

Interim Chief Financial Officer's Statement on the Robustness of the Budget and the Adequacy of General Balances and Reserves

The Local Government Act 2003 requires the Chief Financial Officer to report on the adequacy of reserves and provisions, and the robustness of budget estimates, as part of the annual budget setting process.

Reserves

In considering the Medium Term Financial Plan (MTFP) the Interim Chief Financial Officer needs to consider the level of reserves for which it provides. This will, in part, be governed by known or likely commitments, and, in part, by the appetite for risk.

The County Council as at 31st March 2017 had £12 million held as general balances, and when compiling the MTFP has taken into account estimates of future expected changes for pay increases, including the national living wage for staff and suppliers.

In setting the level of reserves it is recommended that the following issues are taken into account:

- **The possibility of savings targets not being met.**
It is recommended that there is no provision in reserves for this, but if this approach is taken, it is recognised that any failure to deliver savings will have to be compensated for, potentially, by alternative service reductions
- **Possible delays in the delivery of savings.**
It is recognised that sometimes the delivery of savings are delayed for a variety of reasons. It may be possible to provide cover through withholding expenditure temporarily, from other budgets, although it remains that the savings still need to be delivered, albeit at a later stage.

During 2017/18 a risk review was completed on the existing planned savings targets, taking account of emerging economic and demand activity issues together with feedback from partners and service users as appropriate. The conclusion of this work was that £6.1 million of transformation activity will not be carried forward as originally anticipated and it is proposed that the Council's budget is increased accordingly. The total of reforms now included in the 2018/19 proposed budget is £31.6 million. However, this includes £15.4 million relating to accounting adjustments and alternative sources of funding, which are judged to be achievable. In addition, £9.7 million of reforms relate to existing reforms and £6.5 million of new proposals which have all been subject to review.

The County Council also plans to make use of the flexible use of capital receipts that was made available by Central Government to support the County Council's costs of change. This support will benefit financial planning and will be utilised over the course of the transformation programme.

In addition to the general balances, there are also earmarked reserves which are used by the County Council to mitigate some specific risks. Whilst many of these reserves have commitments against them or restrictions on their use due to their shared nature with partners, there remains an uncommitted element that could be reviewed in the event that the general balances were insufficient or needed to be protected.

After consideration of all the above, it is therefore concluded that holding £12 million in general balances to cover risk of organisational change continues to be robust and

adequate cover considering the amount of financial change, resources available and recent operational experience. This represents 3.7% of the net revenue budget.

Budget

In determining whether the budget is robust, consideration has been given to the budget planning process that has evolved over the current financial year. Budget planning has taken into account the current year's budget monitoring and review of customer demand and service volumes. Directors and Cabinet Members have worked to develop solutions to live within an agreed resource allocation based on an appropriate level for their services and Corporate Plan priorities.

The underlying issues, particularly in the demand led services, have been addressed as far as possible as part of the 2018/19 budget setting process. In addition to the financial risks associated with the savings programme, significant financial risks that face the County Council have been highlighted in the budget report and include the following:-

- **Central Government Funding.**

The MTFP reflects a best estimate of the reductions in Central Government support, mindful that whilst Revenue Support Grant is set to reduce to zero the County Council nevertheless will be expected to contribute towards national deficit recovery.

- **Demographic Growth and demand pressures**

A number of the County Council budgets continue to be demand led, for example where they are dependent on changes in the service users who are eligible for County Council Adult Social Care services or where activity is driven by residents' behaviours such as the costs of waste disposal. A judgement has been made to cater for the current forecasts in demographic growth and growth in the volumes of waste disposed of and its impact on service provision. These will be reviewed in the new financial year and any consideration will need to be given to vary the MTFP for any change in the impact demographic growth over and above that currently included in the MTFP.

