

CABINET
27 SEPTEMBER 2018**RESOURCES REPORT**

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 revenue budget monitoring up to 31 July 2018;**
 - (b) **notes the current progress regarding savings plans approved by Council in February 2018;**
 - (c) **notes the additional management savings measures outlined in Appendix 9 to address the forecast position;**
 - (d) **notes that the Schools Forum is considering actions to recover the overspend position on the Dedicated Schools Grant (DSG) High Needs Block and recommends that Cabinet considers their responses in December, noting the financial position of the Council to Schools Forum;**
 - (e) **approves the budget virement amendments to the Capital Programme from the Capital Contingency for land purchase and works at Malvern Hills Science Park of £2.1 million, noting financial contributions from the Worcestershire Local Enterprise Partnership and Malvern Hills District Council to this scheme;**
 - (f) **recommends that Council approves the updated Capital Programme at Appendix 7, including the capitalisation of items under the additional saving proposals totalling £2.250 million, as set out at Appendix 9; and**
 - (g) **notes the report on borrowing and lending transactions during 2017/18 detailed in paragraphs 75 to 76 and Appendix 8.**

Introduction

2. This report details the 2018/19 outturn forecast for the Council's £324 million net revenue budget as at Month 4 (31 July 2018) and progress to date on the savings and reforms programme.

3. The Council continues to deliver statutory services and deliver against its Corporate Plan. However, the report identifies a forecast overspend of £14.234 million if no management action were to be taken. Management have been working to address this and as such a number of additional proposals have been brought forward to address the potential position, reducing the forecast overspend to £5.215 million (this time last year the 2017/18 Period 4 report to Cabinet reported a £7.5 million forecast position after management actions). The majority of management actions are tightening of controls and good housekeeping, and there will need to remain a further focus to return a balanced budget for 2018/19. This report identifies those management actions.

4. A recommendation is being made for Cabinet to approve revisions and updates to the Capital Programme, including an allocation to support land purchase and works at Malvern Hills Science Park. The report also provides details of the 2017/18 treasury management activity.

5. The report also details an update on a second bid for a Business Rates Retention pilot with Districts being submitted to MHCLG by 25 September 2018.

Summary Revenue Budget Monitoring 2018/19 Forecast at Month 4 (31 July 2018)

6. The County Council's net budget of £324 million was set by Full Council in February 2018.

7. This report covers the forecast financial position for 2018/19 to the end of Month 4 (31 July 2018).

8. The overall outturn forecast, as set out in Table 1, at Month 4 is for a net overspend, before management actions, of £14.2 million at the end of 2018/19. This includes a £17.9 million forecast overspend on services. The majority of the services forecast overspend arises on Adult Services which totals £15.2 million, £8.3 million of which is as a result of savings targets not being considered achievable this year. The causes of these forecast variations are summarised in the following section at paragraphs 19 to 43, and variances by individual service area greater than £0.250 million are set out in more detail in Appendix 2.

9. Part of the projected overspend relates to non-delivery of 2018/19 saving targets set by Council in February 2018. To date it is forecast that 62.3% (£23.299 million) will be delivered, with a further 6.6% (£2.471 million) classed as amber, and thus 31.1% (£11.662 million) as red. More detail is set out in the following sections and in detail as paragraphs 44 to 49, with details also set out of the RAG status for each proposal at Appendices 5 and 6.

10. The service forecast (£17.9 million) can be partly offset by a £3.7 million underspend for finance/corporate items, this is projected based on:

- A one off saving of £3.1 million on Financing Transactions from deferring the need to take planned external borrowing
- A one off saving of £0.625 million by withholding expenditure from the £0.750 million corporate contingency.

