

**CABINET**  
**2 NOVEMBER 2017****RESOURCES REPORT**

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**Relevant Cabinet Member**

Mr S Geraghty

**Relevant Officer**

Interim 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 31 August 2017;**
  - (b) **recommends that Council approves the addition of £62 million to the Capital Programme for A4440 Worcester Southern Link Phase 4 Carrington Bridge to Powick and that the cash limits are updated accordingly;**
  - (c) **supports the submission made by the Interim Chief Financial Officer (should agreement be reached with the District Councils) to participate in the pilot for 100% Business Rates Retention and recommends that full Council endorses the submission; and**
  - (d) **endorses his conclusions regarding the treasury management half-yearly progress report.**

**Introduction**

2. This report outlines the 2017/18 outturn forecast for the Council's £324 million Revenue budget at 31 August 2017.

3. The news that Central Government have confirmed funding for the A4440 Worcester Southern Link Road Phase 4 Carrington Bridge to Powick is welcome and recommends the Capital Programme is updated by Council in approving the proposed £62m spend.

4. Additionally, a recommendation for Cabinet to receive an update on the progress regarding a potential submission to government to participate in a pilot for 100% Business Rates Retention.

5. Finally, the Treasury Management activity for the first half of 2017/18 is reported.

**Revenue Budget Monitoring 2017/18 – Outturn forecast as at Month 5 - 31 August 2017**

6. The Council's authorised cash limited budget for 2017/18 is £324 million. When taken together with the amount of money spent by the Council that is received through specific grants and miscellaneous income, the Council spends over £1 million per day on providing services to residents and service users.

7. After the first five months of 2017/18 and forecasting for the remaining seven months of the financial year an overall financial pressure of £6.8 million is anticipated after the use of one off measures and mitigation. This is a reduction of £0.7 million from last month's forecast.

8. The forecast financial pressure represents 2.1% of the Council's revenue budget for which mitigating action is needed to ensure net expenditure is contained within cash limits.

9. As referenced in paragraph 7, the financial pressures have been mitigated to an extent by emerging savings delivered of around £1.1 million through Treasury and Debt Management as well as £1 million of savings delivered through the pre-payment of the Council's employer Pension costs following the most recent actuarial review.

10. Members will recall that the financial pressures were reported in detail at the last Cabinet meeting on 28 September 2017. In total these have reduced marginally since last month and comprise the following:

- a) Additional investment of £6 million required into Children's Services Safeguarding and Placements;
- b) Net cost pressures of around £1.9 million (was £2.3 million last month) across services which includes reforms under the County Council's Transformation Programme for 2017/18 that cannot be offset in year by other means in cash terms in year; and
- c) Additional costs of around £1 million being experienced in the waste budget as a result of the additional efficiency of the Energy from Waste plant above plan following its commissioning earlier this year.

11. Financial Reporting in for Month 5 has indicated an increased level of financial pressure within Adult Services due to an increased level of demand for services both in terms of new service users and the complexity of services that need to be provided to existing service users. Whilst not resulting in an increased forecast spend in Month 5, this represents a key risk to the delivery within cash limits for the Directorate and the Council in 2017/18 and will be subject to close monitoring.

12. The financial pressure is presented after taking account of known actions at this point in the financial year. The Council is working hard across all services to identify ways in which further efficiencies can be achieved in 2017/18 to ensure, where possible, this financial pressure can be supported and offset by compensating reductions in expenditure elsewhere.

13. However, given the scale of the investment required particularly into Children's Services Safeguarding and Placements, it is likely that the Council will need to deliver the reforms included within the Transformation Programme and consider other means of achieving the delivery of its services within its cash limited budget of £324 million in addition to these efficiencies prior to the end of the 2017/18 financial year. Should this not be achieved in 2017/18, when taken alongside the requirement to identify and deliver savings of £60 million across the following three years, this could present a risk to the delivery of a balanced budget in the future. It is important given the reducing level of useable reserves that actions required to deliver financial balance in year are ongoing to ensure the financial sustainability for the Council over the medium term.

14. There is a risk that the financial resilience the County Council has previously had the benefit of, through active management of grant and other earmarked reserves, will diminish and the flexibility to develop and deliver a balanced budget in the medium term will be put under greater pressure.

