

TELFORD & WREKIN COUNCIL**CABINET – 14 FEBRUARY 2019****COUNCIL – 28 FEBRUARY 2019****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 Service & Financial Planning Strategy, also on this agenda, sets the context of the continuing 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. It also emphasises the high degree of uncertainty over future funding beyond next year. However, the projected year-end position for 2018/19 is currently estimated to be £7.95m in hand arising from unused contingency funds and a successful claim for a significant VAT refund. The final outturn will depend on the level of any unexpected pressures in the last couple of months of the year, for example additional social care costs or road gritting costs should the weather over the remaining winter period be particularly severe.

However, there is now a high degree of confidence that the Council will end 2018/19 with a significant balance remaining in the corporate budget contingency and therefore part of the projected available amount is recommended in this report to be earmarked for investment in key community priorities. Any remaining contingency at year end (currently estimated to be £2.67m after the transfers to reserves to fund the areas for investment set out in section 5.2 of this report will be transferred to the Budget Strategy Reserve to support the delivery of the overall medium term service and financial planning strategy in future years.

This places the Council in a good position as we move into 2019/20 and demonstrates an ability to evolve and improve services despite the severe financial challenges that the Council has faced. The Council continues to exercise a high degree of financial control through active budget management 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 & Family Support continues to be a key area of focus and there are a number of strategies underway to reduce costs and deliver savings. A cost improvement plan is in place, as is also the case with Adult Social Care. These 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 £2.7m 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.
- A successful claim to HMRC for a VAT Refund totalling £2.673m relating to a change in VAT regulations for leisure activities.
- A benefit of £0.6m relating to the Property Investment Portfolio and delivery of benefits ahead of schedule from the Council's £50m Growth Fund Investments.
- Children's Safeguarding & Family Support is a key pressure area with additional investment of £3.5m required which is mainly due to the cost of placements for Looked after Children. This position is after applying £0.5m one off balances, set aside at last year end to support the delivery of the cost improvement plan. A cost improvement plan is in place which is designed to deliver efficiencies over the remainder of the year and medium term.
- Grant Income – the Government has now confirmed that the allocation of the national Business Rates Levy Account surplus of £0.585m will be received during 2018/19.
- 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 2019/20 Service & Financial Planning Strategy is a separate report on the Cabinet agenda and provides more detail on the medium term outlook.

1.2 **Capital**

The capital programme totals £71.8m which includes all approvals since the budget was set. At the time of compiling this report projected spend was 86.7% of the budget allocation.

Updates to the capital programme are included in the Service & Financial Planning Strategy to be considered at full Council on 28 February 2019.

1.3 **Corporate Income Collection**

Income collection in relation to Sales Ledger Outstanding Debt is ahead of target, while collection for Council Tax and NNDR are slightly behind target.

Total cash collected is £4m greater than at the same point last year.

2.0 **RECOMMENDATIONS**

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; |
| (ii) | Recommend that Full Council Approve the transfers to reserves set out in Section 5.2 and to delegate authority to the Managing Director after consultation with the Cabinet Member for Finance, Commercial Services and Economic Development to allocate this funding to specific projects; |
| (iii) | Note the position in relation to capital spend; |
| (iv) | 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	Budget holders actively manage their budgets and the many financial risks and challenges that council services face, examples include the risk of a particularly harsh winter which would impact adversely on the winter gritting and adult social care budgets, the increasing dependency on income from a wide range of activities and the risk of interest rate movements. The Council has comprehensive risk management arrangements in place and an appropriate level of contingency within its revenue budget as detailed in this report.
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/more 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	Net Revenue Budget	Variation Cabinet 3 Jan 2019	Movement	Current Variation	Variation as a % of Net Revenue Budget
	£'000	£'000	£'000	£'000	%
Business, Development & Employment	(870)	0	0	0	0.0%
Finance & HR	9,670	(2,943)	0	(2,943)	-30.4%
Cooperative Council Team	1,181	(6)	0	(6)	-0.5%
Children's Safeguarding & Family Support	28,722	2,742	747	3,489	12.1%
Education & Corporate Parenting	11,960	461	47	508	4.2%
Adult Social Care	42,425	62	6	68	0.2%
Governance, Procurement & Commissioning	2,884	(140)	(43)	(183)	-6.3%
Health & Wellbeing	2,662	289	(143)	146	5.5%
Customer & Neighbourhood Services	30,798	(418)	0	(418)	-1.4%
Commercial Services*	2,354	220	(20)	200	8.5%
Council Wide	(10,719)	0	(3,258)	(3,258)	30.4%
Total	121,067	267	(2,664)	(2,397)	-2.0%
Use of Contingency		(267)	+2,664	+2,397	
Overall Total	121,067	0	0	0	

* this Service Area covers a range of services including non-commercial services such as homelessness, housing and ICT

