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TELFORD & WREKIN COUNCIL

CABINET – 19 OCTOBER 2017
COUNCIL – 23 NOVEMBER 2017

2017/18 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

1.1 2017/18 Revenue

The net projected outturn position for 2017/18 is estimated to be within budget. This is a very positive position, given that £13.8m savings were required to balance the 2017/18 budget, and currently leaves £4m uncommitted balance in the central contingency. Senior Managers will aim to sustain this position if possible, so that the one-off contingency benefit is available to support the medium term budget strategy. However, it is clearly still early in the year and potentially the Council could face significant financial pressures if, for example, the winter is particularly hard or if the NHS faces significant winter pressures.

Children's Safeguarding and Early Help & Support continue to be key areas of focus 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. The projections take into account the specific contingency of £2.5m earmarked in the 2017/18 budget strategy for Early Help & Support pressures and the £2.5m Improved Better Care Funding available.

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

- A benefit of £2.5m relating to Treasury Management activities - the majority of which relates to benefits from low interest rates for short term borrowing.
- Children's Safeguarding is a key pressure with an overspend of £2.4m being reported which is an increase of £1.4m since the last report. This mainly relates to the cost of placements for Looked after Children and the cost of social workers. A four year model is in place which is designed to deliver efficiencies over the remainder of the year and medium term.

- Early Help & Support – the service is currently projecting an overspend of £0.9m mainly relating to the purchase of care packages.

  The funding outlook for the medium term is still uncertain however it is anticipated that the Council will need to identify a further £15-£20m savings by the end of 2019/20 on top of the £13m already identified for 2017/18, so it is important that we maintain our excellent track record in managing budgets and maximise the position in 2017/18 which will assist in future years.

1.2 Capital

The capital programme totals £102.9m which includes all approvals since the budget was set. At the time of compiling this report projected spend was 98% of the budget allocation.

There are some new allocations, virements and slippage identified which will go forward to Full Council in September for formal approval.

1.3 Corporate Income Collection

Sales Ledger outstanding debt and Business Rates collection are ahead of targets set, while Council Tax collection is slightly behind target. Overall, the amount of cash collected is higher than at the same point last year. In total £2.3m more cash has been collected than at the same point last year.

2.0 RECOMMENDATIONS

2.1 Cabinet Members are asked to:-

(i) Note that 2017/18 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 and Cabinet are asked to recommend that Council approve the new allocations, virements and slippage detailed in Appendix 3;

(iii) Note the collection rates for NNDR, council tax and sales ledger;

(iv) Grant delegated authority to the Managing Director, after consultation with the Cabinet Member for Finance, Commercial Services and Economic Development to apply for Business Rates pilot status jointly with one or more other councils if an acceptable business case is developed.

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 2017/18 at 31/3/18.	
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 2017/18 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 The main changes since the last report are shown in the table below:

Variations - £m	**Cabinet 13/7/17**	**Change**	**Current Projected Variation**
Children in Care Placements – continued pressure relating to the cost of safeguarding vulnerable children.	+0.261	+1.164	+1.425
Early Help & Support – purchasing of all types of care to eligible clients net of income including Improved Better Care Fund grant.	+0.313	+1.149	+1.462
Business, Development & Employment – net position of Property Investment Portfolio and Services charges which includes the early delivery of income arising from the PIP Growth Fund investment.	0.000	-0.405	-0.405
Treasury Management – ongoing benefits arising from current low short-term interest rates and lower than anticipated borrowing requirement.	-2.300	-0.200	-2.500
Other Variations	+1.207	-0.643	+0.564
Total Projected Variation	**-0.519**	**+1.065**	**+0.546**
Use of Contingency			-0.546
Final Projected Variation			**0.000**