## **New Capital Investment - A4440 Worcester Southern Link Road Phase 4 Carrington Bridge to Powick**

15. The Council has received notification from the Department for Transport that it has been awarded a grant of £54.5 million as a contribution to fund Phase 4 of the Worcester A4440 Southern Link Road dualling from Carrington Bridge to Powick. Further funding of £7.5 million is expected from a combination of S106 monies and third party contributions which will take the total investment to £62 million.

16. This much-needed funding will complement the existing A4440 Southern Link Road Phase 3 works currently underway, and is an integral part of the strategy to drive the delivery of the economic growth ambitions of the Worcestershire Strategic Economic Plan and the Local Development Plans.

17. Strategically, the scheme addresses the key national priorities as follows:

- **Congestion Relief:** Improvements to the A4440 Worcester SLR will reduce the negative effects of congestion and improve accessibility and journey times across south Worcestershire.
- **Economic Growth:** The scheme will support economic growth by releasing an additional 15 ha of employment land. In addition, it will relieve Worcester City congestion enabling an additional 2- 3,000 jobs in the City over time and a repositioning of the City as the leading Cathedral City it is.
- **Housing Growth:** The recently adopted South Worcestershire Development Plan identifies the sites upon which 28,000 houses are to be built. A significant number of these sites are predicated upon the completion of the dualling of the A4440 between the M5 and the Powick roundabout. The scheme underpins the SWDP growth, provides the encouragement to the market to commit to the development, and directly brings forward the development programme for 3,000 new homes.

18. Cabinet are asked to recommend that Full Council adds this scheme to the Capital Programme and authorises the cash limits to be updated accordingly.

## **100% Business Rates Retention - Pilot**

19. Since April 2013 the Business Rates Retention System enables Local Government to retain a 50% 'local share' of business rates income. The other 50% 'central share' is retained by central Government and then redistributed to Councils as Revenue Support Grant and other grants.

20. For Worcestershire County Council, the 50% local share is worth around £60 million per year – this represents around 18% of the Council's total funding in the current financial year.

21. In October 2015, Central Government announced that, by the end of the current Parliament, Local Government will keep 100% of the income raised through business rates, and will take on new responsibilities to be funded from this additional income as Central Government grants are phased out.

22. These proposals will enhance the Council's ambition to be self-sufficient and will mean that it relies less on Central Government as a source of funding.

23. As reported to Cabinet on 13 October 2016 the Council responded to the consultation on 100% Business Rates Retention and DCLG has now issued a prospectus requesting submissions from local authorities to participate in a one year 2018/19 pilot for 100% Business Rates Retention. This is in line with the previously published timetable which provides for implementation of the scheme by the end of this

parliament. The submission to DCLG was required by 27 October 2017.

24. A key objective of a pilot would be to promote financial sustainability and coherent decision making across functional economic areas and invest some of the additional retained income to encourage further growth. Two-tier areas are being encouraged to apply and recommendations to their Cabinets or Full Council have been put forward by districts to approve participation in the pilot subject to agreement of a suitable proposal.

25. The key changes that would occur through participation in the pilot would be:

- An authority receives an increase to its local share of business rates revenues. The value of this increase is then taken off the authority's Top Up grant / added to the authority's Tariff payment.
- Revenue Support Grant and Rural Services Delivery Grant are no longer paid. Instead, the Grant is replaced by increased Top Up grant or reduced tariff payments.
- The authority / pilot area then receives all growth (and decline, to a point) in business rates compared to the 50% of growth that is currently retained.

26. Therefore whilst authorities within the pilot area have the opportunity to receive higher income through retaining all business rates growth, there is exposure to a greater level of risk in replacing specific grant income with variable business rates income. Discussions have been taking place with District Councils and the outcome of these will be reported to Cabinet.

### **Independent Living Fund Grant – 2017/18**

27. The County Council has now received notification from DCLG of the Independent Living Fund (ILF) Grant for 2017/18. The total of the grant is £3 million and this is line with the expectations in the budget. The grant is to support the needs of service users who were receiving ILF payments formally from the Department of Work and Pensions before responsibility passed to local authorities from July 2015.

### **Treasury Management Half Yearly Progress Report**

28. 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 by the Council for the first half of the 2017/18 financial year.

29. Long-term borrowing is used to fund capital projects and to replace principal sums repaid during the year. Lending transactions are now 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 Government owned banks (Lloyds and RBS); in AAA-rated instant access Money Market Funds; and AAA-rated ultra short duration bond funds.