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>	
Property Investment Portfolio – early delivery of Growth Fund investments.	-0.617
Contribution to Reserve – to support future investment proposals – approved at Cabinet on 15 November 2018.	+0.724
<u>Finance & HR</u>	
Treasury Management – a benefit is currently reported due to reduced borrowing costs associated with short-term	-2.750

borrowing at very low interest rates. The position is regularly monitored by senior finance staff and the Council's external treasury management advisors; we have started to take some longer term borrowing in 2018/19 to manage the risk of interest rate exposure.	
<u>Cooperative Council Team</u> There are no variations over £100k to report at present.	
<u>Children's Safeguarding & Family Support</u> Assessments – the creation of in-house assessment capacity has reduced the costs of assessments. Children in Care Placements – projected spend is higher than budget as although the number of new placements has stabilised, there have been an increasing number of more expensive specialist placements for looked after children with complex and severe behaviours or emotional health needs over the course of the year. Partner Contributions - a Joint Working Protocol is in the process of being developed to reflect the changing needs of vulnerable children and young people in Telford and Wrekin which will provide clear guidance as to how, in cases which require complex coordination, professionals from Social Care, Education and Health will work together and will assist in determining contribution splits ensuring that there is equity in terms of financial contribution from partners including the CCG. Children and Young People aged 16+ – the overspend relates to a small number of children in care aged 16+ who continue to require a high level of support due to their high level of individual need. Contribution from Reserves – set aside at 2017/18 year end to support delivery of the Cost Improvement Plan. Independent Review – Staffing cost exceed the available budget.	-0.116 +2.774 +0.623 -0.500 +0.121
<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	+0.159

funding flexibility where possible. School Transport (pre 16) – the overspend relates to a saving target not yet delivered and expenditure has also been impacted by the increase in the numbers of children and young people with high needs. Work is ongoing to reduce costs. Transport (post 16) – there has been a significant increase in the costs of transporting post 16 high needs pupils since September 2018. Corporate Parenting – an increase in Pupil Premium Grant allocated to Telford & Wrekin which has funded an element of the costs resulting in an underspend.	+0.475 +0.188 -0.133
<u>Adult Social Care</u> Purchasing – the benefits of social care interventions are starting to materialise, however there is a lead time and some cost reductions will take longer to achieve. The result is a residual pressure on the 2018/19 budget. Income – projected client contributions are higher than budgeted. Income – projected contributions from Health due to successful negotiations with the CCG and receiving contributions to fund client's health needs. Government Grant – reflects the recently announced "Winter Funding" of £0.774m.	+1.561 -0.582 -0.171 -0.709
<u>Governance, Procurement & Commissioning</u> There are no variations over £100k to report at present.	
<u>Health & Wellbeing</u> My Options – additional operating costs associated with My Options Children Services and Community Wellbeing and Community Support Services for Adults.	+0.172
<u>Customer & Neighbourhood Services</u> Sweeping – underspend due to the tonnage for sweepings being lower than budgeted. Street Lighting/ Highway Lighting – reduction in electricity costs due to the implementation of the LED efficiency	-0.132 -0.280

programme across the Borough.	
Transfer to Reserves – to fund essential play area resurfacing in 2019/20 – approved at Cabinet on 15 November 2018.	+0.225
<u>Commercial Services</u>	
Temporary Accommodation – rental income shortfall in relation to the move from one large refuge to two smaller properties which was necessary in order to meet the needs of the client group.	+0.120
BiT – Architects & Building – net over achievement of fee income from additional project work	-0.168
Leisure – income pressures linked to the potential impact of new competitors entering the market locally together with a reduction in income relating to Arthog Outdoor Education Centre which has been closed for improvements. An action plan is in place to mitigate this pressure as far as possible.	+0.357
<u>Corporate</u>	
Grant Income – the Government announced the allocation of the national Business Rates Levy Account surplus to local authorities; indicative figures were provided as part of the Local Government Finance Settlement announcements in December 2018.	-0.585
VAT Refund – back-dated refund from HMRC following a successful claim for VAT relating to the change in VAT regulations for leisure activities.	-2.673

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 reductions 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
Previously Approved Use:	-0.351
Residual Balance	5.549

The current revenue position is projected to be within budget at year end, which after other commitments leaves £5.549m available. In addition, the council has very recently been notified of a significant VAT refund which is largely uncommitted.

- 5.2 As shown above, there is now a high degree of confidence that the Council will end 2018/19 with a significant balance remaining in the corporate budget contingency even if some further pressures do arise before year end. Therefore part of the projected available amount of £5.549m, together with the benefit arising from the £2.673m VAT refund could be earmarked for investment in key community priorities. It is therefore proposed that funding is set aside to support the delivery of future budget strategies and to fund the following priorities for new investment:-

The following transfers to reserves are therefore proposed:

	£m
Pride in Your High Street	1.000
Pride in Our Community	1.000
Funding to support initiatives with public transport operators and other partners on a range of options potentially including demand responsive transport to serve the main industrial estates and a young person's fare offer.	0.300
Funding to support a range of initiatives including- • Promotion of physical activity, • Supporting green spaces and rights of way, • Support for Armed Forces personnel, • Campaigns such as support for the retention of services at the Princess Royal Hospital, Business Winning & Business Supporting, recruitment of Foster Carers etc. and • Support for people affected most by the continuing impacts of austerity.	1.300
Invest To Save/Capacity Fund – which is integral to the	1.223

delivery of the Council's service and financial planning strategy funding one-off costs necessary to achieve long term financial sustainability and meeting resource pressures	
VAT/Taxation Reserve – setting aside part of the VAT refund as a contingency to meet any unforeseen taxation costs which may arise in future	0.450
Total	5.273

5.3 As explained in the Service & Financial Planning report also on this agenda, the Council faces a high level of uncertainty relating to the its financial outlook from 2020/21 onwards. These include:-

- “Re-setting” the business rates system to reallocate the benefits of growth in the business rates base since April 2013 that have been retained by individual local authorities across the country,
- Increasing the proportion of business rates income retained by councils, at a national level, to 75% but at the same time terminating other funding streams for example the remaining Revenue Support Grant and probably Public Health Grant and/or transferring additional responsibilities to councils in order to retain “fiscal neutrality” at a national level.
- Implementing a new formula to assess the relative spending needs of all councils.
- Reviewing the New Homes Bonus system which is a significant funding source for Telford & Wrekin Council.
- Probably also implementing a transitional system to limit the amount that any council loses or gains from the introduction of these changes in any one year.
- The implications of the anticipated 2019 Comprehensive Spending Review and the long awaited Adult Social Care green paper.

Given this level of uncertainty, any remaining underspend at year end (currently estimated to be £2.67m after the allocations set out above will be transferred to the Budget Strategy Reserve to support the delivery of the overall medium term service and financial planning strategy.

6.0 **CAPITAL**

6.1 **2018/19 Capital Programme**

The capital programme totals £71.8m, 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 £62.2m.

Service Area	Current Budget	Spend to Date	% Spend	Year End Projection
	£m	£m		£m
Development Business & Employment	22.76	11.82	51.91%	19.50
Customer & Neighbourhood Services	24.80	15.66	63.13%	24.80
Education & Corporate Parenting	8.99	3.09	34.41%	5.42
Adult Social Care	1.01	0.55	54.68%	1.01
Health & Well-Being	0.06	0.06	80.84%	0.06
Cooperative Council	2.09	0.48	22.82%	1.72
Governance Procurement & Commissioning	0.26	0.11	43.76%	0.26
Finance & Human Resources	2.76	0.86	31.00%	2.10
Commercial Services	9.04	4.82	53.31%	7.36
Total	71.77	37.45	52%	62.23

- 6.2 The 2018/19 capital programme relies on £11m of receipts as part of its funding (after adjusting for known changes). Capital receipts included in the medium term budget strategy are under continual review and any changes will be reflected in future budget projections but are currently projected to be on target.

7.0 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. Total cash collected is £4m greater than at the same point last year. 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, sales ledger collection is above target, but council tax and NNDR collection are slightly behind target. Cash collection has increased for council tax, NNDR and sales ledger income streams compared to last year.

INCOME COLLECTION – Dec 2019				
	Actual	Target	Performance	Change in cash collected on last year
Council Tax Collection	82.44%	82.70%	0.26% behind target	+£3,363,471
NNDR Collection	82.48%	83.00%	0.52% behind target	+£460,823
Sales Ledger Outstanding Debt	4.16%	4.70%	0.54% inside target	+£180,300

7.3 Council Tax (£83.9m)

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
82.70%	82.44%	82.64%

There is over £4 million more to collect in council tax during 2018/19 compared to 2017/18, and we've now collected over £3.3m more in council tax this year compared to last year. Collection rates for council tax are 0.2% behind target but this has shown improvement in December as we have previously been reporting 0.3% behind target.

7.4 NNDR-Business Rates (£76.1m)

The percentage 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
83.00%	82.48%	82.85%

Business rate collection has shown improvement during December and is now only 0.37% behind last year. Collection had been approximately 1% behind target for the last few months.

7.5 Sales Ledger (£66.8m)

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 %	Dec 2018	
		£m	%
Total	4.70	2,777	4.16%

Sales ledger performance is within target, and work continues on focusing on the outstanding ASC debts.

8.0 PREVIOUS MINUTES

01/03/2018 – Council, Service & Financial Planning Strategy
 31/05/2018 - Cabinet, Service & Financial Planning Report – 2017/18 Outturn and 2018/19 Update
 01/07/2018 – Cabinet, 2018/19 Financial Management Report
 26/07/2018 – Council, 2018/19 Financial Management Report
 15/11/2018 – Cabinet, 2018/19 Financial Management Report
 22/11/2018 – Council, 2018/19 Financial Management Report
 03/01/2019 – Cabinet, 2018/19 Financial Management Report
 17/01/2019 – Council, 2018/19 Financial Management Report

9.0 BACKGROUND PAPERS

2018/19 Budget Strategy / Financial Ledger reports

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