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**TELFORD & WREKIN COUNCIL**

**CABINET – 15 FEBRUARY 2018**

**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 Service & Financial Planning Strategy, also on this agenda, sets the context of continued and prolonged financial challenges facing the Council in the medium term due to significant reductions in Government funding and increased demand for services, such as care for vulnerable adults and children, inflation and other pressures. The strategy put forward not only delivers a balanced budget but invests in creating a sustainable financial position for the Borough's future and the strong financial management in 2017/18 and previous years has contributed towards this. The strength of financial management is reflected in the projected year end position which is now estimated to leave around £4.6m of the contingency available which is an improvement of £0.8m compared to the position previously reported. This will be used to support one-off costs associated with the delivery of the medium term service and financial planning strategy by supplementing the Invest to Save/Capacity Fund. This places the Council in a good position as we move into 2018/19 and demonstrates an ability to evolve and improve despite the severe financial challenges that the Council has faced and the high degree of financial control and active budget management being exercised by Cabinet Members, Senior Managers and budget holders across the organisation. Our aim is to sustain this position over the final few weeks of the year and to look to make further improvements where possible.

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 Adult Social Care 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 £2.6m relating to Treasury Management activities - the majority of which relates to benefits from low interest rates for the actively managed short term borrowing portfolio.
- Children's Safeguarding & Early Help is a key pressure with an anticipated requirement for £3.3m additional investment necessary this year which is an improvement of £0.1m since the last report. The spend 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.
- Adult Social Care – current projections are that additional investment of £0.3m, mainly relating to the purchase of care packages, will be required this year compared to the original budget. This is a significant improvement of £0.7m compared to the previous report.

The funding outlook for the medium term is very uncertain with significant changes to the local government finance system due to be implemented from 2020/21, however it is currently anticipated that the Council will need to identify a further £33m savings over the next three years on top of the £110m already delivered by the end of the current year. It is therefore essential that we continue to 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 £101.6m which includes all approvals since the budget was set. At the time of compiling this report projected spend was 97% of the budget allocation; actual spend was 61% which indicates that there will be a requirement for some re-phasing at year end.

There are some new allocations and slippage identified which will go forward to Full Council in January as part of the Service & Financial Planning papers for formal approval.

**1.3 Corporate Income Collection**

Overall, the amount of cash collected is higher than at the same point last year. In total £1.9m more cash has been collected than at the same point last year. Sales Ledger outstanding debt is ahead of target set, while Council Tax and NDR collection are slightly behind target. .

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

## 3.0 SUMMARY IMPACT ASSESSMENT

<table>
<tr><td rowspan="4">COMMUNITY IMPACT</td><td colspan="2">Do these proposals contribute to specific Co-operative Council priorities?</td></tr>
<tr><td>Yes</td><td>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.</td></tr>
<tr><td colspan="2">Will the proposals impact on specific groups of people?</td></tr>
<tr><td>No</td><td></td></tr>
<tr><td>TARGET COMPLETION/DELIVERY DATE</td><td colspan="2">To outturn within the budget set for 2017/18 at 31/3/18.</td></tr>
<tr><td>FINANCIAL/VALUE FOR MONEY IMPACT</td><td>Yes</td><td>The financial impacts are detailed throughout the report.</td></tr>
<tr><td>LEGAL ISSUES</td><td>No</td><td>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.</td></tr>
<tr><td>OTHER IMPACTS, RISKS & OPPORTUNITIES</td><td>No</td><td></td></tr>
<tr><td>IMPACT ON SPECIFIC WARDS</td><td>No</td><td></td></tr>
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## 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 4/1/18 | Change | Current Projected Variation |
|---|---|---|---|
| **Children in Care Placements** – continued pressure relating to the cost of safeguarding vulnerable children. | +2.377 | +0.214 | +2.591 |
| **Children's Safeguarding -** assessments | -0.100 | -0.215 | -0.315 |

| Variations - £m | Cabinet 4/1/18 | Change | Current Projected Variation |
|---|---|---|---|
| **Adult Social Care** – purchasing of all types of care to eligible clients net of income including Improved Better Care Fund grant. | +1.721 | -0.695 | +1.026 |
| **Business, Development & Employment** – net position on Property Investment Portfolio (PIP) and Services charges which includes early delivery of income associated with the PIP growth fund. | -0.426 | -0.181 | -0.607 |
| **Business, Development & Employment** – planning fee income shortfall | 0.000 | +0.147 | +0.147 |
| **Finance & HR** – one-off underspend relating to employees due to vacant posts | 0.000 | -0.138 | -0.138 |
| Other Variations | -2.251 | +0.045 | -2.206 |
| **Total Projected Variation** | **+1.321** | **-0.823** | **+0.498** |
| Use of Contingency | -1.321 | +0.823 | -0.498 |
| **Final Projected Variation** | **0** | **0** | **0** |

