

# **CABINET**

## **14 JUNE 2018**

### **RESOURCES REPORT**

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**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 financial performance for the year ending 31 March 2018 and the unaudited Annual Financial Report and Statement of Accounts 2017/18;**
  - (b) **Approves updates to earmarked reserves and general balances as detailed in paragraphs 44 to 48; and**
  - (c) **Considers the draft Annual Governance Statement for 2017/18 for comment before final approval is sought from the Audit and Governance Committee in July 2018.**

**Introduction**

2. This report outlines the provisional financial results for the year ending 31 March 2018 subject to external audit. It concludes that the County Council balanced its £324 million budget for 2017/18, and returned a small surplus of £0.188 million to be added to General Balances which total £12.2 million at the year end.
3. Financial performance for the County Council's Capital Budget and the Worcestershire County Council Pension Fund is also reported.

**Provisional Financial Results for the year ending 31 March 2018**

4. The work to finalise the management accounts has been completed on time and the draft statutory accounts have been published on the Council's website open for public inspection as planned and part of the usual final accounts process. The County Council's External Auditors are on site and have begun the main part of their independent verification work which is scheduled to conclude in time for approval by the July meeting of the Audit and Governance Committee.
5. The County Council's £323.7 million budget faced a number of cost pressures during 2017/18 which totalled a net £5.9 million at the end of the financial year, a reduction of £0.4 million since Month 11.
6. These costs pressures have been mitigated in the main through reduced borrowing and pension costs, and capitalising highways expenditure.

7. The final outturn position is a surplus of £0.188 million as follows:

Table 1: Summary Financial Results 2017/18

Directorate	Budget £m	Actual £m	Variance £m
Adult Services	130.4	132.3	1.9
Public Health	0.1	0.0	(0.1)
Children, Families and Communities	82.5	90.8	8.3
Economy & Infrastructure	66.7	62.7	(4.0)
Commercial and Change / Finance	44.0	37.7	(6.3)
<b>Total</b>	<b>323.7</b>	<b>323.5</b>	<b>(0.2)</b>

#### **Children, Families and Communities**

8. The overall directorate overspend at the end of the financial year was £8.3 million. The service has faced significant cost pressures during the year of £7.6 million relating to an increased number and complexity of Placements and Provision costs, £0.6 million relating to safeguarding services as agency staff cover vacancies, and £0.4 million on education and skills services relating to short breaks transport costs, vacant building costs and a temporary delay in achieving reductions in contract expenditure.
9. This outturn position is as expected and consistent with the medium term financial plan where the budget for 2018/19 has been strengthened by £10.5 million to support the growing number of looked after children and the increased complexity of need within the care system.
10. The £210 million Dedicated Schools Grant budget for last financial year faced £3.4 million additional cost pressures relating to the High Needs Block. In total £3.6 million was withdrawn from DSG reserves for the year leaving £5.2 million to be carried forward for 2018/19.

#### **Adult Services**

11. The Adult Services Directorate outturn for the last finance year was a net overspend of £1.9 million. During the year Older People services faced cost pressures of £2.1 million residential and nursing placements, and £1.9 million relating to home care due to increasing demand for services and increasing complexity of care.
12. Learning Disability Services faced cost pressure of £2.5 million due to maintaining high cost packages and picking up increases in Continuing Healthcare Packages and support living placements.
13. There were further pressures of £0.7 million for Physical Disability services, £0.4 million Mental Health services and £0.9 million Deprivation of Liberty Standards pressure.
14. The Directorate mitigated all except £1.9 million of these costs by utilising Improved

Better Care Fund monies and withdrawing monies from their Earmarked Reserves.

15. Looking forward, whilst the 2018/19 budget has been increased to support demographic and inflation increases, careful consideration will need to be made in the light of emerging cost pressures, the extent of funding available to the service and how joint initiatives with Health will be managed.

