Report to the Shareholder Board on the Financial Statement for Southend Care Limited for the period ending 31 March 2018

End of year 1 retained profit / loss compared to the original business plan

The overall loss for the first whole year of trade 1st April 2017 to 31st March 2018, as shown in the accounts, page 14, is a retained loss of £284,000. This retained loss, is attributable to a year 1 operational loss of £81,000 (including £40,000 interest charges servicing a working capital and implementation loan) and one off implementation costs in relation to the set up of the Company of £203,000.

- The original Business Plan approved by Southend on Sea Borough Council forecast a deficit of £225,000. It was agreed in the course of the first year that the loan repayment of £100,000 will be deferred until SCL becomes profitable. Therefore, the original forecast was a deficit of £125,000. However, regardless, the repayment of any principle element of a loan is not a profit and loss entry. So the original business plan, correctly restated was a forecast year 1 deficit of £125,000.
- The actual in year operating loss after interest costs incurred of £40,000 for the first year of trade was £81,000. This outturn is therefore an improvement of £43,000 from the original Business Plan.
- This included other cost pressures not recognised in the original Business Plan but absorbed by SCL in its first year of operation
  - VAT on agency services not accounted for: £90,000
  - Delivery of CHC funded services at Delaware and Viking which were underfunded to the tune of £70,000
  - Sleepover allowance at Spencer House not budgeted and new minimum wage level for 2017/18: £10,000
  - CQC Registration costs, no allowance in budget: £26,000
- It must be noted, the first year actual final operating loss was also reduced by:
  - £109,000 underspend on the Southend Therapy and Recovery Team (START), due to in year staff vacancies. Vacant posts are being actively recruited to meet the service demand. Therefore, for the financial business plan moving forward, this is modelled on a full complement of staff.
  - From 1st July 2017, which was the full operational go live of Southend Care (Phase 1 and Phase 2), inherited agency staffing levels were naturally high, as the council delayed permanent recruitment until Southend Care ltd was fully operational. Note - The block contract only funds permanent positions, and therefore any agency spend, plus VAT, occupying established vacant posts is a pressure against the block contract. Throughout 2017/18 Southend Care Ltd therefore actively reduced inherited agency spend pressures. Whilst some agency spend will still be required (on an as and when basis), it is expected that moving forward the level of required agency will be at both a financially affordable and operational required level, complementing a directly employed workforce.

Separate Pension reserve note

As shown in the accounts page 14, the separate pension reserve also reflects a net deficit of £5,498,000. Whilst this figure, reflected through the Financial Statement looks daunting, this is due to the accounting requirements of IAS19, which reflects the net pension liability of Southend Council staff who have TUPE'd across to Southend Care. This is a notional accounting figure, due to the requirement of IAS19 attempting to measure the value of future liabilities. Under the requirements of IAS19, Actuaries assessing the current value of Pension funds, are required to use the yield from a corporate bond to measure the return on investments. This is generally a lower discount rate than expected the Fund would return on an ongoing basis, and a 1% reduction on that discount rate, can increase the value of liabilities by 30%. When setting contribution rates, the Actuary will use the ongoing basis and employer contribution rates have continued to be set at 21.9% for the next 3 years. Therefore, this has no immediate impact on Southend's Care financial position.

It is recommended that the Shareholder Board endorse the Report and Accounts