

### Audit Committee – 18 June 2018

#### Financial Health Indicators 2017/18

##### 1. Summary of report

This report details the financial health indicators for the year ending 31<sup>st</sup> March 2018 as shown at Appendix 1, including the pre-audit year end outturn position for both revenue and capital.

##### 2. Recommendations

- 2.1 To note the financial health indicators.

##### 3. Governance

- 3.1 Financial health indicators are currently reported on a quarterly basis to Corporate Management Team (CMT) and Audit Committee, and they are published on the council's website for transparency.
- 3.2 Treasury management activity and performance is reported at the start, middle and end of the year to Audit Committee, Cabinet and Council. Corporate financial performance is reported to Cabinet throughout the financial year. Scrutiny panels also receive updates on the financial position for services within their remit. Where overspends are reported, these are required to be managed in year wherever possible. Corrective actions plans are drawn up and reported to CMT, senior management teams and members.
- 3.3 The primary purpose of this report is to advise Audit Committee of the current financial health of the authority in order to provide assurance to the Audit Committee in their role, and the mechanisms and controls by which the council is managing a challenging national and local financial position.

##### 4. Resource and legal considerations

The indicators set out in Appendix 1 cover a number of areas as follows:

###### 4.1 Treasury Management

The indicators show the actual borrowing and investment rates for 2017/18 and the actual for 2017/18 against set targets. Proactive and robust management of the council's debt and investment portfolios throughout the year has resulted in positive variances against the financial health indicator targets for 2017/18 except Capital Financing Requirement which is higher than the target due to the purchase of investment property during the year.

Average interest rates on borrowing show a significant improvement against targets for 2017/18 as a result of the council taking out new borrowing at favourable borrowing rates, whilst repaying older loans at maturity at higher interest rates.

Despite low interest rates the council has achieved an average investment rate of 1.32% (0.89% in 2016/17) against a target of 0.77% through negotiating to secure favourable rates when considering investment options, and through the review and identification of new opportunities for investment.

The authorised limit for external debt was approved by Council on the 23<sup>rd</sup> February 2017 and the CIPFA Code of Practice only allows these limits to be changed by Council and therefore the actual limit and the target remain the same. The actual debt position for the Council as at 31<sup>st</sup> March 2018 is £319.318m.

#### **4.2 Balance Sheet**

This details ratios for the last 4 financial years 2013/14, 2014/15, 2015/16 and 2016/17 plus the pre-audit figures for 2017/18 which show the liquidity of the authority.

#### **4.3 Revenue performance**

This section shows collection rates for council tax and business rates, the average number of days to collect sundry debt and the number of days to process creditor payments for 2017/18 and the performance against target for 2017/18. Sundry debt collection performance has exceeded the profile by 5 days (within 25 days as opposed to target of 30) with the performance of number of days to process creditor payments being exceeded by 3 days (11 days against a target of 14). Council tax and business rates collection are as expected with very marginal variances.

#### **4.4 Corporate financial performance - revenue**

This section details the outturn position for 2016/17 (post audit) and 2017/18 and pre audit year-end outturn for revenue as at 31<sup>st</sup> March 2018. The revenue outturn for 2017/18 is an underspend of £230k, net of recommended carry forwards of £1.4m, subject to Cabinet approval on 20<sup>th</sup> June 2018.

#### **4.5 Corporate financial performance – capital**

Mainstream capital (funded from the council's own resources) varied from the budget by £14.5m as at 31<sup>st</sup> March 2018. After approval of projects re-phased into 2018/19 of £14.37m, this leaves an underspend of £174k. The underspend will be utilised to fund the 2018/19 capital programme. Capital receipts are expected to under achieve by £582k due to the sale of some assets now being realised in 2018/19.

The externally funded element of the capital programme of £9.29m will be re-phased into 2018/19.

### **5. Performance and risk management issues**

- 5.1 Managers are required to deliver service and improvement targets on time, to standard and within budget. The performance management system uses a red, amber, green (RAG) indicator to show the current status. The current position is Green (to reflect an underspend position) due to the revenue outturn.

- 5.2 Risk management is embedded in budget preparation, monitoring and forecasting to enable variances and risks to be identified early and addressed.

