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TELFORD & WREKIN COUNCIL

CABINET – 12 JULY 2018
COUNCIL – 26 JULY 2018

2018/19 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 2018/19 Revenue

The net projected outturn position for 2018/19 is currently estimated to be within budget. The majority of the centrally held contingency remains available to meet any unforeseen costs or further pressures over the rest of the year and if not required in year will be used to support the medium term service and financial planning strategy.

It is a positive start to the year given that £7.6m savings were required to balance the 2018/19 budget and the aim is that senior managers will sustain this position and make further improvements where possible by year end.

Children’s Safeguarding & Early Help continues to be a key area of focus and there are a number of strategies underway to reduce costs and deliver savings. Adult Social Care is currently showing a neutral position. Both areas have cost improvement plans in place which are monitored on a regular basis by senior managers and Cabinet Members.

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

- A benefit of £1.5m relating to Treasury Management activities - the majority of which relates to benefits from low interest rates for short term borrowing. Some long term borrowing has been taken in 2018/19 to reduce interest rate exposure and the position is regularly monitored by senior finance staff with advice taken from the Council’s external treasury management advisors.
- Children’s Safeguarding & Early Help is a key pressure area with an overspend of £0.8m being reported which is mainly the cost of placements for Looked after Children and the cost of social workers. This position is after applying £0.5m one off balances, set aside at year

end to support the delivery of the cost improvement plan. A four year model is in place which is designed to deliver efficiencies over the remainder of the year and medium term.

- Education & Corporate Parenting – overall the service is currently projecting an overspend of £0.5m. This is a combination of the cost of providing school transport and an increase in the number of children with high needs.

The funding outlook for the medium term is still uncertain however it is anticipated that the Council will need to identify a further £20m-£25m savings by the end of 2020/21 on top of the £117m savings already delivered, so it is important that we maintain our excellent track record of robust active budget management and maximise the position in 2018/19 which will assist in future years.

1.2 **Capital**

The capital programme totals £87.7m which includes all approvals since the budget was set. At the time of compiling this report projected spend was 90% of the budget allocation.

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

1.3 **Corporate Income Collection**

Council Tax and Business Rates collection are currently slightly behind targets set. The level of outstanding Sales Ledger debt is ahead of the target set for the year. Overall, the amount of cash collected is higher than at the same point last year. In total £5.2m 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 2018/19 revenue spending is currently projected to be within budget and continue to work with SMT to sustain this position and approve the use of contingency detailed in para. 5.1;

(ii) Note the position in relation to capital spend and Cabinet are asked to recommend that Council approve the new allocations and slippage detailed in Appendix 3;

(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 2018/19 at 31/3/19.	
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 2018/19 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 overall 2018/19 budget position is summarised in the table below:

Service Area	Variation Cabinet 12 July £
Business, Development & Employment	0
Finance & HR	(1,500,000)
Cooperative Council Team	0
Children's Safeguarding & Early Help	840,638
Education & Corporate Parenting	493,898
Adult Social Care	0
Governance, Procurement & Commissioning	(97,350)
Health & Wellbeing	4,680
Customer & Neighbourhood Services	(327,103)
Commercial Services	62,491
Total Projected Variation	**(522,746)**

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

Service Area	Variance £m
<u>Business, Development & Employment</u>	
Development Management – contribution from reserves to fund service pressure.	-0.141
<u>Finance & HR</u>	
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 2018/19 to manage the risk of interest rate exposure.	-1.500
<u>Cooperative Council Team</u>	
There are no variations over £100k to report at present.	
<u>Children's Safeguarding & Early Help</u>	
Assessments – the creation of in-house assessment capacity has reduced the costs of assessments.	-0.144
Children in Care Placements – overall numbers of children	+0.732