Table 1: Summary Outturn Forecast, Before Management Action, as at Month 4 2018/19

P4 - 2018/19 SLT Revenue Budget Monitoring Forecast by Service					a	b	c	d	a+b+c+d = e	
Service	2018/19 Net Budget	Gross Forecast	Less Budgeted Grants	Less Budgeted Reserve Mvts	Variance Before One-Off's	Less - Capitalisation	Less - Use of Grants	Transfer to / (from) Reserves	Variance After Adjustments	Variance After Adjs
	£000	£000	£000	£000	£000	£000	£000	£000	£000	%
Dedicated Schools Grant (DSG)	0	6,802	0	0	6,802	0	0	(6,802)	0	-
CFC (Excl DSG)	96,361	114,705	(15,071)	(1,623)	1,650	0	0	0	1,650	1.7%
E&I	63,544	75,606	(6,102)	(5,476)	484	0	0	0	484	0.8%
COACH	8,047	9,043	(189)	(188)	619	0	0	0	619	7.7%
Chief Executive	532	533	0	0	1	0	0	0	1	0.2%
DAS	125,396	176,302	(33,394)	0	17,512	(834)	(1,490)	0	15,188	12.1%
Public Health	(831)	27,574	(28,437)	0	(32)	0	0	0	(32)	3.9%
Total : Services (Excl DSG)	293,049	403,763	(83,193)	(7,287)	20,234	(834)	(1,490)	0	17,910	6.1%
Finance / Corporate Items	31,143	22,755	(2,636)	0	(11,024)	(155)	0	7,503	(3,676)	-11.8%
Funding - Transfer From Reserves	0	0	0	0	0	0	0	0	0	-
Total (Excl DSG)	324,192	426,518	(85,829)	(7,287)	9,210	(989)	(1,490)	7,503	14,234	4.4%
Total - Funding	(324,192)	(324,192)	0	0	0	0	0	0	0	0.0%
Grand Total - Services and Funding (Excl DSG)	0	102,326	(85,829)	(7,287)	9,210	(989)	(1,490)	7,503	14,234	
Dedicated Schools Grant (DSG)	0	6,802	0	0	6,802	0	0	(6,802)	0	
Total	0	109,128	(85,829)	(7,287)	16,012	(989)	(1,490)	701	14,234	4.4%

11. Further proposals to reduce this further are set out then in following paragraphs.

12. A range of alternative actions and savings have been, and continue to be, implemented to offset the overspend as follows:

- Review specific grant income to maximise where this money can be used to fund existing base budget expenditure whilst remaining within the grant conditions
- Review Better Care Fund and Improved Better Care Fund agreements and allocations between the County Council and Health
- Stop, or defer for a period, discretionary expenditure / projects; including tightening controls over spending such as removal of procurement cards and reducing the number of staff who are approved to commit monies.
- Increase Fees and Charges mid-year where we can
- Implement a vacancy management process to delay recruitment whilst we review non-critical or change dependent areas or other staffing measures. This will seek where appropriate to remove vacant posts permanently to give rise to recurring savings.

13. In summary, senior leadership has identified £12.7 million (£3.7 million of corporate items and £9 million of service savings) of additional savings proposals. The majority of these (£6.759 million) are management actions, however where appropriate this report is requesting Cabinet approval to progress £2.250 million of proposals as set out in recommendations contained within this report.

14. If fully implemented these could, as shown in Table 2, reduce the services overspend forecast to £5.2 million (£7.5 million reported at the same period 2017/18). A full list of new saving proposals is set out at Appendix 9.

Table 2: Month 4 Forecast Overspend by Service area with Management Action identified to date

P4 - 2018/19 Forecast Overspend, one off and recurring savings					
Service	2018/19 Net Budget	Savings Not Considered Achievable This Year	New Pressures	Forecast	Variance
	£000	£000	£000	£000	£000
CFC	96,361	250	1,400	98,011	1,650
E&I	63,544	345	139	64,028	484
COACH	8,047	400	219	8,666	619
Chief Executive	532	0	1	533	1
DAS	125,396	8,300	6,888	140,584	15,188
Public Health	(831)	0	(32)	(863)	(32)
Total : Services	293,049	9,295	8,615	310,959	17,910
Finance / Corporate Items (One off saving)	31,143		(3,676)	27,467	(3,676)
Total Net Expenditure (Excl DSG)	324,192	9,295	4,939	338,426	14,234
Further Savings being implemented for 18/19 delivery:					
DAS					(1,183)
CFC					(2,000)
E&I					(3,025)
COACH					(1,086)
Finance / Corporate Items					(625)
Cross Cutting					(1,100)
Total if all Finance / Corporate Items Delivered					5,215