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

| Service Area | Variation Cabinet 4 Jan £ | Change £ | Variation Cabinet 15 Feb £ |
|---|---|---|---|
| Business, Development & Employment | (418,225) | 225 | (418,000) |
| Finance & HR | (2,947,581) | (80,681) | (3,028,262) |
| Cooperative Council Team | (147,201) | 0 | (147,201) |
| Children's Safeguarding & Early Help | 3,450,418 | (136,292) | 3,314,126 |
| Education & Corporate Parenting | 556,124 | (64,199) | 491,925 |
| Adult Social Care | 1,035,551 | (714,624) | 320,927 |
| Governance, Procurement & Commissioning | (63,381) | (181) | (63,562) |
| Health & Wellbeing | (3,669) | 3,032 | (637) |
| Customer & Neighbourhood Services | (140,548) | 118,579 | (21,969) |
| Commercial Services | 0 | 50,510 | 50,510 |
| **Total Projected Variation** | **1,321,488** | **(823,632)** | **497,857** |
| **Use of Contingency** | **(1,321,488)** | **823,632** | **(497,857)** |
| **Final Projected Variance** | **0** | **0** | **0** |

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

| Service Area | Variance £m |
|---|---|
| **<u>Business, Development & Employment</u>**<br><br>**Regeneration & Investment** – net position relating to the Property Investment Portfolio & service charges which includes early delivery of income arising from Growth Fund Investment. | -0.607 |

| | |
|---|---|
| **Development Management** – net planning fee income shortfall | +0.147 |
| **<u>Finance & HR</u>**<br><br>**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.<br><br>**Finance** – one-off underspend relating to vacant posts. | <br><br>-2.610<br><br><br><br><br><br><br>-0.138 |
| **<u>Cooperative Council Team</u>**<br>There are no variations over £100k to report. | |
| **<u>Children's Safeguarding & Early Help</u>**<br><br>**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 projected level of spend reflects known looked after children numbers and types and estimated duration of placements and the latest projections in relation to delivery of savings for the year.<br><br>**Staffing (Safeguarding)** – includes the cost of agency social workers which have reduced in line with the Cost Improvement Plan<br><br>**Legal** – the projected level of spend reflects an increase in the volume of activity.<br><br>**Assessments** – underspend reflecting the creation of an in house service offering mother and baby assessments which has reduced the requirement for residential placements. | <br><br>+2.591<br><br><br><br><br><br><br>+0.264<br><br><br>+0.152<br><br><br>-0.315 |
| **<u>Education & Corporate Parenting</u>**<br><br>**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.<br><br>**Advisory Management and School Improvement traded Advisory Service** - This relates to a shortfall against the income target for this area following the transfer in 2016/17 of the Advisory team. The shortfall 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.<br><br>**School Transport** – the projected level of spend relates to a saving target not yet delivered. Further work is being undertaken to meet the target by a specialist Project Officer to identify further efficiency savings. | <br><br>+0.107<br><br><br><br>+0.211<br><br><br><br><br><br><br>+0.420 |

| | |
|---|---|
| **<u>Adult Social Care</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. | +1.026 |
| **Community Safeguarding & Social Work –** employee related savings based on the current known structure**.** | -0.177 |
| **Community Early Help** – employee related savings based on the current known structure. | -0.361 |
| **Service Improvement & Efficiency** – employee related savings based on the current known structure. | -0.106 |
| **<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 –** following a review of engineering services a new more streamlined structure will be recruited to by the end of Feb 2018. Operational and staff Savings will be achieved which will reduce our operating costs and a revised income target has been agreed which will redress this in year budget challenge. | +0.489 |
| **Engineering Service** – vacant posts; see above. | -0.201 |
| **Public Protection** – staff savings from changes to the service implemented. | -0.109 |
| **<u>Commercial Services</u>** | |
| **Leisure Services** – budgeted gross income for Leisure Services is £5.9m and operational running costs are £5.8m, overall they contribute £1.96m to Support Services. There are a number of Leisure sites which are performing better than anticipated. However, that is offset by an ongoing pressure at the Ice Rink, which has experienced a downturn over previous periods. Current work includes reviewing recent customer feedback, carrying out additional customer research and using this to make improvements to our offer, such as increasing the number of skating aids available. | +0.118 |

| | |
|---|---|
| We have also reviewed the marketing plan for the Ice Rink with the aim of increasing the frequency of visits by existing/past customers and developing the range of events and activities on offer to widen our customer base, including family offers and activities and promotions linked to the Winter Olympics. Despite the income pressure in the current year, the Ice rink is still projected to make a contribution of £115k towards the Council's fixed costs once all controllable Ice Rink costs have been covered. There is also a VAT benefit as a result of a recent legislation change within Leisure Services, this refund will be held at Corporate level. However, around £104k is attributable to the Ice Rink.<br><br>**Catering Services -** inflationary pressure on food costs; the service area have taken steps to mitigate where possible with product switches and plans to revise menus in 18/19. | +0.183 |

**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. children's 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 |
| In year review of provisions releasing funds | 0.488 |
| **Total Contingencies** | **5.070** |
| | |
| | |
| **Commitments:** | |
| Required to meet the current net revenue overspend | 0.498 |
| | |
| **Residual Balance** | **4.572** |

The current revenue position is a projected overspend of £0.498m which is a call on the contingency. This would leave £4.6m 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 November 2017 from 2.2% in November 2016 showing an increasing trend over the past 12 months, although latest indications are that this is reducing slightly, inflation could place pressure on all services and in particular major contracts. The position will be assessed over the remainder of the year. Successful negotiations as part of the triennial valuation of the Shropshire Pension Fund have resulted in employers' pension costs being around £1m lower than budgeted. This benefit will be retained until further information in relation to the overall inflation position is known but will potentially be added to the Invest to Save/Capacity fund if still available at year end.

