

**CABINET**  
**19 MAY 2016****RESOURCES REPORT**

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**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 financial performance for the year ending 31 March 2016 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 36 to 40;**
  - (c) **notes the current progress and successes regarding the FutureFit programme;**
  - (d) **recommends that Council approves:**
    - (i) **an increase of £0.9 million for the Pothole Action Fund and £0.8 million for Highways Maintenance schemes following receipt of increased capital grant income; and**
    - (ii) **an increase of £0.7 million school improvements funded by Section 106 funding receipts;****as detailed in paragraphs 42 to 44, and that the Capital Programme cash limits are updated accordingly;**
  - (e) **recommends that Council approves, subject to the satisfactory receipt of future expected Section 106 funding, an increase of £0.7 million for school improvements as detailed in paragraph 45, and that the Capital Programme cash limits are updated accordingly;**
  - (f) **endorses the progress made on the Public Health Ring-fenced Grant set out in the report; and**
  - (g) **notes the report on borrowing and lending transactions during 2015/16 detailed in paragraphs 54 to 55 and Appendix 4.**

**Introduction**

2. This report outlines the provisional financial results for the year ending 31 March 2016 subject to external audit. It concludes that the provisional financial outturn is to break even compared with the Council's budget of £326 million.
3. General Balances at the end of the 2015/16 financial year will remain unchanged at

£13 million, which is consistent with the Medium Term Financial Plan (MTFP) approved by Full Council in February 2016.

4. Financial performance for the Council's Capital Budget, Treasury Management activities and the Worcestershire County Council Pension Fund is also reported.
5. Following increases in capital grants and Section 106 receipts, new capital investments are being recommended for Council approval.
6. Cabinet is asked to approve the financial results for 2015/16 in order that the annual statutory accounts can be prepared.

### **Provisional Financial Results for the year ending 31 March 2016**

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 Council has successfully managed a significant financial challenge for 2015/16 by delivering £27.5 million of savings whilst at the same time managing additional cost pressures with the most significant being £5.7 million Children's Social Care Placements. The local forecast demand pressure within services for Looked after Children is consistent with that facing a number of other local authorities nationally.
9. The demand for Children's Social Care Placements and the financial impact of them has been reflected in the Council's approved MTFP and is subject to robust management to ensure costs are contained whilst all appropriate safeguarding measures are in place.
10. The cost pressures in 2015/16 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.
11. Income from Business Rates totalled £58.2 million for the year, which is £0.8 million less than the budget. This reduction in income from what was expected largely arises from reduced collection rates across District Councils and the impact of business rates appeals. The County Council prudently maintains a Business Rates Risk Reserve to cover the risk of temporary reductions in business rates income and will be withdrawing from this reserve to cover the shortfall for 2015/16.
12. The County Council continues to work alongside District Councils to understand the impact of potential future appeals and their impact on forecast income levels that are currently reflected in the MTFP approved in February 2016.
13. The main features of the County Council's outturn financial performance for 2015/16, 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. There have been significant areas of cost pressure which have been managed during the year, the most significant of which relates to a £5.7 million pressure in Children's Social Care Placements
  - The 2015/16 FutureFit savings target of £27.5 million has been delivered. Where this has been achieved by using one-off alternative funding to support project savings, these will be carried forward to 2016/17 for delivery. It is getting increasingly difficult to achieve savings year on year and projects such as commissioning, particularly in adult social care, and the provision of transport arrangements for service users needing a high level of robust change management to deliver outcomes. Consistent with the MTFP approved by

Council in February 2016 the level of general balances can be maintained at £13 million.

