

CABINET**29 JUNE 2017****RESOURCES REPORT**

Relevant Cabinet Member

Mr S 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 financial performance for the year ending 31 March 2017 as detailed in paragraphs 7 to 13 and the statutory accounts be finalised on this basis;**
 - (b) **updates earmarked reserves and general balances as detailed in paragraphs 43 to 47;**
 - (c) **endorses the work and success of the Open for Business Board;**
 - (d) **notes the current progress and successes regarding the service reforms programme;**
 - (e) **endorses the approach to allocate additional of one-off Adult Social Care funding of £10.1 million in 2017/18, £6.8 million in 2018/19, and £3.4 million in 2019/20 received through a Section 31 Specific Grant;**
 - (f) **recommends that Council approves an increase to the capital programme cash limits to include additional schools, highways and skills funding as detailed in paragraphs 34 and 35;**
 - (g) **endorses the approach to support the cash flow position of the Hartlebury Castle Project in advance of receiving approved grant funding, subject to appropriate financial due diligence being in place; and**
 - (h) **notes the report on borrowing and lending transactions during 2016/17 detailed in paragraphs 54 and 55 and Appendix 4.**

Introduction

2. This report outlines the provisional financial results for the year ending 31 March 2017 subject to external audit. It concludes that the provisional financial outturn is to break even compared with the County Council's budget of £322 million.
3. General Balances at the end of the 2016/17 financial year will be reduced by £1 million as planned to £12 million in order to support the costs of rebuilding Eastham Bridge, Tenbury Wells. This is consistent with the Medium Term Financial Plan (MTFP) approved by Full Council in February 2017.

4. Financial performance for the County Council's Capital Budget, Treasury Management activities and the Worcestershire County Council Pension Fund is also reported.
5. Following notifications of further capital grants, new capital investments are being recommended for Full Council approval.
6. Cabinet are asked to approve the financial results for 2016/17 in order that the annual statutory accounts can be prepared.

Provisional Financial Results for the year ending 31 March 2017

7. The work to finalise the management accounts has been completed and a summary of the position is set out in Appendix 1. Appendix 2 gives details of specific variations by Directorate.
8. The County Council has successfully managed a financial challenge for 2016/17 by delivering £27.4 million of savings and reforms whilst at the same time managing additional cost pressures with the most significant being £3.2 million across Adult Social Care Older People and Learning Disability Services which has been supported by the flexibly use of grants, and £1.2 million Children's Special Education Needs and Disability (SEND) Transport due to additional demand and changes to eligibility criteria set by Central Government.
9. Around £6.5 million of the savings and reform plans for 2016/17 will be carried forward to 2017/18 to reflect activities that are forecast to be delivered at a later stage.
10. Additional Children's safeguarding costs of around £0.2 million have been managed during the year, and Cabinet will note the significant additional funding for 2017/18 of £2.5 million to support an action plan to address the recommendations and to strengthen social care recruitment and retention as part of the workforce strategy, provide additional support for care leavers and increase administration and management capacity and a further £1 million capital investment is also recommended into Social Care Systems and Information Technology which will support the Children's Services Social Work Improvement Plan approved as part of the budget in February 2017. This will be closely managed and updates will be provided to future cabinet meetings as appropriate.
11. The cost pressures in 2016/17 have largely been met from a favourable variance on money market activity following an active strategy to defer borrowing costs whilst cash balances remain strong.
12. Income from Business Rates totalled £58.1 million for the year, with around £0.4 million being withdrawn from the Business Rates Risk Reserve to cover change in collection forecasts.
13. The main features of the County Council's outturn financial performance for 2016/17, subject now to External Audit are set out below:
 - In overall terms revenue spending by Directorates was within the delegated cash limits coming in on budget whilst making identified savings. However, there have been significant areas of cost pressure which have been managed during the year, the most significant of which relates to a £3.2 million pressure in Adult Social Care and £1.2 million Children's Special Education Needs and Disability (SEND) Transport. Directorates use of reserves has increased during the year, resulting in approximately £6.5 million of reserves being utilised to support the delivery of services within Cash Limited Budget. This represents an increase over previous years and will need to be closely monitored to ensure that the County Council can continue to deliver services within underlying cash limited budgets.
 - The 2016/17 savings and reforms target of £27.4 million has been delivered. Where this has been achieved by using one-off alternative funding to support project savings, £6.5 million will be carried forward to 2017/18 for delivery. This is greater than the previous year's carry forward of £3.2 million and confirms the increasing

challenge to achieve savings year on year. It will be important that this slippage is recovered in 2017/18 alongside the delivery of the 2017/18 reform programme approved by Cabinet and Full Council in February 2017.

