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TELFORD & WREKIN COUNCIL

CABINET – 23 FEBRUARY 2017

2016/17 FINANCIAL MANAGEMENT REPORT

REPORT OF THE ASSISTANT DIRECTOR: FINANCE & H.R. (CHIEF FINANCIAL OFFICER)

LEAD CABINET MEMBER: CLLR LEE CARTER

PART A) – SUMMARY REPORT

1.0 SUMMARY OF KEY ISSUES

2016/17 Revenue

The Service & Financial Planning Strategy, also on this agenda, highlights the incredibly difficult financial challenges facing the Council due to significant reductions in Government funding and increased demand for services, such as care for vulnerable adults and children. The strategy put forward not only delivers a balanced budget but invests in creating a sustainable financial position for the Borough's future. The 2016/17 outturn position contributes towards this medium term strategy. The strength of financial management is reflected in the projected year end position which is now estimated to be around £3.1m underspent which is an improvement of £0.4m compared to the position previously reported. This places the Council in a good position as we move into 2017/18 and demonstrates an ability to evolve and improve despite the financial challenges. Our aim is to sustain this position over the final few weeks of the year and to look to make further improvements where possible.

The net projected outturn position is after applying £1.9m available in central contingencies, pending any further commitments in the rest of the year; and after using the specific contingency of £2.5m earmarked in the 2016/17 budget strategy for Early Help & Support pressures and the one off service balances totalling £0.5m for Children's Safeguarding.

Children's Safeguarding and Early Help & Support continue to be key areas of pressure and both have cost improvement plans in place to reduce costs and deliver savings. These plans are monitored on a regular basis both by senior managers and Cabinet Members.

There are a number of variations from the approved budget, including some beneficial variances. The key areas to highlight are:

- A benefit of £3.5m relating to Treasury Management activities – this mainly relates to benefits from low interest rates for short term borrowing and the current Treasury Management Strategy of keeping the majority of new borrowings very short term. Clearly at some point the Council will need to start to lock in to longer term fixed rates to reduce exposure to potential interest rate increases. Taking longer term borrowing too soon incurs a cost as short-term borrowing rates are considerably lower and this has to be balanced with the risk that longer-term rates start to move upwards quickly. The timing of when best to do this is closely monitored by senior finance staff with advice from the Council's external treasury management advisors. It should be noted that the 2017/18 budget strategy includes a prudent assumption that new borrowing is at rates higher than the current PWLB rates which mitigates the Council's exposure to interest rate increases.

- A one off benefit of £0.6m following the final winding-up of Transforming Telford Ltd.
- A one off benefit of £0.7m from updating sinking fund requirements for Private Finance Initiative commitments.
- Early Help & Support are currently projecting an overspend of £4.2m, mainly relating to the cost of care packages. This overspend has increased slightly since the last monitoring in January. A cost improvement plan is in place to deliver savings which should reduce this going forward.
- Children's Safeguarding also continues to be a key pressure with an overspend of £4.1m being reported, the majority relating to the cost of Children in Care placements. The overspend has increased by £0.4m since the last report. A cost improvement plan is in place to review costs and the placement strategy.

1.2 Capital

The capital programme totals £87m which includes all approvals since the budget was set. At the time of compiling this report projected spend was 96% of the budget allocation; spend to date indicates that this will be challenging and there is likely to be a requirement for some re-phasing into 2017/18.

There are some new allocations, virements and slippage identified which are included in the capital programme to be presented to Full Council for approval as part of the Service & Financial Planning reports on 2 March 2017.

1.3 Corporate Income Collection

In total £1.7m more cash from Council Tax, Sales Ledger outstanding debt and business rates has been collected to the end of December 2016 compared to the same point the previous year. However, collection rates for Council Tax, Sales Ledger outstanding debt and business rates are slightly behind the challenging targets set for the year.

1.4 This is the final financial management report prior to outturn which will be presented to Cabinet in June 2017.

2.0 RECOMMENDATIONS

2.1	Members are asked to:-
(i)	Note that 2016/17 revenue spending is currently projected to be within budget and continue to work with SMT to sustain this position ;
(ii)	Note the position in relation to capital spend ;
(iii)	Note the collection rates for NNDR, council tax and sales ledger.

