

CABINET

17 NOVEMBER 2016

RESOURCES REPORT

Relevant Cabinet Member

Mr S E Geraghty

Relevant Officer

Chief Financial Officer

Recommendation

1. **The Cabinet Member with Responsibility for Finance (who is also the Leader of the Council) recommends that Cabinet:**
 - (a) **endorses his conclusions concerning revenue budget monitoring up to 30 September 2016;**
 - (b) **notes the current progress regarding the FutureFit programme;**
 - (c) **endorses his conclusions concerning capital budget monitoring up to 30 September 2016;**
 - (d) **notes the County Council's acceptance of a four-year financial settlement deal from the Department for Communities and Local Government; and**
 - (e) **endorses his conclusions regarding the treasury management half yearly progress report.**

Introduction

2. This report outlines the 2016/17 outturn forecast for the County Council's Revenue and Capital budgets, and the FutureFit savings and efficiencies programme.
3. The report also covers the County Council's acceptance of a four-year financial settlement from the Department for Communities and Local Government (DCLG) and an update on treasury management activities during the first six months of 2016/17.

Revenue Budget Monitoring 2016/17 - Outturn Forecast as at 30 September 2016

4. The County Council's authorised cash limited budget for 2016/17 is £322 million. When taken together with the amount of money spent through specific grants and miscellaneous income the County Council spends over £1 million per day on providing services to residents and service users.
5. After the first six months of 2016/17 and forecasting for the remaining half of the financial year an overall financial pressure of £0.3 million is anticipated. This forecast has reduced from last month's forecast pressure of £0.7 million and represents 0.1% when compared with the Council's revenue budget. Further work will continue to be undertaken to keep expenditure within approved cash limits and there is likely to be additional use made of Earmarked Reserves.

6. The most significant financial pressures are £1.6 million Adult Social Care Residential and Nursing Placements.
7. There are further cost pressures of around £0.3 million with regard to Children's Special Education Needs transport costs where demand for services is greater than anticipated.
8. These cost pressures are partially offset by gains on the financing transactions budget as the County Council continues to defer the need to increase its borrowing from external resources given continued strong cash balances and prevailing low interest rates, and by making use of other financial resources including the use of one-off reserves.
9. There are a number of other smaller areas of cost pressure across the Council's budgets which are being closely managed and it is anticipated that forecast costs will be kept within the budget by the end of the financial year.

FutureFit Programme Update

10. The FutureFit programme has the clear intention of delivering the changes needed to support the four key areas of focus set out in the Corporate Plan – FutureFit: Open for Business, Children and Families, Health and Well-being and the Environment. It remains a key delivery vehicle for identifying, managing and delivering the transformation required of the organisation to realise the FutureFit vision.
11. The FutureFit savings programme target for 2016/17, which includes £3 million carried forward for delivery from last financial year, totals £27 million and is forecast to be achieved.
12. Whilst 60% of the programme for this financial year has been delivered or is on track, risks to the delivery of the remainder of the programme continue to be monitored. Work to mitigate this risk is being managed by the FutureFit Programme Board. The main areas of risk in the current year relate to:-
- Adult Social Care - Market Transformation
 - Adult Social Care – New Technologies in Care
 - Adult Social Care – New Models of Care
 - Cultural and Community Services
 - Customer Access to Services.
13. Where savings are not being achieved during the current financial year, Directorates are mitigating this by restraining costs in other areas or drawing support from their own earmarked reserves.
14. A separate report updating for future years the FutureFit change programme and the County Council's Medium Term Financial Plan is included elsewhere on the Cabinet agenda.

Capital Programme Budget Monitoring - 2016/17 Forecast

15. The County Council's Capital Budget for 2016/17 totals £153 million. The actual capital expenditure at Month 6 (30 September 2016) is £42 million or 27% of the budget, which is as anticipated. The spending profile is expected to increase over the remainder of the current financial year.
16. Good progress is being made in particular on the following significant projects:-
- £20 million – Energy From Waste Scheme
 - £7 million – Structural Carriageways/Bridgeworks, and

- £3 million – completing the Hoobrook Link Road, Kidderminster.

Four-Year Financial Settlement Acceptance Letter

17. When the 2016/17 financial settlement was issued in February 2016, the DCLG offered all local authorities a four year financial settlement offer confirming Revenue Support Grant (RSG) over the 2016/17 to 2019/20 financial years and the receipt of a transition grant for 2016/17 and 2017/18.

18. Over the four-year period RSG will reduce from £36 million in 2016/17 to zero in 2019/20. These reductions are consistent with the Council's Medium Term Financial Plan approved by Full Council in February 2016.

19. Whilst the amount of annual RSG reductions will mean significant financial challenges for medium term financial planning, gaining certainly over the amount of RSG to be received each year is hugely beneficial. The County Council, through work with the Local Government Association and the Society of County Treasurers has for many years been lobbying for multi-year financial certainty, and acceptance of this offer supports this aim.

20. The Council continues to support and challenge DCLG on the design principles for the 100% business rates retention system and the Needs and Distribution review, and it is through this work that the Council will see significant opportunities for keeping business rates growth locally thereby driving economic development and prosperity.

21. Acceptance of the four year financial settlement offer was delegated by Council to the Chief Financial Officer in consultation with the Leader of the Council at its February 2016 meeting.

