

**Urgent Item: Chartered Institute of Public
Finance and Accountancy (CIPFA):
Worcestershire County Council Financial
Resilience Review**

Agenda

**Overview and Scrutiny
Performance Board**

**Thursday, 26 April 2018, 2.30 pm
County Hall, Worcester**

All County Councillors are invited to attend and participate

DISCLOSING INTERESTS

There are now 2 types of interests:
'Disclosable pecuniary interests' and **'other disclosable interests'**

WHAT IS A 'DISCLOSABLE PECUNIARY INTEREST' (DPI)?

- Any **employment**, office, trade or vocation carried on for profit or gain
- **Sponsorship** by a 3rd party of your member or election expenses
- Any **contract** for goods, services or works between the Council and you, a firm where you are a partner/director, or company in which you hold shares
- Interests in **land** in Worcestershire (including licence to occupy for a month or longer)
- **Shares** etc (with either a total nominal value above £25,000 or 1% of the total issued share capital) in companies with a place of business or land in Worcestershire.

NB Your DPIs include the interests of your spouse/partner as well as you

WHAT MUST I DO WITH A DPI?

- **Register** it within 28 days and
- **Declare** it where you have a DPI in a matter at a particular meeting
 - you must **not participate** and you **must withdraw**.

NB It is a criminal offence to participate in matters in which you have a DPI

WHAT ABOUT 'OTHER DISCLOSABLE INTERESTS'?

- No need to register them but
- You must **declare** them at a particular meeting where:
 - You/your family/person or body with whom you are associated have a **pecuniary interest** in or **close connection** with the matter under discussion.

WHAT ABOUT MEMBERSHIP OF ANOTHER AUTHORITY OR PUBLIC BODY?

You will not normally even need to declare this as an interest. The only exception is where the conflict of interest is so significant it is seen as likely to prejudice your judgement of the public interest.

DO I HAVE TO WITHDRAW IF I HAVE A DISCLOSABLE INTEREST WHICH ISN'T A DPI?

Not normally. You must withdraw only if it:

- affects your **pecuniary interests** **OR** relates to a **planning or regulatory** matter
- **AND** it is seen as likely to **prejudice your judgement** of the public interest.

DON'T FORGET

- If you have a disclosable interest at a meeting you must **disclose both its existence and nature** – 'as noted/recorded' is insufficient
- **Declarations must relate to specific business** on the agenda
 - General scattergun declarations are not needed and achieve little
- Breaches of most of the **DPI provisions** are now **criminal offences** which may be referred to the police which can on conviction by a court lead to fines up to £5,000 and disqualification up to 5 years
- Formal **dispensation** in respect of interests can be sought in appropriate cases.

Overview and Scrutiny Performance Board

Thursday, 26 April 2018, 2.30 pm, County Hall, Worcester

Membership

Councillors:

Mr C J Bloore (Chairman), Mrs E A Eyre (Vice Chairman), Mr A A J Adams, Mrs J A Brunner, Mr P Middlebrough, Mrs F M Oborski, Mr C B Taylor and Mr P A Tuthill

Co-opted Church Representatives (for education matters)

Bryan Allbut (Church of England)

Parent Governor Representatives (for education matters)

Ms C Richardson (Parent Governor) and Vacancy (Secondary)

Agenda

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All the above reports and supporting information can be accessed via the Council's website [here](#)

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URGENT ITEM**OVERVIEW AND SCRUTINY PERFORMANCE BOARD
26 APRIL 2018****CHARTERED INSTITUTE OF PUBLIC FINANCE AND
ACCOUNTANCY (CIPFA): WORCESTERSHIRE COUNTY
COUNCIL FINANCIAL RESILIENCE REVIEW**

Reasons for Urgent Item

The Chairman of the Board has requested that the Chartered Institute of Public Finance and Accountancy (CIPFA): Worcestershire County Council Financial Resilience Review Report should be added to the Agenda and considered as an urgent item of business, as following the Freedom of Information (FOI) request in February 2018, the Report has been highlighted publicly over the last week and to enable the detail to be discussed and clarified given the significant public interest and for reasons of transparency.

1. The Leader of the Council and the Head of Financial Management: Adults, Children's, Families and Communities have been invited to the Meeting to discuss the Chartered Institute of Public Finance and Accountancy (CIPFA): Worcestershire County Council Financial Resilience Review.