14. Given the challenges faced by the County Council in 2015/16, it should be remembered that the County Council continues to spend over £300 million in terms of its net revenue budget on vital services for residents. Once taken together with specific grants and income that rises to over £500 million.
15. These financial resources help us, and those who deliver services for us to deliver key outcomes including:
  - Shaping the economy and environment to drive prosperity through increasing Gross Value Added (GVA) to £11.9 billion, and supporting our progress towards the creation of an additional 25,000 jobs by 2025
  - Enabling our growing population of frail elderly residents to live independently (Worcestershire's population of over 85 year olds is 2.8% compared to an average across England of 2.3%)
  - Working with families to develop and embed a whole-system response in overcoming challenges that prevent and/or delay positive outcomes for children, families and vulnerable individuals - including turning around the lives of 3,200 families as part of our contribution to the national Troubled Families programme
  - Making decisions about how best to safeguard children with the aim of reducing our 700+ Looked After Children by providing support at the lowest level of intervention to meet their needs
  - Supporting nearly 2,500 residents with disabilities to live independently where possible
  - Developing proposals about how best to improve the infrastructure around our county – we are now spending more in this area than at any time over the last three decades
  - Managing our contracts, worth over £270 million annually, to ensure we get maximum value
  - Working with partners around the county, regionally and nationally to ensure we are making best use of the Worcestershire pound; with more than £3 billion spent across the public sector in Worcestershire.
16. Whilst this represents excellent opportunity to continue to improve outcomes for local residents, the County Council is currently considering how it plans to address the financial challenges presented to it by Central Government's most recent Local Government Financial Settlement. This requires the County Council to continue to develop and refine plans to mitigate reductions in income from Central Government and cost pressures from for example increases in the services that we buy together with the increasing demand for our services. Over the period 2017/18 to 2019/20, currently the requirement is to develop and refine plans to the value of £80 million.
17. It is the intention to take account of these requirements in our corporate planning cycle through the remainder of 2016. 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.

### **FutureFit Programme Update**

18. 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.

19. The County Council has an ongoing savings requirement of around £25 million per year, which it is anticipated will increase to £34 million in 2017/18 as set out in the February 2016 report to Cabinet. This reflects the profile of reductions in funding from Central Government over the next few years that are front loaded, particularly for County Councils.
20. It is likely that the increased financial challenge for 2017/18 arising from the revised profile of Central Government funding reductions means the County Council needs additional flexibility to support this change. As a consequence of this, full Council on 12 May 2016 is being asked to relax the 2% limit that Directorates have to carry forward funds from one year to the next. This relaxation would last for two years covering 2016/17 and 2017/18 whilst this additional challenge is in effect.
21. The County Council has continued to meet the increased financial challenge whilst at the same time achieving service improvements. Highlights over the year from across the programme include:-
  - The Connecting Families Redditch early adopter programme went live at the beginning of January 2016 with a dedicated staff group working on the Redditch model undertaking thorough multi-agency case reviews. It is the intention that this work will be rolled out across Worcestershire over the next year to deliver a whole system response in overcoming challenges that prevent and/or delay positive outcomes for children, families and vulnerable individuals
  - Nearly 55,000 premises are now able to access faster fibre broadband as a result of the Superfast Worcestershire Broadband programme with the overall fibre coverage now at 93%
  - A new contract for the provision and transformation of Transactional HR and Finance services was put in place with the contract delivering £2.2 million savings over its term.
22. Since 2011/12, the County Council has delivered savings of around £120 million.
23. There are existing plans (subject to detailed consultation where appropriate) to deliver nearly £50 million of savings, with £24.8 million savings in 2016/17, £13.4 million in 2017/18 and a further £9.5 million over 2018/19 and 2019/20. 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.
24. Based on the MTFP approved in February 2016, there still remains a need to establish further savings to balance the budget of £57 million over the period to 2019/20. 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 during Autumn 2016.
25. Clear and consistent messages are also being communicated around FutureFit to local people, for example, through the local media and also communications to staff through regular newsletters, intranet news items and email. In addition to this, FutureFit staff briefings are planned each month to communicate the key aspirations of the Corporate Plan – FutureFit and the future direction of travel for the organisation.

## **Capital Investment**

26. The County Council spent £141.7 million on Capital Expenditure in 2015/16 which included £20.9 million spent on school projects, £55.3 million on local transport infrastructure, £54.5 million Energy from Waste Loan Facility and £11 million on other County Council services.
27. The major sources of capital financing were external borrowing £76.0 million, capital grants and contributions £55.8 million, capital receipts £3.7 million and direct revenue contributions £6.2 million.
28. Significant capital investments have been delivered on the following projects in 2015/16:

### **Open for Business**

- £6.4 million – Superfast Broadband
- £7.9 million – Hoobrook Link Road
- £4.6 million – Worcester Six Technology Park
- £2.0 million – Bromsgrove Rail Station relocation
- £1.5 million – Worcestershire Parkway

### **Children and Families**

- £3.1 million – Stourport Burlish Park School
- £1.4 million - Evesham Bengeworth First

### **The Environment**

- £17.0 million – Highways Structural Maintenance
- £4.0 million - Worcester Transport Strategy
- £2.8 million – Worcester Southern Link Road