### **Public Health**

16. The Public Health Service manages a c.£30 million specific grant and a core County Council budget of £0.1 million.
17. At the end of the financial year the service achieved a small underspend of £0.1 million which contributed to costs pressures elsewhere across the County Council.

### **Economy and Infrastructure**

18. The service underspent its £67 million budget by £4 million last financial year as a result of capitalising £5 million of highways expenditure.
19. The underlying position is therefore a £1 million cost pressure, arising mainly as a result of additional winter maintenance costs.
20. Further cost pressures around Waste Disposal of £0.4 million, Road Maintenance £0.4 million and a shortfall on Scientific Services income of £0.5 million have been mitigated by withdrawing from earmarked reserves.

### **Commercial and Change / Finance**

21. The overall outturn position for these service was an underspend of £6.3 million following a managed process and accounting adjustments to support cost pressures arising across the County Council.
22. There were cost pressures of £0.7 million on IT equipment due to additional equipment need and preparation for in-sourcing costs to deliver savings in 2018/19.
23. During the year, Financial Services achieved a £3.8 million surplus following active treasury management activity and deferring the need to take external borrowing, and a reduction of £2.1 million pension costs due in the main to early payment of contributions attracting a discount from the Pension Fund's Actuary.
24. A further accounting adjustment was made to release £1.5 million of capital funding from Council Tax Surplus to be replaced by external borrowing with no change to the underlying capital expenditure programme.
25. The savings and transformation reforms target for 2017/18 was £27.9 million. The majority of this has been delivered, although £5.9 million will be carried forward to 2018/19 to reflect activities that are forecast to be delivered at a later stage.
26. Taking all this into account, the County Council's year-end position is a £0.188 million surplus at the end of the 2017/18 financial year. Overall this outturn means that reserves are in line with expectations with General Balances retained at £12.2 million.
27. The main highlights for the year are reported in the unaudited Annual Financial Report and Statement of Accounts 2017/18 which is included at Appendix 1.
28. Further details of variations for each Directorate are included in Appendices 2 and 3.
29. 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 for approval later in the year.

## **Performance**

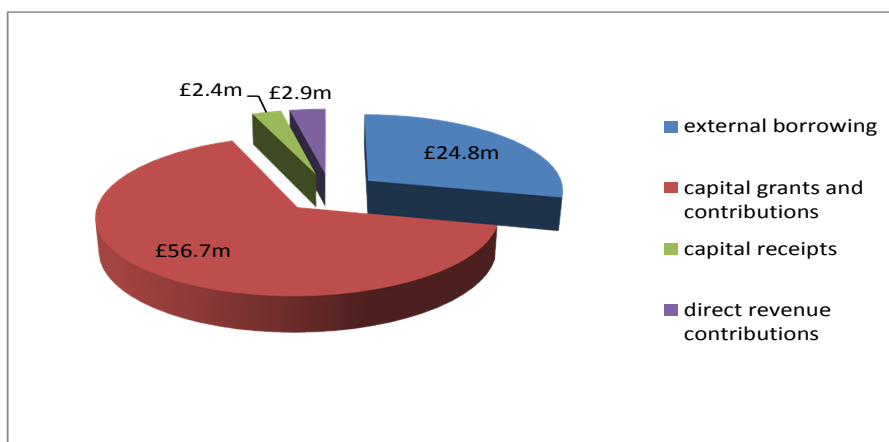
30. The County Council has again seen a successful year delivering not only its budget but improvements in performance. Highlights of the year include:
- 76% of working age adults in employment and a reduction in 16-24 year olds claiming job seekers allowance.
  - 94% of homes and more than 90% of businesses are now receiving Superfast speeds.
  - Improvements in the condition of principal and non-principal roads.
  - 3% of residents aged 65 or over receive a social care service, reflecting our aim to help older people to maintain their independence and live high quality lives.
  - 91% of people say that their social care services make them feel safe and secure.
  - 90% of our schools are judged as good or outstanding in their most recent Ofsted inspection.
  - More children were visited and supported by Health Visitors in the first years of their lives than the national average.
31. Looking forward, 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.