Background

2. The Council commissioned a review from CIPFA which took place in June 2017 to help inform its budget planning. Following a Freedom of Information (FOI) request in February 2018, the CIPFA feedback was made public.
3. Whilst the CIPFA feedback was not explicitly made public at the time, the findings from the Review were taken into account in the budget planning process and the following action taken:
 - Children's services risks and pressures were identified and additional investment totalling £21m over 3 years was agreed
 - Investment in Adults social care of £7.8m in 2018/19
 - Council tax strategy reviewed - increased assumptions around council tax rates
 - Transformation Savings - Detailed risk review completed and £6.1m not carried forward in 2018/19
 - Cash Limited Allocations created for Directorates to ensure greater ownership of budgets
 - Contingency assumptions reviewed
4. A recent press release issued by the County Council stated:

"We commissioned an independent financial resilience review from CIPFA, the leading experts in public sector finance, in the summer of last year. The review was requested to inform our budget planning. Feedback was received in a presentation to an internal meeting of Cabinet and Strategic Leadership Team. The approach taken by the Council was in line with the CIPFA advice and also helped us to shape how we moved forward with our medium term financial plan. We listened to the professional advice from CIPFA and increased our assumptions around Council Tax rates. The emerging financial pressures during 2017/18 with regard to children's and adult social care were reviewed in detail and this led to investments of £10.5million into children's social care and £7.8 million into adult social care for 2018/19. The review also supported a refresh of our transformation plans and longer term investment into children's services, both of which were included in the medium term financial plan. Despite the budgetary pressures, we are in a robust financial position and a balanced budget for 2018/19 was approved by councillors in February 2018."

Purpose of the Meeting

5. The OSPB is invited to consider and comment on the information provided and in particular how it may inform future Budget Scrutiny.

Supporting Information

Appendix 1- Chartered Institute of Public Finance and Accountancy (CIPFA):
Worcestershire County Council Financial Resilience Review Slides

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Email: worcestershirehub@worcestershire.gov.uk

Specific Contact Points for this report

Alyson Grice and Samantha Morris, Overview and Scrutiny Officers, 01905 844962/844963, scrutiny@worcestershire.gov.uk

Background Papers

In the opinion of the proper officer (in this case the Head of Legal and Democratic Services) there are no background papers relating to the subject matter of this report.

[All agendas and minutes are available on the Council's website here.](#)

Worcestershire County Council Financial Resilience Review

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Sean Nolan on behalf of the
CIPFA team
June 2017

Terms of Reference

- Review Soundness of emerging MTFP Gap and savings strategy
- Requested by CFO due to his broader concerns
- Advice on support and capacity for CFO
- Advice on Financial Planning Architecture
- Supported by Diagnostic Benchmarking
- Based on experienced CFO insights, extensive discussions, short but intense process
- Confidential process

Terms of Reference – Two key questions

- **MTFP reported 'Gap' 18/19 to 20/21?**
Not currently sound
- **Your Financial Resilience?**
Not secured

“ Sound Gap?” – No

- **Overly prudent contingency assumptions**
- **(and) comparatively generous BCF treatment**
- **Amorphous/Non Transparent Pressures and Contingency Presentation**
- **Overly optimistic ‘Transformation’ savings delivery**
- **Unrealistic Children's Risks (based on emerging pressures)**
- **“ Counter-Intuitive’ Council Tax strategy**
- **Unbalanced approach to demographic/demand pressures in adults v children's**

Overly Prudent Assumptions

- Untypically high % pressures
 - 6.5% pa over the plan period 18/19 to 19/20
 - Circa 2.5 times growth in resources
- RSG/Business rates assumptions appear sound and CT reflects local policy decision
- Care Act provision unlikely to be needed.
- 2% pay increase pa each year – generous
- Council Tax surplus –under budgeted
- General contingency too high-especially 19/20 and 20/21
- Under benchmark on income but not the panacea
- Some of the above already being looked at

Overly generous BCF Treatment?

- **National Living Wage, Pay, Price and Demography and other contingency provisions associated with these are funded PLUS spring award of added BCF albeit one off and 50% of improved BCF for 19/20 onwards passed to Adults. Overly Generous?**
- **Overall – Much clearer presentation of total cash quantum for adults over medium term from the various BCF funding streams v pressures would be helpful. Some flex in the current 50% improved BCF use assumption to might be possible**
- **Director to be supported in strategy and aim to produce MTFP for adults.**

Amorphous/Non Transparent Presentation

- **Large general contingency in approved budget and 'MTFP' – unexplained in public papers**
- **Unclear resultant total cash allocations to directorates over the medium term**
- **Cost of maintaining current offer, e.g. pay inflation, jumbled up with future possible risks and new investment – all given equal weight**
- **Insufficient link between cap and rev to fund policy growth, e.g., roads, support to children risks**

Overly Optimistic 'Transformation' Savings

- **Target in 17/18 is £21.3m and £10.2m already showing as red**
- **Underlying overspend c/fwd. into 17/18 likely to impact to some degree into 18/19**
- **Lack of generally confident ownership – to target or time (But some positive examples)**
- **Additional Plan target of £15.9m to 20/21**
 - **Will not be delivered**
 - **50% delivery would be a success**
- **Ethereal and Conceptual Savings themes**

Unrealistic Children's Risk in the MTFP

- Planned savings required in 17/18 budget
 - Despite emerging OFSTED and organisational intelligence
- Must recognise real risk in MTFP
 - Much more probable than some risks already counted
- Rate of recovery always slower than expected and costs always more than expected
- At least £6m overspend in 17/18 coming through
- Possible range of real cost pressures for the MTFP?