### **Health and Wellbeing**

- £0.4 million – Increasing capacity at Timberdine Nursing and Rehabilitation Unit, Worcester

## **Pension Fund Update**

29. For 2015/16 the Worcestershire County Council Pension Fund had an operating surplus of £38.6 million compared to a deficit of £11.2 million for 2014/15. The deficit in 2014/15 was due to a £52.3 million group transfer out of the Probation Service to the Greater Manchester Pension Fund.
30. The Worcestershire County Council Pension Fund's net assets have decreased by £36.1 million to £1.951 billion at the end of 2015/16.
31. The Pension Fund's Actuary has calculated that the Council's liabilities exceed its share of the assets by £380 million at 31 March 2016.
32. 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 2013 to ensure assets and liabilities are balanced over a 21 year period.
33. 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 on 21 July 2016.

## **Insurance**

34. 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
  - The cost of claims that have to be met under the self-insured property damage scheme for schools.
35. 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 £7.3 million at 31 March 2016.

## **Proposed Earmarked Reserves, New Investments and General Balances**

36. A schedule setting out the proposed earmarked reserves at 31 March 2016 is detailed in Appendix 3.
37. 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 2015/16.
38. The overall reduction in reserves in 2015/16 reflects planning assumptions to support increases and changes in demand for services ahead of revenue streams coming online in 2016/17 or in support of transformation projects to deliver better outcomes and value for money within the future resources that the County Council has available.
39. Several reviews of the adequacy of reserves has been undertaken during 2015/16 and incorporated in the provisional financial outturn of breakeven it is recommended to make the following additions to specific earmarked reserves in light of known future commitments and risks:
- **£0.5 million Business Rates Pool Risk Reserve.**  
Following a review of the potential impact of future one off reductions in income, primarily as a result of potential successful business rates appeals, it is judged prudent to set aside funds to cover any further reductions in funding in order to protect and avoid any immediate financial impact on the County Council's front line services
  - **£0.2 million Finance General Ledger and HR system replacement.**  
Funding set aside to support project implementation costs as the County Council moves to a new lower cost system that will improve the organisational support to front line managers
  - **£0.5 million FutureFit Transformation Spend to Save Initiatives.**  
In light of the Local Government Finance Settlement confirmed in February 2016 which set out a substantial increased financial challenge for 2017/18 arising from the pace of Central Government reductions, it is prudent to set aside funding to

support the potential costs of change and programmes of work that are currently in development

- **£0.5 million General Redundancy Reserve.** This represents a technical adjustment to the County Council's accounts in light of accounting guidance around the prudent set aside for potential future costs of change. There is a need to increase the set aside in reserves for the potential future costs of redundancy, some of which were previously set aside as a provision in the County Council's balance sheet to support the future costs of change over the MTFP.

### **General Balances**

40. The effect on general balances following the financial outturn for the 2015/16 financial year is as follows:

	<b>£m</b>
<b>Balance at 31 March 2015</b>	<b>13.0</b>
<b>Transfers to / from (-) during 2015/16</b>	<b>0.0</b>
<b>Balance at 31 March 2016</b>	<b>13.0</b>

### **Additions to the Capital Programme**

41. The Council has received notification of capitals grants and Section 106 income, and Cabinet is asked to recommend that Council approves the following additions to the Capital Programme.

#### **Grants**

42. The County Council has received confirmation of two additional amounts of capital grant funding from the Department for Transport:

- **£0.9 million Pothole Action Fund.**

This is new money to be spent over and above our existing planned highway maintenance expenditure and will be targeted to permanently fix potholes on the roads or to stopping them from forming in the first place

- **£0.8 million Highways Maintenance Incentive Element.**

This is an increase to the existing approved Local Transport Capital Block Integrated Transport and Highway Maintenance Funding of £16.2 million.

#### **Section 106 Funding - Received**

43. The Council has been allocated Section 106 funding from planning notifications in relation to housing developments across parts of the County.
44. The following capital schemes listed below have been identified by schools as their priorities to address basic need issues at their schools and meet the relevant funding criteria for Section 106 funding:

- **£0.5 million – Lickey Hills Primary School.**

The Section 106 agreement is specific in that the replacement of the temporary building on this school site was to be addressed. The school proposed to achieve this by relocating the library contained therein into the main school, create additional pupil toilet facilities, create a dedicated wet room & changing area for its Early Years Foundation Stage, and provide two small group teaching spaces

- **£0.2 million – Stourport High School.**

This Academy has advised that it has recently been awarded Condition Improvement Fund (CIF) funding towards its plans to demolish and rebuild a new

purpose built Sixth Form Centre. The total cost is estimated at £3.4 million and will provide better long-term sixth form provision in the Stourport catchment area.

