financing approach is most appropriate. A vigorous evaluation is then carried out before a decision to lease or buy is made, ensuring value for money in line with best value principles.

Capital Contingency

During a financial year a capital scheme may be introduced into the capital programme through the central contingency. **Table 6** shows the contingency utilised to date.

TABLE 6 : CAPITAL CONTINGENCY	£m
Resources available with capital programme	0.250
Provision utilised as at 31 July 2006	0.000
Unallocated contingency	0.250

Background papers

Various financial working papers.

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Signed:

Carole Evans - Executive Director

11 September 2006



Signed:

Cllr John O'Hare - Deputy Leader

11 September 2006

PREDICTED 2006/7 CORPORATE REVENUE YEAR END POSITION

APPENDIX 1

SERVICE	ANNUAL BUDGET 2006/7			YEAR END FORECAST 2006/7				
	EXPENDITURE	INCOME	NET	EXPENDITURE	INCOME	NET	OVER / (UNDER)	
	£M	£M	£M	£M	£M	£M	£M	%
Regeneration								
Regeneration	3.480	-1.653	1.827	3.480	-1.518	1.962	0.135	7.39
Planning Services	2.690	-3.141	-0.452	2.690	-2.706	-0.017	0.435	-96.34
Walsall Borough Strategic Partnership	0.905	-0.709	0.196	0.905	-0.709	0.196	0.000	0.00
Total Regeneration	7.074	-5.503	1.571	7.074	-4.933	2.141	0.570	36.28
Neighbourhood Services								
Street Pride	33.883	-16.924	16.959	33.953	-16.693	17.260	0.301	1.78
Built Environment Management	0.128	0.000	0.128	0.144	0.000	0.144	0.016	12.77
Asset Management	13.587	-10.061	3.526	13.587	-10.061	3.526	0.000	0.00
Engineering & Transportation	12.345	-4.445	7.900	13.018	-5.099	7.920	0.020	0.25
Public Protection (inc. licensing, emergency planning, registrars and coroners)	4.631	-2.736	1.894	4.672	-2.719	1.953	0.059	3.09
Leisure & Culture (inc elections)	19.112	-6.025	13.087	19.255	-6.016	13.239	0.152	1.16
Sports & Operational Services (inc. cleaning, caretaking, SCPW, catering)	16.734	-14.150	2.583	17.054	-14.150	2.903	0.320	12.39
Neighbourhood / Programme Management	1.941	-0.548	1.393	1.941	-0.548	1.393	0.000	0.00
Community safety / CCTV	1.430	-0.290	1.140	1.430	-0.290	1.140	0.000	0.00
Total Neighbourhood Services	103.791	-55.180	48.611	105.055	-55.576	49.479	0.867	1.78
Corporate								
Finance (inc internal audit, insurance)	5.145	-0.701	4.444	4.828	-0.699	4.129	-0.315	-7.09
CWSS, NDC'S & C&DC	3.602	-2.053	1.549	3.571	-2.107	1.463	-0.085	-5.51
Strategic transformation team	0.882	-0.415	0.467	0.882	-0.415	0.467	0.000	0.00
EMT	1.082	-0.007	1.075	1.075	-0.004	1.071	-0.004	-0.37
Human Resources	2.645	-0.278	2.367	2.786	-0.278	2.508	0.141	5.96
Organisational development	3.281	-0.895	2.386	3.276	-0.895	2.381	-0.005	-0.20
Business support	8.982	0.000	8.982	8.982	0.000	8.982	0.000	0.00
Legal and democratic services	3.227	-0.281	2.946	3.209	-0.258	2.952	0.006	0.20
Performance management	1.867	-0.036	1.831	1.851	-0.036	1.815	-0.017	-0.90
Revenue & benefits (incl. welfare services)	92.870	-89.967	2.903	90.040	-87.284	2.757	-0.146	-5.04
Total Corporate	123.583	-94.634	28.949	120.500	-91.976	28.524	-0.425	-1.47
Children and Young People								
Education	209.366	-200.358	9.008	209.366	-200.358	9.008	0.000	0.00
Youth Service	3.431	-0.029	3.402	3.514	-0.112	3.402	0.000	0.00
Childrens Services	30.320	-5.201	25.119	30.320	-5.201	25.119	0.000	0.00
Communications & Mayoral	0.299	0.000	0.299	0.305	-0.006	0.299	0.000	0.00
Procurement	0.614	0.000	0.614	0.621	-0.007	0.614	0.000	0.00
Print & Design	1.358	-1.735	-0.377	1.358	-1.735	-0.377	0.000	0.00