15. These tables indicates that the services overspend forecast of £17.9 million could be reduced to £5.2 million.

16. Whilst progress is being made, as the forecast is still reporting an overspend more action is required to balance the 2018/19 budget without significant draw down from corporate reserves. Further work on this and the additional management proposals, as well as managing cost pressures is a key priority for senior management and Cabinet members, and a further update will be provided to Cabinet in November 2018.

17. Any remaining overspend for 2018/19 could be funded by drawing down resources from Earmarked Reserves. As our external auditors (Grant Thornton) identified in their value for money opinion the Council must look closely at its use of reserves to secure financial sustainability. A factor that is being raised on a national level. As such the focus is to identify savings that will reduce any need to draw further from these reserves, and on recurring proposals as opposed to one-off savings. Further comment on the reserves position is set out at paragraphs 60 to 65.

18. There are a number of significant cost pressures arising across services at Month 4 and these are outlined below in more detail.

Children, Families and Communities – *Forecast £1.650 million overspend before management action*

19. The Directorate is forecast to overspend, before management action, its £96.4 million budget by £1.650 million at the end of the financial year.

20. The forecast overspend includes £0.8 million relating to children's social care placements. When the budget was set, a judgement was made to cater for current forecasts in demographic growth. It was acknowledged in the budget report that this assumption would need to be reviewed in the new financial year.

21. The number of looked after children and children in agency placements has increased significantly in the first 6 months of the calendar year which has contributed to the pressure experienced on the placement budget. There are currently (as at 16 August 2018) 819 children looked after by the authority. In January 2018 there were 767.

22. There are currently 77 children in high cost residential care. This is an increase from January 2018 when there were 63 children receiving these services.

23. A number of actions are being taken with the aim to bring the projected overspend down, including a panel review of top up payments made for residential care. However, it should be noted that there is a risk the overspend will increase - the number of children in high cost agency placements continues to rise despite concerted effort to mitigate this risk. As such a focus remains on managing this area of spend, and management is seeking to reduce this pressure by at least £0.3 million, as reflected in Appendix 9.

24. The Special Educational Need and Disabilities (SEND) Transport budget for 2018/19 is £6.9 million which includes growth of £0.4 million approved by Full Council in February 2018. The budget is forecast to overspend by £0.6 million based on the costs and activities within the Council's transport database. Assumptions have been made regarding new starters and the pressure on placements. The forecast is being refined as more data is available and the new school term has started.

25. There are sensitivities within this forecast as it is based on a number of children who have yet to have a statement of their needs completed and the outcome of this could affect the forecast.

26. The projected overspend on the High Needs Block of the Dedicated Schools Grant (DSG) has continued this month and is currently projected at £6.8 million. There is a significant risk that this forecast will deteriorate further if demand increases and further detailed work is being undertaken by the SEND team to assess this. At the start of the year there was £5.2 million in DSG reserves, although this was not all earmarked for high needs activity. The pressures on this area were reported to the Schools Forum meetings in July and September. The SEND service, with Schools Forum, is currently preparing a longer term recovery plan. The Council's Financial Regulations identify the scope for overspend deficits to be carried forward and recovered from future years. The Council will need to assess and review this position with Schools Forum in the coming months based on the assessment of options and risk. As such an update is recommended to come back to Cabinet in December to inform budget monitoring and setting.