- **Adult Services future cost pressures**

Adult Services plan to manage with the 2018/19 budget by maximising the use of the additional Improved Better Care Fund allocations. However the balancing of the Adult Services budget continues to be challenging each year due to a number of pressures that have been taken into consideration alongside delivering major transformational savings targets. The key challenges being faced are:-

- a. Demand and demographics are increasing in terms of numbers requiring social care and the complexity of care required with people living longer
- b. Workforce - particularly nursing and social care seeing recruitment challenges particularly for nursing care within care home providers
- c. Risk of cost pressures on contracts; the National Living Wage, Sleep in payments etc.
- d. Continued discussions with the NHS over responsibility for funding expenditure around Continuing Health Care and Section 117 placements, etc.
- e. An increase in the number of "Self-funder pick-ups" due to individuals living longer and their income being insufficient to pay for their own care needs

- **Safeguarding Improvement Plan and Financial Recovery Plan – Children's Services**

As identified within the December 2017 Cabinet report, a further £10.5 million has been allocated to support the growing number of looked after children and the increased complexity of need within the care system. This is a national issue affecting a significant number of councils and a recent survey with West Midlands Authorities has identified that 8 of the 9 responders have similar issues. Most, like Worcestershire, are citing increasing numbers of children looked after and an increase in complexity of need and placement breakdowns.

Although work is underway to ensure improvements in the service enable both better outcomes for children and where possible for those outcomes to be provided through the best value for money solution, there remains a risk associated with such a demand related service. This will be regularly monitored and reviewed and mitigation actions taken where required.

- **Alternative Delivery Model for Children's Services**

As reported to Cabinet in December 2017, the County Council is looking at alternative ways of delivering Children's Social Care through an Alternative Delivery Model (ADM) which will be either via a strategic partnership with another local authority or through a wholly owned company. The business case for these options will be reported to the Cabinet meeting in March 2018. The transition to, and operation of, the new model of delivery may mean that there are additional costs associated with the new organisation. Although the Department for Education may financially support local authorities to transition into the new model, it is unlikely that the full costs of transition will be met and the ongoing costs of operational activity will need to be funded wholly by the County Council.

As such, the County Council will need to make provision for any additional costs which are required in order to fulfil the statutory obligations contained within the direction issued to Worcestershire County Council to implement an ADM. Transition costs will include programme management and optional appraisal work, stakeholder engagement, as well as commercial, legal, HR, finance and scrutiny support.

Ongoing costs of operation will vary dependent on the model chosen but could include costs of setting up and running a board, commissioning and commercial support, ICT costs for different systems as well as funding any potential pensions, VAT and tax implications.

- **Inflation**

The MTFP includes a pay increase for staff as well as forecast rates of inflation for services where the additional cost is unavoidable. Views on inflation, including the impact of National Living Wage increases and other factors that affect the County Council's budgets will be kept under constant review and the MTFP will be updated accordingly.

- **The current Business Rates Retention Scheme**

A 50% share of risk of negative changes in existing business rates has now been transferred to local authorities. Central Government provides a financial safety net for reductions of more than 7.5% from a baseline calculation. Growth in business rates within Worcestershire, which is significantly influenced by the

economic development policies of the County and District Councils, can now benefit local authorities directly. Under current arrangements local authorities can keep 50% of their business rates growth locally. The impact of future growth plans is kept under constant review and updated to the MTFP accordingly.

- **Reform to the Business Rates Retention Scheme**

Central Government is currently considering its plans for the 75% devolution of Business Rates income to local Councils. Whilst good news for the sector, there is a potential for risk in the system as the County Council alongside its District Council partners will be taking more risk on the success of appeals and challenges. In addition, Central Government has indicated that it will be considering new services that will be devolved Councils to support the 'new' funding that will be made available. A key risk is that these new services will not be adequately funded at the point of transfer under Central Government's New Burden's initiative. The County Council will continue with the Society of County Treasurers to ensure any new responsibilities are fully funded.

This review has been completed recognising all the financial risks identified in the February 2018 Cabinet Budget Report. Taking all this into account, the Interim Chief Financial Officer considers that the 2018/19 budget proposed is overall robust and that the adequacy of the proposed general balances can reasonably be assumed to be sufficient.

Sue Alexander
Interim Chief Financial Officer
February 2018