in care is relatively stable; the overspend relates to the number of high cost residential placements and high level foster care placements. The service has a four year placement model with a target of reducing the total number of placements which includes: reducing the numbers of children entering the care system; ensuring children are in the right placement; stepping down from high cost placements where appropriate; and recruiting more internal foster carers. **Contribution from Reserves –** set aside at 2017/18 year end to support delivery of the Cost Improvement Plan. **Independent Review Staffing** – difficulties recruiting has resulted in the use of more expensive agency staff. The intention is to reduce agency staff use during 2018/19.	 -0.500 +0.149
<u>Education & Corporate Parenting</u> **Specialist Services** – increasing numbers of children and young people with high needs has meant that the service has not yet achieved anticipated savings; work is ongoing to increase the amount of traded income and to use grant funding flexibility where possible. **Advisory Management and School Improvement traded Advisory Service -** This relates to a shortfall against the income target for this area which is being partly offset by a one-off grant. **Proposed Use of Contingency** – to meet above shortfall **School Transport** – the overspend relates to a saving target not yet delivered. Expenditure has been impacted by the increase in the numbers of children and young people with high needs. Work is ongoing to reduce costs which includes the retendering of transport contracts.	 +0.174 +0.191 -0.191 +0.441
<u>Adult Social Care</u> There are no variations over £100k to report at present.	
<u>Governance, Procurement & Commissioning</u> There are no variations over £100k to report at present.	
<u>Health & Wellbeing</u> There are no variations over £100k to report.	

Customer & Neighbourhood Services **Concessionary Travel –** lower take up of the service has resulted in the current projected underspend.	-0.107
Commercial Services There are no variations over £100k to report.	

5.0 CONTINGENCIES

5.1 The 2018/19 budget includes a prudent general contingency of £3.8m, 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 £2.1m 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	3.787
Inflation Contingency	2.113
Total Contingencies	**5.900**
Proposed use:	
To meet Advisory Management and School Improvement income shortfall	-0.191
Commitments:	
Required to meet the current revenue overspend	0.000
Residual Balance	**5.709**

The current revenue position is projected to be within budget at year end and £5.7m remains available to meet any unforeseen costs in the remainder of the year.

5.2 As part of the 2018/19 budget £17.85m was identified to support the Medium Term Financial Strategy. Planned use over the next two years is £7.5m which leaves £10.35m as additional assurance as we enter the next planning period which has a very high level of uncertainty.

There is no information currently available to enable estimates of the impact of:-

- The move to 75% business rates retention,
- The impact of the Government's "Fair Funding Review"
- The implications of the reset of the business rates baseline
- The implications of the planned 2019 Comprehensive Spending Review and changes to the MoHC&LG departmental Expenditure Limit
- Any associated transitional damping or protection arrangements

All of these major changes are scheduled to come in to effect from 2020/21 making medium term financial planning projections less certain than has ever been the case previously.

It is therefore essential that the Council maintains flexibility in its medium term service and financial planning strategy and continues to develop options for delivering further ongoing savings and retaining an appropriate level of one-off resources to support the transition to the new system.

6.0 DEDICATED SCHOOLS GRANT (DSG)

6.1 DSG is a ring-fenced grant allocated to support education provision. The total allocation of DSG to Telford & Wrekin in 2018/19 is over £145m. It is divided into four blocks: Schools (£111m), High Needs (£21m), Early Years (£12m) and Central School Services (£1m). There are different rules around the use of each block.

6.2 In 2017/18, for the first time in many years in Telford & Wrekin, DSG was overspent at the end of the year. The closing position showed deficit of £544,000. As the opening position was a surplus of £271,000, this represents an in-year deficit of £815,000.

The reason for this overspend was pressure on the high needs block. Both nationally and locally, the numbers of children and young people registered with high needs have significantly increased in recent years. There are a number of underlying reasons for this, including an increase in parental expectation about the availability of statutory services, and extension of statutory rights for young people up to the age of 25. In addition, the existence of independent tribunals means that local authority provision decisions can be successfully challenged by parents, leading to higher costs.

The result has been an increase in statutory demand which is not matched by funding allocations.

6.3 In this context, the Schools Forum agreed to move £550,000 from the mainstream school budgets to high needs in 2018/19. This decision is only for one year however and the Forum will again have to be asked for permission if these funds are to be transferred in 2019/20, leading to uncertainty about the future availability of these resources.