27. The pressure on the High Needs block is a national issue. There is growth in the number of children with Statements of Special Educational Needs and Disability (SEND) or Education Health and Care Plans (EHCP), coupled with the extended period over which Councils have been made responsible for the education of children with SEND to 25 years old, which was unfunded, this adds considerably to the pressures in Children's services. The LGA has estimated that there will be a £2bn shortfall in the national funding for Children's services by 2020, across education and social care.

28. The Strategic Libraries and Communities is forecasting a £0.250 million overspend arising from the need to identify expenditure that could be capitalised. The service is continuing to work on this as a priority.

29. The Directorate has identified £2 million of savings as part of a plan to deliver a £0.3 million underspend by 31st March 2019. Full details of these proposals are set out at Appendix 9. The majority are housekeeping measures to tighten controls on spending.

Adult Services – *Forecast £15.188 million overspend before management action*

30. The Adult Social Care budget is forecast to overspend, before management action, its £125.4 million net budget by £15.2 million. This overspend has arisen due to a combination of:

- Accumulated transformation targets which are no longer felt to be achievable in 2018/19. The base budget for the service included total savings to be achieved in 2018/19 of £14.9 million, including savings carried forward from 2017/18, and an additional adjustment of £4.2 million to reflect opportunities to maximise the benefit of specific grant income (e.g. Better Care Fund). Following a detailed review, £3.2 million of this programme has been identified as undeliverable with a further £5.1 million re-profiled to later years. The current forecast now reflects anticipated delivery of £6.1 million savings in 2018/19, thus placing a significant pressure on 2018/19
- The Directorate used reserves and one off grants in previous years to mitigate overspends and demand pressures, however all of these were fully utilised in 2017/18.

31. The causes of variations by specific services arising from changes in saving profiles and demand pressures are as follows:

- Key pressure in Learning Disabilities Residential and Nursing which equates to a forecast £3.7 million overspend. This is mainly due to a delay in achieving savings targets during 2018/19, resulting in an overspend of £1.9 million, and a budget transfer of £0.2 million to in-house Residential Homes to fund increased staffing. The remaining overspend is due to clients joining the service from CHC, hospital placements funded by Health, and other sources
- Learning Disabilities Supported Living is forecast to overspend by £1.7 million. This is mainly due to clients entering the service from Continuing Health Care (CHC), in-house services, previous clients re-entering the service and clients previously only in receipt of replacement care but now requiring ongoing support, particularly as a result of parents/carers getting older
- Older People Home Care overspend of £1.4 million, this is due to non-achievement of savings and an increase in client numbers from when the budget was approved
- Mental Health Residential, Nursing and Supported Living are forecast to overspend by £0.9 million due to an increase in client numbers from when the budget was approved.

32. The above pressures have partly been mitigated in part by:

- Adult Social Care & Case Management service is forecasting an underspend of £0.3 million due to a number of vacancies that are currently being held within the teams, and
- Older People Internal Homecare Service is showing an underspend projection of £0.4 million due to a large number of vacancies in this team.

Additional proposals are set out in Appendix 9.

Public Health – *Forecast £0.032 million underspend before management action*

33. The Public Health Service manages a c.£30 million specific grant and a core County Council budget of £0.1 million.

34. The Public Health directorate is forecast to break even at this stage.

35. During 2018/19 the service have continued to review existing contracts in order to maximise effective use of the PHRFG with savings of £1.04 million forecast to be achieved in line with budget. This has allowed the service to increase investment in grant eligible services within other council function including Trading Standards and Family Support (Children's). In total around £5.6 million of the Public Health specific grant is being invested directly in eligible functions that sit in other services of the Council, in addition to the wider benefit to the Council through the ongoing commissioning of preventative public health services.

36. The Council currently holds earmarked reserves totalling £5.76 million of accumulated Public Health Grant for which there are plans for a significant reduction over the next 3 years to manage the overall reduction in the grant payment smoothly.

Economy and Infrastructure – Forecast £0.484 million overspend before management action

37. It is forecast, before management action, that at the end of the financial year 2018/19 the Economy and Infrastructure Directorate will overspend its £63.5 million budget by £0.484 million.