3.0 SUMMARY IMPACT ASSESSMENT

COMMUNITY IMPACT	Do these proposals contribute to specific Co-operative Council priorities?	
	Yes	Delivery of all priorities depend on the effective use of available resources. Regular financial monitoring in the financial management reports helps to highlight variations from plan so that action can be taken to effectively manage the Council's budget.
	Will the proposals impact on specific groups of people?	
	No	
TARGET COMPLETION/DELIVERY DATE	To outturn within the budget set for 2016/17 at 31/3/17.	
FINANCIAL/VALUE FOR MONEY IMPACT	Yes	The financial impacts are detailed throughout the report.
LEGAL ISSUES	No	None directly arising from this report. The S151 Officer has a statutory duty to monitor income and expenditure and ensure that the Council takes action if overall net overspends /shortfalls emerge.
OTHER IMPACTS, RISKS & OPPORTUNITIES	No	
IMPACT ON SPECIFIC WARDS	No	

PART B) – ADDITIONAL INFORMATION

4.0 2016/17 REVENUE BUDGET

4.1 Financial management is the responsibility of budget holders and is supported by Finance staff using a risk based approach: following considerable reductions in finance resources through savings exercises more focus is given to higher risk areas (high value/highly volatile); less frequent financial monitoring is undertaken on budgets deemed to be medium to lower risk.

4.2 Overall, there is an improvement of £0.4m since the last report which is a combination of increased Children's Safeguarding and Early Help & Support costs offset by further benefits from Treasury Management.

4.3 The overall 2016/17 budget position is summarised in the table below:

Service Area	5 Jan Cabinet Variation £	Current Variation £	Change £
Business, Development & Employment	(70,000)	(70,000)	0
Finance & HR	(4,138,317)	(4,537,800)	(399,483)
Cooperative Council Team	(99,800)	(99,800)	0
Children's Safeguarding	3,790,132	4,150,374	360,242
Education & Corporate Parenting	252,807	152,115	(100,692)
Early Help & Support	4,122,667	4,211,798	89,131
Legal, Procurement & Commissioning	(224,820)	(270,313)	(45,493)
Health & Wellbeing	44,949	(254,763)	(299,712)
Customer & Neighbourhood Services	(436,215)	(482,202)	(45,987)
Commercial Services	(160,000)	(160,000)	0
Council Wide	(739,976)	(739,976)	0
Total Projected Variation	**2,341,427**	**1,899,433**	**(441,994)**
Use of Contingency	**(2,341,427)**	**(1,899,433)**	441,994
Total Projected Underspend	**0**	**0**	**0**

4.4 Projected variances over £0.100m are highlighted below, other variances are detailed in Appendix 2.

Service Area	Variance £m
Business, Development & Employment	
Development Management & Planning Policy – net additional planning application income.	-0.100
Estates & Investments – Property Investment Portfolio rental and service charge income totals £6.5m p.a. The	+0.105

Service Area	Variance £m
shortfall currently projected relates to service charges for void properties.	
<u>**Finance & HR**</u> **Treasury** –this includes the benefit arising from current low interest rates and lower borrowing than anticipated in the earlier part of the year. **PFI Sinking Fund** – Updated sinking fund assumptions to reflect current projections. **Customer & Corporate Finance** – benefit arising from vacant posts.	 -3.500 -0.700 -0.101
<u>**Cooperative Council Team**</u> There are currently no variances over £100k to report.	
<u>**Children's Safeguarding & Independent Review**</u> **Children in Care Placements** (CiC) – currently projecting £3.354m overspend in 2016/17 which compares to £1.7m reported at 2015/16 year end and an increase of £0.205m since the last monitoring report. The Service is developing a cost improvement plan to assess placement costs which will include reviewing unit costs, the numbers of children in care and the placement strategy. **Internal Foster Carer Costs**– payments to Foster Carers including transport costs and foster carer training. **Staffing (Safeguarding)** – includes the cost of agency social workers. This variation has increased by £0.064m since the last monitoring report. **One off Service Balances** – use of one off service balances to support Safeguarding pressures. **Assessment –** the overspend reflects a significant increase in Parenting Assessments placed externally. **Legal** – the overspend reflects an increase in the volume of activity and an increase in the use of external barristers. **Independent Review** – the recent Ofsted report recommended increasing capacity in this area; the cost of agency staff results in an overspend.	 +3.354 +0.179 +0.578 -0.500 +0.299 +0.114 +0.109