22. The Council's acceptance letter is included at Appendix 1.

Treasury Management Half Yearly Progress Report

23. The County Council has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice which recommends that a half yearly treasury management report is produced. The following paragraphs therefore detail the borrowing and lending transactions undertaken for the first half of the 2016/17 financial year.

24. Long-term borrowing is used to fund capital projects and to replace principal sums repaid during the year. Lending transactions are made up of short-term investments with the Debt Management Office held at the Bank of England, other local authorities, Svenska Handelsbanken, the two part Central Government owned banks (Lloyds and Royal Bank of Scotland) and in AAA-rated instant access Money Market Funds.

Background

25. The bank rate, which has been 0.5% since March 2009, was reduced to 0.25% in August 2016 in response to the Brexit vote. There are prospects of another reduction towards the end of the calendar year. All investments have been made in line with the treasury management strategy approved by County Council.

Borrowing

26. Total County Council debt outstanding stood at £362.2 million at 30 September 2016, of which £103.3 million was raised to finance the Energy from Waste project; this is well within the Capital Financing Requirement estimated for 2016/17 of £544.6 million. The balance is temporarily funded by cash backed reserves and working capital. This level of debt also meets the Prudential Indicators for the authorised limit for external debt of £543 million and the operational boundary of £520 million. All debt is fixed rate and meets the County Council's limits on the type of debt it holds (fixed or

variable).

27. The Council may need to take short-term or long-term borrowing over the forthcoming months and in particular during the final quarter of 2016/17, as the amount of working capital is forecast to reduce. In addition the Council will fund further drawdown requests for the Energy from Waste plant by borrowing, as required.

28. Total debt consists of longer and short-term debt.

29. The level of long-term debt during the half year increased by £27.7 million, due to £1.1 million of debt maturing in April 2016 and £28.8 million of drawdowns relating to the Energy from waste project, detailed below.

30. New Loans were taken in relation to the Energy from Waste project. They are all annuity loans which mature on the 30 April 2042. Three loans were taken as follows:

Table 1: New Loans

Advance date	£m	Rate (%)
25 April 2016	10.940	2.86
1 June 2016	8.730	2.70
22 June 2016	9.116	2.51

31. Existing debt plus the above drawdowns resulted in the following maturity structure as at 30 September 2016. This repayment profile meets the County Council's Prudential Indicator for maturity structures.

Table 2: External Loans Maturity Structure at 30 September 2016

Within	£m	% of Total Debt
1 year	47.648	13.1
1 – 2 years	27.730	7.7
2 – 5 years	14.353	4.0
5 – 10 years	63.294	17.5
10 years and over	209.198	57.7
Total	362.223	100.0

32. The average rate of longer-term debt at 30 September 2016 stood at 3.85%.

33. The short-term debt consists of local deposit loans repayable at seven days' notice, which totalled £0.253 million at 30 September 2016. This position is unchanged from 31 March 2016.

Lending

34. The County Council has placed funds with the Bank of England's Debt

Management Office, other local authorities, selected banks and Money Market funds. The temporary lending transactions for the first-half of 2016/17 of the Council's cash balances are summarised as follows:

Table 3: Lending Transactions 1 April 2016 to 30 September 2016

	£m	£m
Balance at 01/04/2016		69
Investments made during the half-year (174)	482	
Less		
Investments recalled during the half-year (189)	(473)	9
Balance at 30/09/2016		78

35. The balance as at 30 September 2016 includes £3.6 million as part of its role in the West Midlands Regional Improvement and Efficiency Programme and £13.4 million invested on behalf of Hereford and Worcester Fire and Rescue Service.

36. All investments are made in accordance with the Council's Treasury Management Policy and to institutions that satisfy the criteria in the Council's Treasury Management Practices.

37. The average rate earned on investments during the first-half of 2016/17 was 0.42% the gross interest earned on investments totalled £0.210 million. The Council continues to outperform its target for extra income resulting from the change in investment strategy that took place in 2013/14, however this target could come under pressure later in the year with recent and possible future reductions in the Bank Rate.

38. The Chief Financial Officer and the Cabinet Member with Responsibility for Finance confirm that the management of debt and short-term investments continues to be cost effective.

Health Impact Assessment

39. A Health Impact Assessment screening has been undertaken with regard to this report and recommendations for new spending decisions to understand the potential impact they can have on Public Health outcomes across the County area.

40. This report is mainly about confirming a forecast financial position for 2016/17 and contains updates with regard to strategic financial planning and treasury management activity. There are no requests to change policy or spending in any particular area.

41. Taking this into account, it has been concluded that there are no specific health impacts as a result of new decisions arising from this Cabinet report.

Supporting Information

- Appendix 1 Four-year Financial Settlement Acceptance Letter

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this Report

Sean Pearce, Chief Financial Officer, 01905 846268, spearce@worcestershire.gov.uk

Sue Alexander, Head of Financial Management (Adults, Childrens Families and Communities), 01905 846942, salexander@worcestershire.gov.uk

Stephanie Simcox, Head of Strategic Infrastructure Finance and Financial Recovery, 01905 846342 ssimcox@worcestershire.gov.uk

Mark Sanders, Senior Finance Manager, 01905 846519, mssanders@worcestershire.gov.uk

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) the following are the background papers relating to the subject matter of this report:

- Previous Cabinet Resources Reports