SERVICE	ANNUAL BUDGET 2006/7			YEAR END FORECAST 2006/7				
	EXPENDITURE	INCOME	NET	EXPENDITURE	INCOME	NET	OVER / (UNDER)	
	£M	£M	£M	£M	£M	£M	£M	%
Total Children & Young People	245.389	-207.324	38.065	245.484	-207.419	38.065	0.000	0.00
Social Care & Inclusion								
Housing	13.308	-11.673	1.635	12.150	-10.531	1.619	-0.016	-0.98
Adult's social care	87.351	-36.879	50.472	86.183	-35.607	50.576	0.104	0.21
Corporate support	0.096	0.000	0.096	0.096	0.000	0.096	0.000	0.00
Support services	2.419	-0.297	2.122	2.264	-0.158	2.106	-0.016	-0.75
ICT	4.277	-0.154	4.123	4.389	-0.154	4.235	0.112	2.72
Total Social Care & Inclusion	107.451	-49.003	58.448	105.082	-46.450	58.632	0.184	0.31
Centrally Held Budgets								
Capital Financing	17.613	-2.975	14.637	18.368	-3.675	14.693	0.055	0.38
Other Central Items	0.899	0.000	0.899	0.899	0.000	0.899	0.000	0.00
Levies								
PTE	12.555	0.000	12.555	12.555	0.000	12.555	0.000	0.00
Environment Agency	0.082	0.000	0.082	0.082	0.000	0.082	0.000	0.00
Total Centrally Held Budgets	31.150	-2.975	28.174	31.905	-3.675	28.230	0.055	0.20
Use of earmarked reserves	0.000	0.000	0.000	0.000	-0.112	-0.112	-0.112	
Net Position as at 31.03.07	618.437	-414.619	203.818	615.100	-410.142	204.958	1.140	0.56

CWSS = council wide special services

NDC = non distributed costs

C&DC = corporate and democratic core

APPENDIX 2

USE OF EARMARKED RESERVES			
Reserve	Value of Reserve £	Currently expected to be used in year £	Balance remaining £
LAGBI (2 year programme of works)	1,609,581	755,000	854,581
Landfill tax scheme	207,493	207,493	NIL
Community engagement LNP's	211,354	211,354	NIL
Oracle	250,000	250,000	NIL
Education contract	250,000	250,000	NIL
Strategic transformation	621,457	621,457	NIL
Total	3,149,885	2,295,304	854,581

USE OF CENTRAL CONTINGENCY	
	£
Budget approved for 2006/7	372,382
Less allocations:	
Legal services - additional resources to support employment locums	-87,800
Business support – to cover costs of centralising post room	-12,000
Legal services – additional resources to support child care team	-15,392
Street lighting PFI – increase in energy costs due to market rises	-50,000
Roof garden – to cover costs of improvement works	-50,000
Balance remaining as at 31.07.06	157,190

FINANCIAL RISK ASSESSMENT

DETAIL OF RISK	WORST CASE IMPACT £m
Neighbourhood services: <ul style="list-style-type: none"> • Asset management - recovery of full costs of establishment and building design from capital, income shortfall from lands and shops and commercial premises and operational maintenance of non-delegated buildings. • Public protection – income within bereavement services not being achieved. • Street pride (highways) – in year savings still to be identified and variances within 05/6 may occur again in 06/7. • Street pride (fleet) – increased costs of fuel 	<p style="text-align: right;">0.200</p> <p style="text-align: right;">0.100</p> <p style="text-align: right;">0.831</p> <p style="text-align: right;">0.240</p>
Children & young people: Children's social services <ul style="list-style-type: none"> • Re-occurrence of 05/6 overspend on contract and support budget. • Non achievement of efficiencies in placement budgets and an increase in direct payments. • Non achievement of staffing savings. • Print and design – risk of not achieving income levels. 	<p style="text-align: right;">0.120</p> <p style="text-align: right;">0.200</p> <p style="text-align: right;">0.261</p> <p style="text-align: right;">0.470</p>
TOTAL RISK IDENTIFIED	2.422

Whilst it is important and good practice to identify potential risks to the forecast outturn, these represent a worse case scenario and are being actively managed.