Open for Business Board Update

14. The Open for Business (OFB) Board was set up in 2013 to consider the potential allocation of a £3 million fund as delegated to the then Cabinet Member for Economy and Infrastructure to deliver the Open for Business objectives around Skills, Enterprise and Infrastructure in response to the economic picture at the time.
15. The fund is now fully allocated in line with the Cabinet Member delegation of 2013, with £2.1 million already spent or committed. The remaining funds are allocated to support the County Council's European Regional Development Fund (ERDF) programmes which is the umbrella name for our business start-up and growth programmes, these are scheduled to run until 2018/19 and have just started delivery.
16. The OFB Board has supported a large variety of projects ranging from Connecting Schools and Business, which has been held up nationally by the Education Minister as best practice, to the new Worcester Innovation (WINN) Programme which is working with QinetiQ to bring Innovation and Research into the heart of what our business community do. Other projects include founding the National Cyber Skills Centre, World Class Worcestershire, the Game Changer Programme including Worcester Six and Malvern Hills Science Park, Kidderminster Arts Festival and a Heat Network Seismic Study which is looking at the use of underground heat to power areas of Evesham and Worcester.
17. Twenty one strategic projects have been funded in total to deliver:
 - Over 1,121 new jobs created or forecast by 2018;
 - Over 1,814 business will be assisted with advice, support or grant funding by 2018;
 - 7,715 young people have been assisted with work placements or via our career fair;
 - 834,420 square meters of employment floor space in the Game Changer sites;
 - OFB Projects have directly increased Gross Value Added (GVA) in the County by £42 million and have indirectly the potential to increase GVA by a further £871 million via the Game Changer Site Developments; and
 - Significant private sector leverage in excess of the public sector investment.

Transformation Programme Update

18. The programme has the clear intention of delivering the changes needed to support the County Council's refreshed corporate plan Shaping Worcestershire's Future four key priorities: Open for Business, Children and Families, The Environment, and Health and Well-being. It remains a key delivery vehicle for identifying, managing and delivering the transformation required of the organisation to realise the corporate plan vision.
19. The County Council has an estimated ongoing savings requirement of £26.5 million for 2017/18, £31.9 million for 2018/19, £21.7 million for 2019/20 and £22.0 million for 2020/21 in order to deliver a balanced budget. This is reflected in the Medium Term Financial Plan approved by Council in February 2017.
20. The County Council has continued to meet the increased financial challenge whilst at the same time achieving service improvements.
21. Since 2011/12, the County Council has delivered significant savings and reforms. The majority of these reforms have been required to either meet the reducing level of Revenue Support Grant from Central Government or to absorb significant increases in cost as a result of inflation, rising demand for services and investment to deliver manifesto commitments.
22. There are existing plans (subject to detailed consultation where appropriate) to deliver

£37 million of savings, with £21.3 million savings in 2017/18, £12.7 million in 2018/19 and a further £3.2 million in later years. Around half of these planned savings are currently assessed to have some risk around their delivery and are subject to robust project management and support to ensure they remain on track and deliverable to time and financial target.

23. Based on the MTFP approved in February 2017, there still remains a need to establish further proposals to balance the budget of nearly £60 million over the period to 2020/21. The County Council will continue its successful approach of being proactive and planning for change, listening to ideas, concerns and opinions. The development and refinement of the plan to deliver services within the resources available across the medium term has commenced with the intention of developing clear plans for consideration for the 2018/19 budget
24. The County Council will be seeking the views of all our services users, residents and partners to help shape our future service delivery along with our public sector partners across Worcestershire as part of delivering proposals that will be incorporated into the draft Budget in December 2017 that are aligned to its Corporate Plan, Shaping Worcestershire's Future. This will include roadshows, surveys and other events.

Adult Social Care Funding

25. The County Council currently receives, in the form of the Improved Better Care Fund, specific funding to support Adult Social Care. The existing profile of funding is set out below:
 - 2017/18 - £0.1 million;
 - 2018/19 - £6.6 million; and
 - 2019/20 - £12.7 million.
26. As reported to April Cabinet, Councils will receive as part of the Improved Better Care Fund an additional and one-off £2 billion over the next three years for adult social care, with £1 billion of this to be provided in 2017/18. The County Council's allocation of the additional monies is as follows:
 - 2017/18 - £10.1 million;
 - 2018/19 - £6.8 million; and
 - 2019/20 - £3.4 million.
27. The additional funding is one off to be spent on adult social care and used for the purposes of meeting adult social care needs, supporting reducing pressures on the NHS and stabilising the social care provider market.
28. The new funding will be paid as a Department for Communities and Local Government specific grant and will be pooled into the Improved Better Care Fund. Taken together with the Better Care Fund, received by the NHS, and allocated across NHS and Council services, this represents a significant allocation to support some of the most vulnerable residents across Worcestershire. There are conditions to the grant to ensure that money is spent on adult social care services and supports improved performance across health and social care.
29. Whilst this additional grant is most welcome, it should be noted that it is not recurrent, so any plans for spending will need to address this and ensure that the impact of the funding is long term.
30. The Improved Better Care Fund will be formally approved by the Health and Well Being Board in July 2017. We are still waiting for the final guidance. However, it is proposed that the new monies received through a Specific Section 31 Grant, are allocated to the following areas:

	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Meeting Adult Social Care Needs	3.3	3.6	1.1	8.0
Reducing Pressures on the NHS	3.6	1.8	0.8	6.2
Stabilising the Social Care Provider Market	3.2	1.4	1.5	6.1
Total	10.1	6.8	3.4	20.3

Capital Investment

31. The County Council spent £132.1 million on Capital Expenditure in 2016/17 which included £15.0 million spent on school projects, £65.1 million on local transport infrastructure, £47.4 million Energy from Waste Loan Facility and £4.6 million on other County Council services.
32. The major sources of capital financing were external borrowing £63.8 million, capital grants and contributions £60.7 million, capital receipts £2.4 million and direct revenue contributions £5.2 million.
33. Significant capital investments have been delivered on the following projects in 2016/17:-

Open for Business

- £4.3 million – Hoobrook Link Road, Kidderminster;
- £3.1 million – Worcestershire Parkway;
- £1.6 million – Bromsgrove Rail Station relocation; and
- £1.3 million – Worcester Six Technology Park.

Children and Families

- £1.3 million – Christopher Whitehead High School expansion, Worcester;
- £1.2 million – St Bede's Catholic Middle School sports hall – Redditch; and
- £1.1 million – Leigh and Bransford Primary School

Health and Wellbeing

- £0.2 million - Increasing capacity at Timberdine Nursing and Rehabilitation Unit, Worcester

The Environment

- £14.7 million – Highways Structural Maintenance;
- £11.2 million - Worcester Southern Link Road; and
- £8.3 million – Driving Home Highways Infrastructure Improvement Programme.

Additions to the Capital Programme

34. The County Council has received notification of capitals grants and Section 106 income, and Cabinet are asked to recommend that Full Council approves the following additions to the Capital Programme.
 - **£8.7 million School Basic Need Allocation 2019/20**
This allocation for 2019/20 has just been confirmed. Allocations for previous years are already in the approved capital programme
 - **£3.7 million School Condition Capital Maintenance 2017/18**
This Children, Families and Communities grant allocation has not been previously built into the approved Capital Programme. The Director of Children, Families and Communities, in conjunction with the Cabinet Member with Responsibility for

Education and Skills, will continue the normal process of allocation to specific schemes

- **£1.3 million Highways Maintenance Incentive Element 2017/18**

This is Department for Transport grant to supplement the general highways maintenance allocation previously approved within the Capital Programme. The grant allocated is based upon the quality of Worcestershire County Council's Asset Management Plan

- **£0.3 million Worcestershire Intelligent Transport Systems 2017/18**

This Department for Transport grant was received late in 2016/17 to be used during 2017/18. The purpose of the grant is to aid the support and delivery of demonstrator schemes that are based upon co-operative intelligent transport systems

- **Skills Capital Projects 2017/18**

The County Council has received a number of grant allocations from the Worcestershire Local Enterprise Partnership Growth Fund for skills capital projects including:

£0.6 million – Engineering Facility (Skills Capital Fund)

£0.4 million – Pershore College/ Agritech

£0.3 million - META project

£0.3 million – Inclusive Centre for Entrepreneurship and Business Growth (Skills Capital Fund)

£0.1 million – Centre of Vocational Excellence

£0.1 million – Inclusive Skills Based Centre (Skills Capital Fund)

Pension Fund Update

35. For 2016/17 the Worcestershire County Council Pension Fund had an operating surplus of £34.4 million compared to a surplus of £38.6 million for 2015/16.
36. The Worcestershire County Council Pension Fund's net assets have increased by £530 million to £2.481 billion at the end of 2016/17.
37. The Pension Fund's Actuary has calculated that the Council's liabilities exceed its share of the assets by £446 million at 31 March 2017.
38. Whilst this net liability will change each year due to the volatility in share prices and changes in the assumptions used regarding financial risk and uncertainties, it remains consistent with the prudent long-term funding strategy agreed at the recent valuation of the Pension Fund in 2016 to ensure assets and liabilities are balanced over an 18 year period.
39. The next stage is to prepare the annual statutory accounts for both the Council and the Pension Fund, which will be audited by the Council's external auditor Grant Thornton UK LLP and presented to the Audit and Governance Committee later in the year.

Insurance

40. The insurance reserve is held to meet the cost of claims within three specific areas of business:
 - Payments that have to be made for liability claims that fall below the insurance policy excess;
 - Payments that have to be made for fire damage claims which fall below the insurance policy excess; and

- The cost of claims that have to be met under the self-insured property damage scheme for schools.
41. The adequacy of each reserve is annually reviewed internally and is subject to independent review every five years. The balance is currently deemed to be adequate and stands at £7.1 million at 31 March 2017.