■ £9m to £11m in 18/19	Additional on Current MTFP
■ £4m to £6m in 19/20	Ditto
■ £4m to £6m in 20/21	Ditto

'Counter-Intuitive' Council Tax Strategy

- **Conservative Government Policy** to max allowable council tax increase to deliver 'spending power' promise and adult social care funding promise.

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For WCC, roughly 2/3rd geared to council tax but roughly 2/3rds exposed to social care; which suffers above inflation pressures. So, Members holding back council increases **guarantees** to impact negatively on their 'place' ambitions.

- c£7.5m pa '**gap contribution**' still available for the plan period

Modelling 2018/19 Gap – A Scenario?

	<u>£m</u>
■ Natural Gap per Published MTFP	£31.9
■ LESS over prudent assumptions	(£9.1)
■ LESS Realistic Trans Savings ?	(£6.9)
■ Real Children's Risk circa	<u>£10.5</u>
■ Gap Remaining	£26.4
■ PLUS underlying overspend in 17/18	£?

**NOW EVEN MORE OF A PROBLEM
APPROACHING 9% OF THE BUDGET**

Modelling 18/19 – 20/21, A Scenario?

£m

- Natural Gap as per published MTFP £75.6
 - LESS "over" prudence. Net circa (£27.6)
 - LESS Realistic "Trans. Savings" circa (£8.9)
 - Real Children's risk ? £21m
- **Gap Remaining circa £60.1**

Financial Resilience - Not yet secured

- Significant department reserve drawn down last year and likely again this year
- Not a real corporate Medium Term plan, largely still annual budget
- Lack of consistent corporate narrative and urgency
- Circa £28.6m gap for 2018/19
- **PLUS** That is effectively 6 months away
- **PLUS There is no recognisable planning architecture in place to deliver**
- **PLUS** that is obviously also true for the medium term

Planning Architecture – Some core design principles

- Co-produced and co-owned by Cabinet and SLT by portfolio and corporately

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“Reconciling Policy and Resources”

- Create medium term cash allocations for Directors and Cabinet leads for which they are held accountable including how to live within it – but as part of overall coherent council wide position

Planning Architecture (2)

- Produce single cohesive financial narrative for the council and a sense of urgency appropriate to the real challenge
- Identify genuine grounded cross cutting savings strategies to contribute. Current 'Transformation' programme needs a radical overhaul.
- Agree "nowhere to run and nowhere to hide" gap number in June cabinet and establish the new process from then on

Planning Architecture (3)

- Urgently consider short term initiatives, e.g., targeted staffing freeze, to contribute savings and to focus minds to the task.

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Make virtue of MTFP for Adults and Children's as a necessity for both but also to lift and drop into corporate MTFP. CFO to help co-produce and co-own

- Shift focus to cash not just savings, allocate out all the cash leaving specific contingency, rather than (false) expectation that risks are covered centrally

CFO Capacity

- Taking over Transformation in Jan and IT in June. Former refocused but needs major overhaul. Latter has significant senior capacity issues with larger savings strategies not delivering.
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- Significant investment of time and effort needed for MTFP. Simply not possible given demands of above. More support and agreed prioritisation needed to handle above and new MTFP process.
- Need to review Finance structure in respect of a new MTFP process but also to effectively support directorates as finance business partners.

Diagnostic Benchmarking – Compared to most similar counties group of 16

- 4th lowest net spend
- Below average level of reserves and above average decline in reserves in last two years
- Above average gearing/reliance on Council Tax
- 27% below average for local income generated excluding C. Tax. (Equivalent to £4.7m pa)
- Below average spend on most main service headings; save planning and 'central' and roads maintenance

More detail benchmarking per head (of relevant client group) v 16 council average in the family group

- Total education. 5th lowest
- Post 16 provision. 5th lowest
- Highways and transport. 7th lowest.
- Roads Structural maintenance. **3rd Highest.**
- Total social care. 6th lowest.
- Children's. 8th. Modal average.
- Adults. 5th lowest.
- Public Health. **4th Highest.**
- Cultural and Related. **Highest**

More detail benchmarking per head (of relevant client group) v 16 council average in the family group. Continued

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- **Environmental and Regularity. 3rd Highest**
- **Waste. 2nd Highest.**
- **Planning. 8th. Modal Average**
- **Central services. 3rd Highest**
- **Local income. 4th Lowest**

How can CIPFA help?

- **Facilitate narrative for a new approach**
- **Share technical options on risk provisions adopted by other CFOs in their MTFP processes**
- **Capacity support for the CFO and development support for the finance team**

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