### **Reducing inequalities**

- 6.1 None directly associated with this report.

### **7. Consultation**

- 7.1 The report is prepared in consultation with the Chief Finance Officer, relevant managers and executive directors.

### **8. Background papers**

- 8.1 Various financial performance, treasury management and budget monitoring reports.



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## Appendix 1

<b>Treasury Management</b>	<b>2016/17 Actual</b>	<b>2017/18 Target</b>	<b>2017/18 Actual</b>
Average Interest Rate (Borrowing)			
- Excluding OLA	3.80%	4.61%	3.26%
- Including OLA	3.94%	4.72%	3.42%
Gearing Effect on Capital Financing Estimates	1.80%	5.00%	3.47%
Net Borrowing Costs / Council Tax Requirement and NNDR contribution	10.88%	12.50%	4.57%
Capital Financing Requirement (£m)	335.150	344.171	351.593
Authorised limit for external Debt (£m)	360.965	362.390	362.390
Investment Rate Average	0.89%	0.77%	1.32%

<b>Balance Sheet Ratios</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18 Draft</b>
Current Assets : Current Liabilities	2.75	2.44	1.77	1.86	1.10
Useable Reserves : General Revenue Expenditure	0.53	0.66	0.57	0.63	0.68
Long Term Borrowing : Tax Revenue (Using both council tax and NNDR for tax revenue)	1.71	1.69	1.45	1.41	1.20
Long Term Assets : Long Term Borrowing	1.98	2.10	2.29	2.29	2.34
Total School Reserves : Dedicated School Grant	0.09	0.09	0.07	0.05	0.05

<b>Revenues Performance</b> % collected for financial year	<b>2015/16 Actual Collected in total @ 31.03.18</b>	<b>2016/17 Actual Collected in total @ 31.03.18</b>	<b>2017/18</b>	
			<b>Profiled 2017/18</b>	<b>Actual 2017/18</b>
Council tax %	97.70%	96.80%	94.60%	94.40%
Total Council Tax collected (£m)	£105,847,212	£111,074,787	116,790,000	116,595,980
National Non Domestic Rate %	99.00%	98.20%	97.50%	97.70%
Total NNDR collected (£m)	£69,062,297	£70,958,257	69,500,000	69,635,597

<b>Debtors and Creditors Performance</b>	<b>2016/17 Actual</b>	<b>2017/18</b>	
		<b>Target</b>	<b>Actual</b>
Sundry Debtors Collection – Average number of days to collect debt	27 days	30 days	25 Days
Average number of days to process creditor payments*	12 days	14 days	11 Days

<b>Management of Resources</b>	<b>Pre-audit 2017/18</b>		
<b>Service Analysis</b>	<b>Target</b>	<b>Actual</b>	<b>Variance</b>
Children's Services	99,899,320	101,546,519	1,647,199
Economy and Environment	47,904,884	47,149,865	(755,019)
Adult Social Care	67,102,350	67,240,674	138,324
Resources and Transformation	14,715,678	14,185,945	(529,733)
Council Wide	(16,610,459)	(17,341,497)	(731,038)
NNDR/Top Up	(104,540,337)	(104,540,337)	0
<b>Total</b>	<b>108,471,436</b>	<b>108,241,169</b>	<b>(230,267)</b>
General Reserves	<b>Minimum £6.2m Maximum £15.5m</b>	<b>15,226,035</b>	<b>N/A</b>
Council Funded Capital Expenditure	42,537,293	28,036,740	(14,500,553)
External Funded Capital Expenditure	61,109,314	51,823,004	(9,286,310)
<b>Total Capital Expenditure</b>	<b>103,646,607</b>	<b>79,859,744</b>	<b>(23,786,863)</b>
Capital Receipts	2,600,000	2,018,190	(581,810)