Proposed Earmarked Reserves, New Investments and General Balances

42. A schedule setting out the proposed earmarked reserves at 31 March 2017 is detailed in Appendix 3.
43. The majority of our reserves are earmarked for commitments that have already been made, held on behalf of Central Government until that specific grant is spent or held on behalf of schools or other third parties. The County Council will carry forward a much smaller level of reserves to cater for risk and uncertainty that remains prudent, but as can be seen is reducing based on the use of reserves in 2016/17.
44. The overall reduction in reserves in 2016/17 reflects planning assumptions to support increases and changes in demand for services ahead of revenue streams coming online in 2017/18 or in support of transformation projects to deliver better outcomes and value for money within the future resources that the County Council has available.
45. In consideration of the provisional financial outturn of breakeven Cabinet are recommended to approve the following addition to specific earmarked reserves in light of known future commitments and risks:-

- **£0.5 million Transformation Fund Spend to Save Initiatives.**

In light of the continued need to support service reforms and expenditure reductions taking on board Central Government funding reductions, it is prudent to set aside funding to support the potential costs of change and programmes of work that are currently in development

General Balances

46. The effect on general balances following the financial outturn for the 2016/17 financial year is as follows:

	£m
Balance at 31 March 2016	13.0
Transfers to / from (-) during 2016/17	-1.0
Balance at 31 March 2017	<u>12.0</u>

Hartlebury Castle Project

47. The County Council has been working in partnership with Hartlebury Castle Preservation Trust to secure the future of Hartlebury Castle. The principle behind the scheme is that the Trust and Worcestershire County Council will make the Castle, Hurd Library, collections of the Museum and Castle, as well as the Gardens, into an integrated visitor destination that will benefit the local area and serve as a major attraction for visitors from around the UK and beyond.
48. This partnership has secured £5 million in investment from the Heritage Lottery Fund as well as other external funding from a range of charitable trusts and foundations. The grant has already secured the acquisition of the Castle and estate, and work has commenced on the refurbishment project as well as a wide ranging programme of activities.
49. The Trust is the charity responsible for the management of the project which is currently in progress, and the receipt of grant aid from the Heritage Lottery Fund to meet the objectives of the scheme. The Joint Museums Committee, which includes the Cabinet Member for Communities, has received regular reports on the progression of the project. The County Council has entered into a management and funding agreement to confirm

the contribution of the Council and Museums Worcestershire, the shared service which operates the County Museum.

50. The retention policies of the Heritage Lottery Fund mean that the final grant payment will be made at the end of the project when the final grant claim and associated reports are signed off. The cash retention is part of the approved grant for which there is a contract in place. This results in a negative cash flow position for the Trust for approximately 18 months of the project until completion, currently forecast to be July 2020.
51. Following a request to the County Council for assistance to address this problem and the necessary financial due diligence, it is proposed that the County Council re-profile contributions to bridge the gap of up to £250,000, to operate from October 2018 until the conclusion of the project, with payments from the County Council to be made on a quarterly basis recovered through an appropriate interest bearing loan. Any payments will be designated as restricted funding. Finance officers will receive copies of claims on a monthly basis and put in place appropriate monitoring procedures during the period of the loan.
52. Cabinet are asked to endorse the approach in support of the project.

Borrowing and Lending Transactions 2016/17

53. In accordance with Financial Regulations and the County Council's Treasury Management Policy Statement, the Chief Financial Officer is required to report annually on the activities of the Treasury Management operation. This report is set out at Appendix 4.
54. The key highlights of this report are:-
 - The Council's treasury activities were managed successfully within the approved Prudential Indicator limits;
 - Base Rate was cut to 0.25% in August 2016;
 - Investments prudently made to UK Debt Management Office, other local authorities and Money Market Funds are in line with the existing County Council Treasury Management Policy;
 - £7.4 million of existing loans have been repaid during the year;
 - New loans of £35.8 million have been taken out during 2016/17. This was planned activity and all of this was raised to support the approved Energy from Waste scheme; and
 - Total debt outstanding is within plan and stands at £363.2 million at 31 March 2017, at an average rate of 3.83% (3.95% for 2015/16).

Health Impact Assessment

55. A Health Impact Assessment 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.
56. This report is mainly about confirming the financial position from previous Cabinet decisions, and requests new capital spending for highways, school building improvements and support for skills and training.
57. 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** Summary Financial Results 2016/17
- **Appendix 2** Directorate Variations - Operating Activity 2016/17

- **Appendix 3** Proposed Earmarked Reserves
- **Appendix 4** Borrowing and Lending Transactions 2016/17

Contact Points

County Council Contact Pointes

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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