4.3 The overall 2017/18 budget position is summarised in the table below:

Service Area	Variation Cabinet 13 July 2017 £	Change £	Current Variation £
Business, Development & Employment	0	(318,557)	(318,557)
Finance & HR	(2,300,000)	(434,657)	(2,734,657)
Cooperative Council Team	0	(147,704)	(147,704)
Children's Safeguarding	1,016,192	1,403,885	2,420,077
Education & Corporate Parenting	493,540	35,921	529,461
Early Help & Support	(0)	944,710	944,710
Governance, Procurement & Commissioning	210,020	(291,540)	(81,520)
Health & Wellbeing	36,079	(26,167)	9,912
Customer & Neighbourhood Services	0	28,887	28,887
Commercial Services	25,000	(129,506)	(104,506)
Total Projected Variation	**(519,170)**	**1,065,272**	**546,103**
Use of Contingency			**(546,103)**
Total Projected Underspend			**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	
Regeneration & Investment – net position relating to the Property Investment Portfolio & service charges which includes early delivery of income arising from Growth Fund Investment.	-0.404
Finance & HR	
Treasury Management – a benefit is currently reported due to reduced borrowing costs associated with short-term borrowing at very low interest rates. The position is regularly monitored by senior finance staff and the Council's external treasury management advisors and some longer term borrowing has been undertaken in 2017/18 to manage the risk of interest rate exposure.	-2.500
Cooperative Council Team	
There are no variations over £100k to report.	
Children's Safeguarding	
Children in Care Placements – considerable investment was made into this area as part of the budget strategy and the service has a 4 year placement model to ensure that the medium term strategy is delivered. The reported overspend reflects an increase in looked after children numbers and types of placements and the latest projections in relation to delivery of savings for the year.	+1.425
Staffing (Safeguarding) – includes the cost of agency social workers which have reduced in line with the Cost Improvement Plan; the Service aims to remove all agency workers by the end of the calendar year.	+0.245
Legal – the overspend reflects an increase in the volume of activity.	+0.153
Assessments – the creation of an in house service offering mother and baby assessments has reduced the requirement for residential placements.	-0.100
Independent Review – the service has experienced difficulties recruiting to key posts which has resulted in the use of agency workers for a period of time.	+0.112

<u>Education & Corporate Parenting</u> **Specialist Services** – saving target not fully met; a restructure will be undertaken by the new Assistant Director which will deliver the balance of savings required. **Advisory Management and School Improvement traded Advisory Service** - This relates to a shortfall against the income target for this area which is to be addressed through a combination of reductions in expenditure across the whole service area and the generation of additional income in other traded areas where possible. **School Transport** – the overspend relates to a saving target not yet delivered. Further work is being undertaken to verify the level of saving that will be achieved.	 +0.133 +0.177 +0.404
<u>Early Help & Support</u> **Purchasing budgets –** the service has a cost improvement plan aimed at reducing expenditure by managing prices and demand. The monitoring reflects current estimates of savings to be delivered and is net of Improved Better Care Fund grant income of £2.5m. **Community Early Help** – employee related savings based on the current known structure.	 +1.462 -0.318
<u>Governance, Procurement & Commissioning</u> There are no variations over £100k to report.	
<u>Health & Wellbeing</u> There are no variations over £100k to report.	
<u>Customer & Neighbourhood Services</u> **Engineering Service –** shortfall against income target due to the number of vacant fee earning posts which have been difficult to recruit to. A service review is currently being finalised for implementation in 2017/18 which includes alternative options which meet the requirements of both internal and external customers of this service, to support the service to achieve revised income targets. **Engineering Service** – vacant posts as detailed above.	 +0.424 -0.211
<u>Commercial Services</u> There are no variations over £100k to report.	

5.0 CONTINGENCIES

5.1 The 2017/18 budget includes a prudent general contingency of £3.386m, 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 £1.196m 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	3.386
Inflation Contingency	1.196
Total Contingencies	**4.582**
Proposed use:	
There are currently no proposed uses.	
Commitments:	
Required to meet the current revenue overspend	0.546
Residual Balance	**4.036**

The current revenue position is a projected overspend of £0.5m which is a call on the contingency. This would leave £4m available to meet any unforeseen costs in the remainder of the year. Any underspend at the end of the year will support the budget strategy for 2018/19 and beyond. It should be noted that RPI was 3.9% in August 2017 from 2% in September 2016 showing an increasing trend over the past 11 months. If this continues there is likely to be pressure on all services and in particular major contracts; the position will be assessed over the next few months. Successful negotiations as part of the triennial evaluation of the Shropshire Pension Fund have resulted in employers pension costs being lower than budgeted. This benefit will be retained until further information in relation to the overall inflation position is known.

As part of the 2017/18 budget process £9.7m was set aside in reserves to provide additional assurance to support both 2017/18 and the Medium Term Financial Strategy.