Service Area	Variance £m
Education & Corporate Parenting	
Specialist Services – savings target not fully met.	+0.139
Advisory Management/School Improvement traded Advisory Service – shortfall against additional income target; the position will be kept under review as the impact of new arrangements following restructure becomes clearer.	+0.184
School Transport – the overspend relates to 2016/17 savings targets not currently being achieved together with an increase in the number of students requiring transport.	+0.130
Education Services Grant – fewer academy conversions than forecast resulting in less grant being lost.	-0.182
Contribution from Reserves – one off balances	-0.200
Early Help & Support	
Purchasing budgets – the pressure experienced during 2015/16 is continuing in 2016/17. The cost has risen since the last report which is mainly due to the impact of reviews and changes in care for existing clients and the differing complexity of care required. In addition some areas of care, but not all, are still experiencing upward price pressures. A cost improvement plan is in place which includes a number of strategies to reduce demand and deliver care differently which should result in lower costs although at this stage there has been limited progress.	+6.891
Contingency – included in the budget strategy for 2016/17 and 2017/18 to allow time for the service delivery changes to embed.	-2.500
Income – largely relates to a shortfall of income generated from the CCG arising from an agreement to Joint Fund Packages of Care. Client contributions for the period have increased.	+0.568
Transport – transport is being considered as part of the cost improvement plan as it is part of the policy relating to the future delivery of care.	+0.131
Early Help & Support Restructure – staff savings arising from restructuring across the service area.	-0.246
Use of One off Resources identified	-0.200

Service Area	Variance £m
Legal, Procurement & Commissioning There are no variances over £100k to report.	
Health & Wellbeing There are no variances over £100k to report.	
Customer & Neighbourhood Services	
Structures & Geotechnics – shortfall against income target due a number of fee earning posts being vacant restricting fee earning opportunities.	+0.205
Housing Benefit Subsidy – reduced costs arising from proactive review work leading to recovery of overpayments and reduced ongoing benefit costs.	-0.496
Commercial Services	
ICT – pressure mainly arising from the increased number of Microsoft licenses required across the council.	+0.272
Property & Design – benefit from early closure of properties together with reduced spend on repairs and maintenance and utilities.	-0.147
Council Wide	
Transforming Telford Balance – residual balance remaining following closure of the company.	-0.649
Employee Costs – shortfall in delivery of savings target due to the retention of some essential user allowances and phasing-in of reductions to mileage rates resulting in a part-year impact in 2016/17.	+0.125

CONTINGENCIES

5.1 The 2016/17 budget includes a prudent general contingency of £3.222m, which is set aside to meet any unforeseen expenditure, or delays in phasing in the significant level of savings that the Council has to deliver this year. There is also an amount held centrally for contractual inflation totalling £2.201m which forms part of the approved revenue budget and will only be allocated to specific budgets when the relevant inflation information is available. Given the exceptional cuts being made in the Council's budget it is imperative that the Council has a reasonable level of contingency in order to cover increases in demand for services (e.g. safeguarding which can be significant and occur with no warning) and to allow for any delays or shortfalls in the delivery of planned savings. The current position relating to contingencies is shown below:

	£'000
General Revenue Contingency less previously approved commitments	2.922
Inflation Contingency less commitments	2.081
Total Contingencies	**5.003**
Proposed Use:	
Required to meet the current revenue overspend	1.899
Residual Balance	**3.104**

Currently £1.9m of the contingency is required to bring spend within budget in 2016/17. This leaves £3.1m available to meet any unforeseen costs in the remainder of the year. Any balance remaining at year end will be available to support the medium term financial planning strategy.

6.0 CAPITAL

6.1 **2016/17 Capital Programme**

The capital programme currently totals £87m. The financial position is shown in the table below which shows spend at £43m – it will be quite challenging to meet the £84m projected level of spend over the last few weeks of the year and it is therefore likely that there will be slippage into later years.

