

## Cabinet – 8 November 2006

### Corporate Financial Performance 2006/7

**Portfolio:** Councillor John O'Hare, Resources

**Service Area:** Corporate finance

**Wards:** All

**Key decisions:** No

**Forward plan:** No

#### Summary of report

The RAG status of this report is amber as the currently predicted revenue outturn is an overspend of c £1.4m (0.23% of the current gross budget) but several actions are underway which, if successful, are expected to improve this position. A year end capital surplus of c £6.23m @ 31.3.07 is forecast, which is largely expected to be carried forward into 2007/8 to fund slippage on approved capital projects.

#### Recommendations

- (1) To note the following currently predicted year end forecasts:
  - A net revenue overspend of c £1.4m (0.23% of gross budget) which, if no further action is taken, would leave estimated general reserves of c £4.2m, but plans are being implemented which seek to further improve this position;
  - A surplus of c £6.23m on the capital programme.
- (2) To note action is being taken to seek to improve the currently forecast position.

#### Resource and legal considerations

Managers are required to deliver 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** shows the impact of the predicted outturn on general reserves. Work is underway to reduce the forecast overspend. Action plans have been received from most overspending services and their impact is included here.

### General Reserves

If currently predicted overspends are not reduced, year end general reserves would be c £4.2m (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.

<b>TABLE 1: PREDICTED YEAR END POSITION 2006/7</b>	
<b>REASON</b>	<b>2006/7 £M</b>
General reserves as at 31.03.06 (post-audit)	- 5.260
Plus planned contribution to reserves	- 0.355
Sub total	- 5.615
Predicted revenue overspend ( <b>appendix 1</b> )	1.425
<b>Estimated general reserves as at 31.03.07</b>	<b>4.190</b>

### **Earmarked Reserves and Central Contingency**

Central contingency for 2006/7 is £372k. **Appendix 2** shows how this and the earmarked reserves are planned to be spent. The full impact of the recovery of carry forward overspends from 2005/6 to 2006/7 is also included within the predicted outturn.

### **Citizen impact**

The 2006/7 policy-led budget is 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. The system uses a red, amber, green (RAG) indicator to show the current status. The current forecast overspend is rated as amber, requiring corrective action. Action is being taken and plans have been received from most overspending departments. All action plans are being reviewed and signed off by the Executive Director and Portfolio Holder for the relevant service, along with the Executive Director (CFO) and Deputy Leader.

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. **Appendix 3** lists risks that could impact adversely on the current position. These are significant and require continued 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 Address 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 +£538k**

- Planning and building control (+£235k) and land charges (+£235k) due to predicted lower income from fewer planning applications and search requests.
- Markets income reduction (+£100k) resulting from the decline in the market sector and works currently taking place. This is partly offset by additional consultancy fees. The action plan is currently anticipated to reduce this however it is considered unlikely this will mitigate the position in full.

#### ➤ **Neighbourhood Services +£711k**

- Street pride +£243k –recovery of carry forward of overspends from 2005/6 to 2006/7 not being realised.
- Leisure and culture +£97k – arising from additional costs as the result of new electoral legislation, additional staffing costs of the first stop shop and closure costs of the study support team.
- Sports and operational services +£290k - new healthy eating legislation has increased catering costs and reduced the take up of school meals within primary schools, reducing income. This is unlikely to be fully mitigated.
- Community safety / CCTV +£81k – additional costs of employing agency staff.

➤ **Corporate Services -£606k**

- Finance -£292k - mainly due to savings on salaries and external audit core fees partly offset by a shortfall in income within financial information systems.
- Revenue and benefits -£204k – increase in housing benefit payment recovery.
- Human resources +£151k - from additional Criminal Records Bureau (CRB) checks and increases in doctor's salary costs.
- Performance management and policy services -£139k - due to vacancy management, reduction in audit fees and reduction in supplies and services.
- Council wide special services -£92k – reduction in ICT mainframe support costs, partly offset by reduced income from right to buy, dividends and advertising.

➤ **Children and Young People +£713k**

- Children's services +£280k – the service is currently predicting an overspend of £610k due to increased numbers of LAC resulting in the use of external placements, increased costs of maintaining family contact for LAC, challenging efficiency targets and additional direct payment costs. An action plan is in place which is expected to reduce this to £280k by 31.03.07.
- Print and design +£464k - although work has been undertaken to reduce costs and increase income, these are not predicted to be sufficient to produce a balanced budget in 2006/07. A review of the Print & Design function continues.

➤ **Social Care and Inclusion**

- An action plan to address a predicted overspend of £3.115 m (after use of reserves) is in place and is being monitored closely and is expected to bring spend back in line with budget by the end of the financial year. The overspend has reduced since last reported to cabinet due to the partial implementation of the previous in year action plan which has now been revised. The full impact of the action plan has been taken into account in the outturn position.

**CAPITAL PROGRAMME 2006/7**

**Mainstream funded**

The mainstream capital programme currently shows unallocated resources of c£6.226m (**Table 2**). This assumes that capital schemes will continue as currently predicted by project managers.

<b>TABLE 2: CAPITAL PROGRAMME PREDICTED POSITION AS AT 31.03.07</b>	
	<b>£m</b>
<b>Capital Programme approved by Council 6 March 2006</b>	22.226
Approved slippage	8.421
Adjustment to budget for schemes now funded by mainstream not grant	5.953
<b>Total revised programme</b>	<b>36.600</b>
<b>EXPENDITURE</b>	
Actual expenditure as at 30 September 2006	9.502
Balance remaining at year (from cashflow forecasts)	20.872
<b>Total forecasted capital expenditure for year</b>	<b>30.374</b>
<b>Surplus/(shortfall) in forecasted mainstream programme</b>	<b>6.226</b>

## Prudential Programme

In line with the treasury management strategy in 2005/6, £4.094m additional unsupported borrowing was used as a more effective source of funding than capital receipts. This allowed capital receipts of £15.247m to be carried forward in line with the approved programme. Again in 2006/7, the use of unsupported borrowing or capital receipts will be considered in light of prevailing markets and the corporate financial position.