6.0 HIGH NEEDS DEDICATED SCHOOLS GRANT EXPENDITURE

6.1 The Dedicated Schools Grant (DSG) is currently split into three blocks: Schools (mainstream school funding), high needs and early years. The schools and early years blocks are allocated based on the number of children on recorded on censuses multiplied by a sum of money per child (different for each local authority). The high needs block is allocated based primarily on historic data, although this is planned to move to a more formulaic basis from 2018/19.

A fourth block, for central services is being created in 2018/19, by combining existing budgets into a new block. Despite its name, schools forum approval will be required for central expenditure from this block.

6.2 The main focus of financial concern at present is the high needs block. A number of factors have contributed to the pressures on High Needs and specifically post 16:

- The national trend is that more YP with complex/severe needs are entering and continuing in education, in part due to improvements in health care, and also higher parental expectations with consequent pressure on local provision as needs change.
- Connected with this trend, pupil numbers in T&W special schools are increasing sharply reflecting in part complexity of need and we are experiencing pressure on out of area placements
- TWC has traditionally been a high statementing area pre 16 (which, to date, has translated through to a high number of Education, Health & Care Plans (see below).
- The Children and Families Act of 2014 extended educational special needs support up to (potentially) 25 and this has contributed to a large increase in the cost of post 16 high needs.

6.3 In 2017/18 the budgeted amount to spend on High Needs comprises the allocation from the Dfe, a small underspend carried forward from last year and funding moved from the two other DSG blocks. The current High Needs Block monitoring position is shown below

High Needs Monitoring Position	Budget £m	Variation £m
Net DSG Funding available after deduction of academy/post 16 posts directly funded by ESFA*	19.9	
Areas of Expenditure		
Special schools including Queensway	11.4	0.3
Residential & out of area provision pre & post 16	2.9	0.5
Education, Health & Care Plans / SEN statements	2	-0.2
Pupil Referral Units	0.7	
Post 16 Provision	0.6	0.4
Other (mainly LA services such as sensory inclusion, alternative provision, behaviour support, etc)	2.3	-0.2
Additional DSG cfwd from year end		-0.2
Total	19.9	0.6

*Education & Skills Funding Agency

6.4 The new school funding regulations for 2018/19 both considerably restrict the amount that can now be moved between blocks and also now require annual approval from the Schools Forum in order to do this. The implication of this is that our ability to move significant sums to the high needs block from other blocks is likely to be curtailed. As a result, high needs pressures become a potentially significant problem for the LA from 2018/19 onwards.

6.5 Any overspend on DSG can be rolled forward to the following year to be funded from that year's allocation. The Government information on high needs as part of national funding changes showed an illustrative 2.8% increase for T&W's high needs block in 2018/19, amounting to £585,000 .Whilst this is welcome, the additional grant could be needed to clear the 1718 overspend. This would leave a fundamental problem for 2018/19 and beyond, as the existing pattern of year on year expenditure increases shows little sign of abating and there is little apparent prospect of significant grant increases beyond 2018/19.

6.6 High Needs spending is influenced by various service areas across the Council; Education, Development, Business & Employment, Early Help & Support and Safeguarding. The CCG also has a role in relation to specialist placements and EHCPs.. The relevant ADs and their officers are actively involved in developing a Cost Improvement Plan to address the budget pressures identified above. This is likely to contain a number of strands, such as greater efforts to 'step down' children and young people from expensive placements, encouraging a more inclusive approach from mainstream schools, better 'gatekeeping' at each level of the system and ensuring all provisions offer value for money.

7.0 CAPITAL

7.1 2017/18 Capital Programme

The capital programme totals £102.9m, which includes the approvals proposed in this report.

The financial position is shown in the table below which shows projected spend is currently shown at £101.2m.