### **Section 106 Funding - Proposed**

45. The following capital schemes have also been proposed by schools however are subject to the future receipt of Section 106 funding when construction of housing proceeds.
- **£0.3 million – Great Witley CE Primary School.**  
This recently converted Academy has highlighted several issues with existing accommodation that include extending an undersized classroom, creating a small group teaching space and creating a new library
  - **£0.4 million – Swan Lane First School.**  
The phased proposal is to provide a fully functional production kitchen that will provide hot meals for the students, create a small group teaching space, and provision of a 40 space Nursery. The total project cost is estimated at approximately £0.7 million with the school looking to fund the balance from other sources.
46. Cabinet is asked to recommend that Council approves these additions to the Capital Programme subject to satisfactory receipt of the associated Section 106 funding.

### **Public Health Ring-fenced Grant**

47. The County Council's Public Health grant allocation (PHRFG) in 2015/16 was £28 million and during 2015/16 this grant was subject to in year reductions of 6.2%.
48. Initial proposals for savings and reinvestment were approved by Cabinet in July 2015, with a request that the Director of Adult Services and Health initiate discussions with partners and providers of services. In November 2015 the Cabinet Member with Responsibility for Health and Well-Being approved the final proposals for savings to the Public Health Ring Fenced grant. At the time it was noted that decisions had been taken relating to the financial year 2016/17 and future years in advance of the official notification of grant levels. It was acknowledged that should the reduction in the PHRFG not be as great as expected there would be an opportunity for review and reinvestment.
49. The County Council has now received final allocation of PHRFG for 2016/17 and indicative allocation for 2017/18 as follows:
- **2016/17 £30.7 million**  
This was in effect an overall reduction against the 2015/16 figure which only included a 6 month impact of new responsibilities regarding public health nursing services for children and young people
  - **2017/18 £29.9 million**  
Representing a reduction of £0.8 million from 2016/17.
50. The reductions indicated in the above allocations have not been as significant as was initially expected, predicated on announcements for other areas of Central Government spend. This has enabled the County Council to review those services which in November 2015 were recommended by the Cabinet Member to be maintained until October 2016 and then considered again. This work has now been completed and with the following amendments:



### **Child Development Services/Primary Care Mental Health**

51. The Cabinet Member decision in November 2015 confirmed that the County Council would maintain funding for these services until October 2016 as a minimum and consider whether it could maintain funding until the end of 2016/17. It is recommended that funding continues for both these areas for the years 2016/17 and 2017/18.
52. This has been discussed carefully with health partners and it has been agreed that a joint service review and re-design for Child Development Centres and children with disabilities will now take place. With regards to primary care mental health, a new pathway is now in place and this longer period of funding will allow for transition to the new service and some review of impact. In both areas, funding will cease in April 2018.
53. There has also been a clear signal that the specific grant will be replaced as we move to a model based on retained business rates. Central Government have yet to publish any detail of how this change will work, this would be subject to full consultation and this is expected later in 2016/17.

### **Borrowing and Lending Transactions 2015/16**

54. 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.
55. The key highlights of this report are:
  - The Council's treasury activities were managed successfully within the approved Prudential Indicator limits
  - Base Rate has remained stable at 0.5% during 2015/16
  - 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
  - £6.5 million of existing loans have been repaid during the year
  - New loans of £84.5 million have been taken out during 2015/16. This was planned activity and of this £54.5 million was raised to support the approved Energy from Waste scheme, and £30 million to support the approved Capital Programme, and
  - Total debt outstanding is within plan and stands at £334.7 million at 31 March 2016, at an average rate of 3.95% (4.29% for 2014/15).

### **Health Impact Assessment**

56. 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.
57. This report is mainly about confirming the financial position from previous Cabinet decisions, and requests new capital spending for highways and school building improvements.
58. 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** Operating Activity – Summary Financial Results 2015/16
- **Appendix 2** Directorate Variations - Operating Activity 2015/16
- **Appendix 3** Proposed Earmarked Reserves
- **Appendix 4** Borrowing and Lending Transactions 2015/16

## 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
- Public Health Impact Assessment