<b>TABLE 3 : PRUDENTIAL PROGRAMME</b>	
<b>RESOURCES</b>	<b>£m</b>
Unsupported borrowing	8.849
Resources brought forward from 2005/6	3.162
<b>Total estimated resources</b>	<b>12.011</b>
<b>EXPENDITURE</b>	
Actual expenditure as at 30 September 2006	4.296
Balance remaining for year (from cashflow forecasts)	6.241
<b>Total forecasted capital expenditure for year</b>	<b>10.537</b>
<b>Surplus/(shortfall) in forecasted prudential resources</b>	<b>1.474</b>

## Capital Receipts

**Table 4** details the anticipated level of and use of receipts in 2006/7. It is planned to carry forward £5.039m of capital receipts to support the 2007/8 capital programme.

<b>TABLE 4 : CAPITAL RECEIPTS 2006/7</b>		
	<b>Actual £m</b>	<b>Target £m</b>
<b>Funding</b>		
Capital receipts brought forward from 2005/6	15.247	9.103
Receipts received to date 2006/7	0.907	-
Additional receipts expected to be received	7.393	8.300
<b>Total capital receipts as at 30.09.06</b>	<b>23.547</b>	<b>17.403</b>
Use of capital receipts 2006/7	18.508	12.364
<b>Capital receipts carry forward to 2007/8</b>	<b>5.039</b>	<b>5.039</b>

## Non-mainstream funded

The non-mainstream capital programme currently shows an unfinanced debtor of c£2.349m to be carried forward to 2007/8 (**Table 5**). 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.

<b>TABLE 5 : NON-MAINSTREAM FUNDED</b>	
<b>RESOURCES</b>	<b>£m</b>
Grant received as at 30 September 2006	15.356
Forecasted grant to be received by 31 March 2007	21.356
<b>Total forecasted resources</b>	<b>36.712</b>
<b>EXPENDITURE</b>	
Actual expenditure as at 30 September 2006	10.143
Balance remaining for year (from cashflow forecasts)	24.236
<b>Total forecasted capital expenditure for year</b>	<b>34.379</b>
Unfinanced debtors brought forward from 2005/6	4.682
Unfinanced debtors to be carried forward to 2007/8	-2.349
<b>Total capital commitment</b>	<b>36.712</b>
<b>Surplus/(shortfall) in forecasted non- mainstream resources</b>	<b>0.000</b>

## 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. £0.912m of the leasing provision has been used to date and it is planned that a further £1.09m will be used in the current financial year.

<b>TABLE 6 : LEASING PROGRAMME</b>	
	<b>£m</b>
Resources available	8.375
Leasing provision used as at 30 September 2006	- 0.912
Leasing provision forecasted to be used by 31 March 2007	- 1.090
<b>Surplus/(shortfall) in leasing programme</b>	<b>6.373</b>

*NB: this does not result in surplus capital resources*

The prudential system allows borrowing to fund the purchase of leased items. This expenditure would be treated as capital expenditure and not revenue. This would mean the council would buy the assets outright. The decision to lease or buy depends on several variables, for example, the costs of borrowing and the residual value of the asset at the end of its leased life. Prior to each drawdown, the council's leasing advisors produce a report and recommendations as to 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 7** shows the contingency utilised to date.

TABLE 7 : CAPITAL CONTINGENCY	
	£m
Resources available with capital programme	0.250
Provision used as at 30 September 2006	- 0.024
<b>Surplus contingency</b>	<b>0.226</b>

## Background papers

Various financial working papers.

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Signed:



**Carole Evans - Executive Director**

**26 October 2006**

Signed:



**Cllr John O'Hare - Deputy Leader**

**26 October 2006**

## APPENDIX 2

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

<b>USE OF CENTRAL CONTINGENCY</b>	
	<b>£</b>
Budget approved for 2006/7	372,382
<b>Less allocations:</b>	
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
Copyright licence for communications team	-8,153
Replacement of DVDs stolen from central library	-8,000
Software licence fee for web site software	-6,327
Walsall contribution to consultant costs for developing the local development framework core strategy	-85,000
<b>Balance remaining as at 30.09.06</b>	<b>99,710</b>



## FINANCIAL RISK ASSESSMENT

DETAIL OF RISK	WORST CASE IMPACT £m
<b>Neighbourhood services:</b> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Public protection – income within bereavement services not being achieved.</li> <li>• Street pride (fleet) – increased costs of fuel</li> </ul>	<p style="text-align: right;">0.200</p> <p style="text-align: right;">0.050</p> <p style="text-align: right;">0.240</p>
<b>Social care and inclusion</b> <ul style="list-style-type: none"> <li>• Non achievement of directorate action plan and medium risk not offset as a result of the action plan</li> </ul>	<p style="text-align: right;">3.100</p>
<b>Regeneration:</b> <ul style="list-style-type: none"> <li>• Additional shortfall in planning income</li> </ul>	<p style="text-align: right;">0.075</p>
<b>Children &amp; young people:</b> Children's social services <ul style="list-style-type: none"> <li>• Increased costs of maintaining family contact for LAC and non achievement of staffing savings.</li> </ul>	<p style="text-align: right;">0.330</p>
<b>TOTAL RISK IDENTIFIED</b>	<p style="text-align: right;"><b>3.995</b></p>

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.