#### **Background**

30. The bank rate was cut from 0.5% to 0.25% in August 2016, in response to the Brexit vote and the Bank of England have indicated that this cut may be reversed towards the end of this calendar year. All investments have been made in line with the treasury management strategy approved by Full Council.

## Borrowing

31. Total County Council debt outstanding stood at £420.1 million at 30 September 2017, of which £107.5 million was to finance the Energy from Waste project; this is well within the Capital Financing Requirement estimated for 2017/18 of £559.8 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 £593 million and the operational boundary of £570 million. All debt is fixed rate and meets the County Council's limits on the type of debt it holds (fixed or variable).

32. The County Council may need to take short-term or long-term borrowing over the forthcoming months and in particular during the final quarter of 2017/18, as the amount of working capital is forecast to reduce.

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

34. The level of long-term debt during the half year increased by £27.7 million, due to £1.1m of debt maturing in April 2017 which was repaid and £28.8 million of drawdowns relating to the Energy from waste project, detailed below.

35. New loans were taken to support the County Council's cash flows in order to make a prepayment of pension contribution, which will yield a substantial saving over 3 years of up to £4 million. Two annuity loans and one maturity loan was taken, all on 28 April 2017:

<b>Loan type</b>	<b>£m</b>	<b>Rate (%)</b>	<b>Maturity date:</b>
Maturity	14.692	0.57	28 <sup>th</sup> April 2018
Annuity	23.384	0.79	28 <sup>th</sup> April 2019
Annuity	24.607	1.29	28 <sup>th</sup> April 2020

36. Existing long-term debt plus the above resulted in the following maturity structure as at 30 September 2017 for debt totalling £420.1 million. This repayment profile meets the Council's Prudential Indicator for maturity structures.

<b>Within</b>	<b>£m</b>	<b>% of Total Debt</b>
1 year	102.429	24.4
1 – 2 years	22.995	5.5
2 – 5 years	27.681	6.6
5 – 10 years	61.717	14.7
10 years and over	205.277	48.8
<b>Total</b>	<b>420.099</b>	<b>100.0</b>

37. The average rate of longer-term debt at 30 September 2017 stood at 3.30%.

38. The short-term debt consists of local deposit loans repayable at seven days' notice, which totalled £0.328 million at 30 September 2017. This is unchanged compared with 31 March 2017.

## Lending

39. The Council has placed funds with the Bank of England's Debt Management Office, other local authorities, selected banks, Money Market and short bond funds. The temporary lending transactions for the first-half of 2017/18 of the Council's cash balances are summarised as follows:

	£m	£m
<b>Balance at 01/04/2017</b>		39
Investments made during the half-year (148)	393	
<b>Less</b>		
Investments recalled during the half-year (169)	(389)	4
<b>Balance at 30/09/2017</b>		43

40. The balance as at 30 September 2017 includes £3.0 million as part of its role in the West Midlands Regional Improvement and Efficiency Programme and £14.9 million invested on behalf of Hereford and Worcester Fire Authority.

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

42. The average rate earned on investments during the first-half of 2017/18 was 0.28% and the gross interest earned on investments totalled £0.108 million.

43. The Interim 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.

## **Public Health Impact Assessment**

44. A Public 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.

45. This report concerns reporting the financial forecast for the end of the current financial year, and requests new capital spending for supported living projects.

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

## **Contact Points**

### County Council Contact Pointes

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Email: [worcestershirehub@worcestershire.gov.uk](mailto:worcestershirehub@worcestershire.gov.uk)

### Specific Contact Points for this Report

Sue Alexander, Interim Chief Financial Officer, 01905 84**6942**,  
[salexander@worcestershire.gov.uk](mailto:salexander@worcestershire.gov.uk)

Stephanie Simcox, Head of Strategic Infrastructure Finance and Financial Recovery,  
01905 84**6342** [ssimcox@worcestershire.gov.uk](mailto:ssimcox@worcestershire.gov.uk)

Nick Alderman, Interim Finance Lead, 01905 84**5250**,  
[nalderman@worcestershire.gov.uk](mailto:nalderman@worcestershire.gov.uk)

Mark Sanders, Senior Finance Manager, 01905 84**6519**,  
[mssanders@worcestershire.gov.uk](mailto:mssanders@worcestershire.gov.uk)

### **Background Papers**

In the opinion of the proper officer (in this case the Interim Chief Financial Officer) there are no background papers relating to the subject matter of this report.