Service Area	Current Budget £m	Spend to Date £m	% Spend	Year End Projection £m
Development Business & Employment	49.98	17.9	36	50.01
Customer & Neighbourhood Services	23.36	6.6	28	23.06
Education & Corporate Parenting	10.22	3.2	31	9.89
Early Help & Support	1.15	0	0	0.68
Health & Well-Being	0.39	0.2	61	0.39
Cooperative Council & Commercial Delivery	2.15	0	0	2.15
Governance Procurement & Commissioning	0.54	0	0	0.54
Finance & Human Resources	4.73	0.5	10	4.73
Commercial Services	10.36	3.0	29	9.80
Total	**102.88**	**31.4**	**30**	**101.25**

7.2 Some new allocations, virements and slippage are identified for approval which are detailed in Appendix 3.

7.3 Telford & Wrekin Council have been successful in securing £6.3m of Government funding through the Marches LEP towards the £9.3m Newport Innovation & Enterprise package. The Newport Innovation & Enterprise package will create serviced employment land including an Enterprise and Science Park with direct links to the Harper Adams Centre for Innovation. It will attract investment from high tech businesses, stimulating complementary research and development activities and encouraging supply chain growth across a wide range of companies engaged in new agricultural technologies and with links to Telford's strong advanced manufacturing sector.

In addition to the £6.3m LEP funding, an additional £3m will come from the Telford Land Deal, S106 contributions and the council's approved highways capital programme. These new allocations are included within appendix 3, and it is recommended that Cabinet recommends to Full Council the approval of the necessary changes to the capital programme. Should private sector investment not be secured, the Council will be required to make up this shortfall in funding – in accordance with commitments given in the funding bids.

8.0 CORPORATE INCOME MONITORING

8.1 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.

8.2 In summary, NNDR and sales ledger collection are above target, but council tax collection is slightly behind target. Cash collection has increased for all income streams compared to last year.

INCOME COLLECTION – August 2017

	Actual	Target	Performance	Change in cash collected on last year
Council Tax Collection	46.61%	46.80%	0.19% behind target	+£1,886,542
NNDR Collection	50.36%	49.50%	0.86% ahead of target	+ £275,221
Sales Ledger Outstanding Debt	3.71%	6.00%	2.29% ahead of target	+£94,205

8.3 **Council Tax (£79.2m)**

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 2016/17	97.45%
Year End Target for 2017/18	97.45%

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

Month End Target	Month End Actual	Last year Actual
46.80%	46.61%	46.75%

We have collected over £1.8m more in council tax this year compared to last year. Collection rates for council tax are 0.2% behind this point last year. Council Tax Support recipients are struggling more this year with a collection rate of 38.87% compared to 40.75% last year. Work will commence to further promote the use of the CTS Hardship Fund over the forthcoming months.

8.4 **NNDR-Business Rates (£76.0m)**
The % of business rates for 2017/18 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 2016/17	98.49%
Year End Target for 2017/18	98.50%

Month End Target	Month End Actual	Last year Actual
49.50%	50.36%	49.51%

Business rates is 0.86% ahead of target, but collection rates tend to fluctuate throughout the year.

8.5 **Business Rates Pilot.**
The Department for Communities and Local Government is currently seeking applications from authorities to pilot 100% Business Rates Retention in 2018/19 and to pilot new pooling models. Discussions have commenced with Shropshire and Herefordshire Councils to assess whether submission of a joint business case could be beneficial to our areas. Clearly one of the key issues to consider in the development of a business case will be to understand the potential level of risk as well as gain from being a pilot and an option may be to seek a guarantee from Government in our bid that being a pilot cannot result in financial detriment. Such a clause has been accepted on previous pilots, however, it may be that Government will look more favourably on areas that are prepared to take a greater degree of risk.

The deadline for submission of business cases is Friday 27 October but assessing the potential financial implications and developing associated governance arrangements are complex issues which are still being discussed. Delegated authority to the Managing Director after consultation with the Cabinet Member for Finance, Commercial Services and Economic Development to apply for Business Rates pilot status jointly with one or more other councils if an acceptable business case can be developed is therefore requested in this report.

8.6 **Sales Ledger (£52.2m)**
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 2017/18 are as follows:

Age of debt	Annual Target %	August 2017	
		£m	%
Total	6.00	1,935	3.71%

Sales ledger performance is well within target, and work continues to collect the highest invoices which are outstanding.

9.0 PREVIOUS MINUTES

02/03/17 – Council, Service & Financial Planning Strategy
19/6/17 - Cabinet, Service & Financial Planning Report – 2016/17 Outturn and 2017/18 Update
13/07/17 – Cabinet, Service & Financial Planning Report – 2017/18 Financial Management Report

10.0 BACKGROUND PAPERS

2017/18 Budget Strategy / Financial Ledger reports

Report Prepared by:
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