<b>Management of Resources</b>	<b>Actual 2016/17</b>		
<b>Service Analysis</b>	<b>Target</b>	<b>Actual</b>	<b>Variance</b>
Children's Services	50,384,893	50,731,394	346,501
Economy and Environment	46,738,475	46,441,584	(296,891)
Adult Social Care	72,754,136	70,349,870	(2,404,266)
Resources and Transformation	15,837,731	14,658,879	(1,178,852)
Council Wide	24,767,589	27,852,988	3,085,399
RSG/NNDR	(109,491,931)	(109,491,931)	0
<b>Total</b>	<b>100,990,893</b>	<b>100,542,784</b>	<b>(448,109)</b>
General Reserves	<b>Minimum £6.2m Maximum £12.4m</b>	<b>13,904,518</b>	<b>N/A</b>
Council Funded Capital Expenditure	21,394,512	13,463,467	(7,931,045)
External Funded Capital Expenditure	76,732,202	64,768,242	(11,963,960)
<b>Total Capital Expenditure</b>	<b>98,126,714</b>	<b>78,231,709</b>	<b>(19,895,005)</b>
Capital Receipts	2,770,000	1,673,099	(1,096,901)

**Note:**

*The large changes in budgets in Children's Services between 2016/17 (£50.38m) and 2017/18 (£99.90m) is in the main due to the revaluation of schools which took place towards the end of the financial year. The revaluation saw the value of the schools buildings decrease significantly and the charge and budget for this was then passed onto the service. In order for the costs not to fall on the council tax payer an accounting entry is undertaken and an opposite movement is made within Capital Financing which is included in Council Wide and also accounts for the large movement in this area between years as well. This is all in accordance with Code of Practice for Local Authority Accounting 2017/18.*

## What this tells us

Treasury Management	
Average Interest Rate (Borrowing)	The average interest rate we are paying on the money we have borrowed compared to our target.
Gearing Effect on Capital Financing Estimates	Shows how a 1% increase in interest rates would affect the total interest cost to the council.
Net Borrowing Costs / Tax Requirement	Borrowing not financed by a grant from government, as a proportion of our Net Revenue Expenditure
Capital Financing Requirement (£m)	How much money we currently borrow to finance our capital programme.
Authorised limit for external Debt (£m)	The maximum amount of debt we should have at any one time
Investment Rate Average	The average interest rate we are receiving on the money we have invested.

Balance Sheet Ratios	
Current Assets : Current Liabilities	Our ability to meet our liabilities
Useable Reserves : General Revenue Expenditure	If our reserves are adequate to meet potential future variations.
Long Term Borrowing : Tax Revenue  Using only council tax for tax revenue Using both council tax and NNDR for tax revenue	The effect of long term borrowing on our budget.
Long Term Borrowing : Long Term Assets	This allows us to understand the relationship between the money we borrow and the assets we have as they both change over time.
Total School Reserves : Dedicated School Grant	If schools reserves are at an appropriate level.

<b>Revenues Performance</b>	
<b>% Collected for Financial Year</b>	As a percentage the amount of council tax we collected during the financial year that runs from 1 April – 31 March. We collect council tax after the year that its related to, but this won't be included in this figure
Council Tax (%)	
National Non Domestic Rate (%)	As a percentage the amount of Business rates we collected during the financial year that runs from 1 April – 31 March. We collect council tax after the year that it related to.
Total Council Tax Collected (£m)	This tells us the amount of council tax we collected during the financial year that runs from 1 April – 31 March. We collect council tax after the year that it relates to, but this won't be included in this figure.
Total NNDR Collected (£m)	This tells us the amount of Business Rates we collected during the financial year that runs from 1 April – 31 March. We collect council tax after the year that it relates to, but this won't be included in this figure.
Sundry Debtors Collection Average number of days to collect debt	How long on average it takes us to collect money owed to us.
Average number of days to process creditors payments	How long on average it takes to pay our bills.

<b>Management of Resources</b>	
<b>Service Analysis</b>	
Children's Services Economy and Environment Adult Social Care Resources and Transformation Council Wide	Shows our forecast for how much we will spend on these services compared to what we planned and compared to how much we spent in the previous year.
General Reserves	Our forecast year end position on reserves against our opening balance.
Contingency	How much we have set aside and for unplanned expenditure, and how much we have left to spend.
Capital Expenditure	Forecast of our spend on capital programmes against our target
Capital Receipts	Forecast of how much money we expect to receive from selling some of our assets, against our target.