6.4 In order to address both the deficit and the trend of increasing expenditure, a cost improvement plan has been developed. The aim is to increase the high needs provision that is delivered in mainstream schools, or resourced provisions linked to mainstream schools, rather than in specialist settings such as special schools. It has also meant freezing the budgets of special schools and other high needs provisions at 2017/18 levels, which has led to challenging budget situations in the context of inflationary pressures, etc.

6.5 Notwithstanding the measures put in place, the combination of demographic and statutory changes, coupled with limited and inflexible budget allocations from Government, means that high needs provision is likely to be a budget pressure for the Council for the foreseeable future.

7.0 CAPITAL

7.1 2018/19 Capital Programme

The capital programme totals £87.7m, 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 £79.1m.

Service Area	Current Budget £m	Spend to Date £m	% Spend	Year End Projection £m
Development Business & Employment	31.46	2.7	8.51%	27.49
Customer & Neighbourhood Services	26.24	0.8	3.11%	27.07
Education & Corporate Parenting	12.18	0.2	1.48%	12.18
Adult Social Care	0.88	0.0	0.25%	0.88
Health & Well-Being	0.06	0.0	30.70%	0.06
Cooperative Council	2.08	0.0	0.00%	2.08
Governance Procurement & Commissioning	0.26	0.0	0.00%	0.26
Finance & Human Resources	4.76	0.0	0.00%	2.00
Commercial Services	9.82	0.9	9.43%	7.10
Total	87.74	4.6	5%	79.12

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

7.3 The 2018/19 capital programme relies on £13.994m of receipts as part of its funding (after adjusting for changes already approved). Current monitoring indicates some of these receipts are not now expected to be received until 2019/20 and the projected total to be received in 2018/19 is now £10.9m. It is proposed that the funding of the capital programme is updated to reflect this latest position. This has the impact of additional short-term borrowing being required until the receipts are received which is already reflected in the treasury projections shown in this report. Capital receipts included in the medium term budget strategy are under continual review and any changes will be reflected in future budget projections. Updates will be provided in future monitoring reports.

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, sales ledger collection is above target, but council tax and NNDR collection are slightly behind target. Cash collection has increased for council tax and sales ledger income streams compared to last year, although NNDR has reduced due to the revaluation.

INCOME COLLECTION – May 2018

	Actual	Target	Performance	Change in cash collected on last year
Council Tax Collection	19.15%	19.30%	0.15% behind target	+£761,374
NNDR Collection	24.34%	24.60%	0.26% behind target	-£148,241
Sales Ledger Outstanding Debt	5.39%	4.70%	0.69% ahead of target	+£4,568,127

8.3 **Council Tax (£83.1m)**

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 2017/18 97.3%
Year End Target for 2018/19 97.4%

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

Month End Target	Month End Actual	Last year Actual
19.30%	19.15%	19.21%

There is over £4 million more to collect in council tax during 2018/19 compared to 2017/18, and we've already collected have collected over £760k more in council tax this year compared to last year. Collection rates for council tax are 0.15% behind target but this does not cause any concern so early in the financial year.

8.4 **NNDR-Business Rates (£76.6m)**

The % of business rates for 2018/19 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 2017/18	98.6%
Year End Target for 2018/19	98.7%

Month End Target	Month End Actual	Last year Actual
24.60%	24.34%	24.54%

Business rates is 0.26% behind target, but business rates tends to fluctuate throughout the year slightly.

8.5 **Sales Ledger (£57.5m)**

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 2018/19 are as follows:

Age of debt	Annual Target %	May 2018	
		£m	%
Total	4.70	3,098	5.39%

Sales ledger performance is just outside target. Work over the next few months will focus on collecting the highest invoices which are outstanding, paying particular focus to ASC debt.

9.0 PREVIOUS MINUTES

01/03/18 – Council, Service & Financial Planning Strategy

31/05/18 - Cabinet, Service & Financial Planning Report – 2017/18 Outturn and 2018/19 Update

10.0 BACKGROUND PAPERS

2018/19 Budget Strategy / Financial Ledger reports

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