Service Area	Current Budget £m	Spend to Date £m	% Spend	Year End Projection £m
Early Help and Support	1.0	0.0	0%	0.0
Development Business & Employment	28.8	18.2	63%	27.7
Customer & Neighbourhood Services	28.0	13.8	49%	27.6
Education & Corporate Parenting	15.4	7.5	49%	15.7
Health & Well-Being	0.8	0.2	24%	0.8
Co operative Council & Commercial Delivery	0.3	0.1	33%	0.3
Legal Procurement & Commissioning	0.1	0.1	47%	0.1
Finance & Human Resources	6.0	0.1	1%	5.9
Commercial Services	6.7	3.2	47%	5.9
Total	**87.1**	**43.2**	**35%**	**84.0**

6.2 All approvals relating to 2016/17 and later years are included in the budget strategy report also on this agenda and will go forward to Full Council on 2 March for formal approval.

6.3 Capital receipts are projected to achieve target for the year.

CORPORATE INCOME MONITORING

7.1 The Council's budget includes significant income streams which are regularly monitored to ensure they are on track to achieve targets that have been set and so that remedial action can be taken at a very early stage. The three main areas are Council Tax, NNDR (business rates) and Sales Ledger. Current monitoring information relating to these is provided below. The Council pursues outstanding debt vigorously, until all possible recovery avenues have been exhausted, but also prudently provides for bad debts in its accounts.

7.2 In summary, the overall position for all income streams are below target. Cash collection remains in a very strong position in all three areas.

INCOME COLLECTION – December 2016

	Actual	**Target**	**Performance**	**Change in cash collected on last year**
Council Tax Collection	83.19%	83.58%	0.39% behind target	+£3,596,358
NNDR Collection	82.88%	83.11%	0.23% behind target	+ £1,131,935
Sales Ledger Outstanding Debt	7.40%	5.95%	1.45% behind target	-£3,007,449

7.3 Council Tax (£75.3m)

The percentage of the current year liability for council tax which the authority should have received during the year, as a percentage of annual collectable debit. The measure does not take account of debt that continues to be pursued and collected after the end of the financial year in which it became due. The final collection figure for all financial years exceeds 99%.

Year end performance 2015/16	97.1%
Year End Target for 2016/17	97.1%

Performance is cumulative during the year and expressed against the complete year's debit.

Month End Target	Month End Actual	Last year Actual
83.58%	83.194%	83.58%

Council tax is behind by 0.39%, which has followed a similar trend all year. Whilst the number of summonses issued has decreased by 9%, the number of liability orders obtained has increased by 27% compared to this time last year. The majority of these cases will then progress to the enforcement agents for recovery where benefit or employment details are unknown.

7.4 **NNDR-Business Rates (£76.5m)**

The % of business rates for 2016/17 that should have been collected during the year. This target, as for council tax, ignores our continuing collection of earlier years' liabilities.

The measure does not take into account the debt that continues to be pursued and collected after the end of the financial year in which it became due. As a general rule the final collection figure for any financial year exceeds 99%.

Year end performance 2015/16	98.3%
Year End Target for 2016/17	98.4%

Month End Target	Month End Actual	Last year Actual
83.11%	82.88%	83.01%

Business rates is 0.24% behind target. Business rates collection has fluctuated throughout the year.

7.5 **Sales Ledger (£40.9m)**

This includes general debt and Social Care debt. Debt below 2 months is classified as a normal credit period.

The target percent is set relating cumulative debt outstanding from all years to the current annual debit. The targets and performance of income collection for 2016/17 are as follows:

Age of debt	Annual Target %	December 2016	
		£m	%
Total	5.95	3.03	6.80%

Sales ledger performance is outside of target but this is largely as a result of a few invoices which are outstanding with building firms where payment arrangements have been made for early next year. There are three sales ledger invoices totalling £600,000 which are due to be repaid during January. The payment of these three invoices would bring sales ledger back within target.

8.0 PREVIOUS MINUTES

03/03/16 – Council, Service & Financial Planning Strategy
16/06/16 - Cabinet, Service & Financial Planning Report – 2015/16 Outturn and 2016/17 Update
21/07/16 – Cabinet, 2016/17 Financial Management Report
29/09/16 – Council, 2016/17 Financial Management Report
13/10/16 – Cabinet, 2016/17 Financial Management Report
24/11/16 – Council, 2016/17 Financial Management Report
05/01/17 – Cabinet, 2016/17 Financial Management Report
19/01/17 – Council, 2016/17 Financial Management Report

9.0 BACKGROUND PAPERS

2016/17 Budget Strategy / Financial Ledger reports

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