## **Annual Governance Statement**

32. The County Council is required, as part of its annual review of the effectiveness of its governance arrangements, to produce an Annual Governance Statement (AGS) for 2017/18. This will be signed by the Leader of the Council and the Chief Executive with final approval by the Audit and Governance Committee in July 2018. The AGS is part of the Statement of Accounts and included from page 29 of Appendix 1.
33. The AGS is drafted by senior officers who have lead roles in corporate governance. The evidence for the AGS comes from a variety of sources, including service plans, relevant lead officers with the Council, internal and external auditors and inspection agencies.
34. The current draft AGS will be revised in the light of any observations of Cabinet, the Audit and Governance committee and external audit.
35. Cabinet are asked at this stage to consider the AGS and make any comments.

## Capital Investment

36. The County Council spent £86.8 million on Capital Expenditure in 2017/18 which included £16.6 million spent on school projects, £65.0 million on local transport infrastructure and £5.2 million on other County Council services.
37. The sources of capital financing were:



38. The County Council's 2017/18 programme saw investment to deliver a wide range of capital works, including:
- £5.2 million Worcestershire Parkway
  - £7.2 million Worcester A4440 Southern Link Road Phase 3 and Phase 4
  - £2.5 million Malvern Hills Science Park Phase 5
  - £3.6 million Driving Home Programme
  - £1.5 million Footpaths and Pavements
  - £4.0 million Improvements in superfast broadband with now 94% of the County able to receive this.
  - £18.9 million Structural highways and bridge maintenance
  - £0.7 million Early investment in A38 Bromsgrove improvements
  - £3.2 million Highway flood mitigation measures including Worcester New Road and Upton on Severn
  - £2.4 million Town Centre Improvements – Kidderminster, Droitwich, Redditch and 2018/19 will see further investment in Worcester City
39. In addition, the County Council, working with the Local Enterprise Partnership (LEP), has secured £4.8 million to be one of the country's first pilot areas for the next generation of mobile technology, 5G.

## Pension Fund Update

40. For 2017/18 the Worcestershire County Council Pension Fund had an operating surplus of £114.8 million, an increase of £80.3 million from the surplus of £34.5 million for 2016/17. This was mainly due to a number of employer bodies paying early their 3 years contributions up to the next valuation in 2019 to the value of £71.2 million.
41. The Fund's net assets have increased by £220.1 million from £2,480.9 million at 31 March 2017 to £2,701.0 million at 31 March 2018.
42. The Pension Fund's Actuary has calculated that the Council's liabilities exceed its

share of the assets by £360 million at 31 March 2018.

43. 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.

## Reserves

### Insurance Reserve

44. The insurance reserve is held to meet the cost of claims.
45. The adequacy of the 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 £8.1 million at 31 March 2018.

### Proposed Earmarked Reserves and General Balances

#### Earmarked Reserves

46. A schedule setting out the proposed earmarked reserves at 31 March 2018 is detailed in Appendix 4.
47. 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 also carry forward reserves to cater for risk and uncertainty despite the value of these reserves falling marginally over 2017/18.

#### General Balances

48. The effect on general balances following the financial outturn for the 2017/18 financial year is as follows:

	<b>£m</b>
<b>Balance at 31 March 2017</b>	<b>12.0</b>
<b>Transfer to General Balances</b>	<b>0.2</b>
<b>Balance at 31 March 2018</b>	<b><u>12.2</u></b>

## Health Impact Assessment

49. 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.
50. This report is mainly about confirming the financial position at the end of the financial year reflecting existing Cabinet decisions and policies.
51. 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** Unaudited Annual Financial Report and Statement of Accounts 2017/18
- **Appendix 2** Summary Financial Results 2017/18
- **Appendix 3** Directorate Variations 2017/18 >£500k
- **Appendix 4** Proposed Earmarked Reserves

## **Contact Points**

### County Council Contact Pointes

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### Specific Contact Points for this Report

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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