## 6.0 HIGH NEEDS DEDICATED SCHOOLS GRANT EXPENDITURE

6.1 The 2017/18 budget for high needs expenditure was £20.1m. At the end of period 9, the forecast outturn was a £1m overspend. The largest contributor to this overspend is rapidly increasing expenditure on post 16 high needs provision. There are several factors causing this but one that is very significant is the Government's extension of a potential right to high needs funding to age 25. Another area of significant pressure is special school provision, mainly due to increasing numbers of pupils in these schools.

6.2 There will be a significant increase in available funds for 2018/19. This is due to an increase of around £0.5m in additional Government funding for the 2018/19 high needs block, moving £0.2m from the Central School Services Block (after consultation with the Schools Forum) and moving £0.55m from mainstream school funding to high needs (for which schools forum approval has been obtained). However, the need to clear the projected 2017/18 deficit and the upward pressures on high needs provision means that the 2018/19 budget will be under considerable pressure. A number of strands of work are underway to develop a cost improvement plan for high needs.

## 7.0 CAPITAL

### 7.1 2017/18 Capital Programme

The capital programme totals £101.7m, 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 £99.2m.

| Service Area | Current Budget £m | Spend to Date £m | % Spend | Year End Projection £m |
|---|---|---|---|---|
| Development Business & Employment | 52.20 | 36.2 | 69% | 52.2 |
| Customer & Neighbourhood Services | 22.41 | 13.1 | 59% | 22.1 |
| Education & Corporate Parenting | 10.23 | 6.5 | 64% | 10.2 |
| Early Help & Support | 1.15 | 0.1 | 7% | 0.9 |
| Health & Well-Being | 0.39 | 0.3 | 79% | 0.4 |
| Co operative Council & Commercial Delivery | 2.10 | 0.0 | 0% | 2.1 |
| Legal Procurement & Commissioning | 0.54 | 0.0 | 9% | 0.5 |
| Finance & Human Resources | 4.73 | 1.0 | 21% | 3.1 |
| Commercial Services | 7.91 | 4.5 | 58% | 7.7 |
| **Total** | **101.65** | **61.8** | **61%** | **99.16** |

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 is 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 – DECEMBER 2017 | | | | |
|---|---|---|---|---|
| | **Actual** | **Target** | **Performance** | **Change in cash collected on last year** |
| Council Tax Collection | 82.64% | 83.20% | 0.56% behind target | +£3,122,007 |
| NNDR Collection | 82.85% | 82.90% | 0.05% behind target | -£1,284,844 |
| Sales Ledger Outstanding Debt | 4.41% | 6.00% | 1.56% ahead of target | +£87,273 |

**8.3 Council Tax (£79.6m)**

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 |
|---|---|---|
| 83.20% | 82.64% | 83.19% |

We have collected over £3.1m more in council tax this year compared to last year. Collection rates for council tax are 0.56% behind this point last year which has followed a similar trend all year. It is anticipated that collection rates will out-turn at a similar level to last year as there are 15,000 taxpayers who are now electing to spread payments over 12 months rather than the statutory 10 month scheme.

8.4 **NNDR-Business Rates (£75.1m)**

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 |
|---|---|---|
| 82.90% | 82.85% | 82.88% |

Business rates is 0.05% behind target, and the collectable debit figure continues to fall as the Valuation Office Agency reduce a number of assessments due to appeals. Business rates is expected to outturn at a similar level to last year.

**8.5 Sales Ledger (£53.1m)**

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 % | December 2017 | |
|---|---|---|---|
| | | £m | % |
| Total | 6.00 | 2,343 | 4.41% |

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 – 2016/17 Outturn and 2017/18 Update
13/07/17 – Cabinet – 2017/18 Financial Management Report
21/09/17 – Council 17 – 2017/18 Financial Management Report
19/10/17 – Cabinet – 2017/18 Financial Management Report
23/11/17 – Council, 2017/18 Financial Management Report
7/12/17 – Cabinet – 2017/18 Financial Management Report
4/01/18 – Cabinet – 2017/18 Financial Management Report

## 10.0 BACKGROUND PAPERS

2017/18 Budget Strategy / Financial Ledger reports

**Report Prepared by:** Ken Clarke, Assistant Director: Finance & HR (Chief Financial Officer) – 01952 383100; Pauline Harris, Corporate Finance Manager – 01952 383701.