38. It is currently estimated that waste services could overspend against its £30 million budget by around £0.3 million (1%), however an analysis is being undertaken by Worcestershire and Herefordshire Waste Services to understand current tonnages activity levels and ways to mitigate this position.

Commercial and Change – Forecast £0.619 million overspend before management action

39. It is forecast that at the end of the financial year 2018/19 the Commercial and Change (COaCH) Directorate will overspend, before management action, its £8 million budget by £0.6 million.

40. The budget for Property Services was reduced by £0.5 million to £5 million in 2018/19 to take account of the impact of property sales expected. A number of these sales have not been achieved within indicative timescales and there is also a forecast overspend against the Place Partnership property services budget based on the 2017/18 outturn reflecting increases in reactive maintenance and other unplanned events. This overall position has been partially mitigated to £0.4 million by vacancy management savings of £0.1 million within the Commercial teams and work is continuing alongside Place Partnership management to improve controls in order to mitigate this overspend further.

41. The budget for Systems and Customer Access was reduced by £0.25 million following the decision to commence the insourcing of the DxC contract. This activity has been delayed to take account of more realistic and achievable timescales, thereby putting the achievement of this budget reduction at risk of non-delivery. Work continues to identify solutions to mitigate this potential overspend position.

Finance / Corporate Items – Forecast £3.676 million underspend

42. The Financial Services budget includes corporate items such as Debt Interest.

The £31.5 million budget for Finance / Corporate Items is forecast to underspend in total by £3.676 million as follows:-

- £3.051 million underspend - Financing Transactions Borrowing Costs. An initial forecast for the deferment of borrowing on the assumption that cash balances are maintained across the County Council and that there is no forecast for rises in borrowing interest rates
- £625k underspend - Corporate Contingency. A £750k corporate contingency is maintained for 2018/19, against which spending allocations of £125k have been approved. The balance is uncommitted and therefore it is proposed that this contingency will not be used for new spending but will reported as an underspend to address the current forecast overspend elsewhere across the Council's services.

43. Details of variations for each Directorate are included in Appendices 1 to 4.

Savings Update

44. The transformation savings target for 2018/19 has been increased by £1.4 million to reflect an update to the carry forward of unachieved savings targets from last financial year. The revised savings target is now £37.432 million. This comprises £31.579 million that was originally planned for 2018/19 and £5.853 million of projects carried forward from previous financial years.

45. Compared with the target of £37.432 million, £23.299 million will be delivered, with a further £2.471 million classed as amber and £11.662 million as red. £8.690 million is scheduled to be either carried forward to future years or unachievable.

46. Given the Council's limited usable and unspent Earmarked Reserves, discussed later in this report, this forecast position with regard to savings being supplemented by use of reserves is unsustainable.

47. The following table shows the current savings programme, carry forwards from 2017/18 and RAG status for 2018/19.

Table 3: Summary RAG Assessment at Period 4 of the 2018/19 Savings

	17/18	18/19 Cabinet	18/19 Revised	C/fwd to	18/19	18/19	18/19	18/19	18/19
	C/wd	Approved	Target	19/20	Total	Delivered	On Target	Amber	Red
Directorate	£000	£000	£000	£000	£000	£000	£000	£000	£000
DAS	5,416	9,479	14,895	8,690	6,205	2,927	1,477	1,731	70
PH	0	1,040	1,040	0	1,040	0	0	0	1,040
CFC	337	885	1,222	0	1,222	469	451	250	52
E&I	0	1,900	1,900	0	1,900	0	0	300	1,600
COACH	0	1,100	1,100	0	1,100	100	600	190	210
Finance	100	1,475	1,575	0	1,575	1,525	50	0	0
Accounting Adj	0	15,700	15,700	0	15,700	9,000	6,700	0	0
	5,853	31,579	37,432	8,690	28,742	14,021	9,278	2,471	2,972
	% of Revised Target		100.0%	23.2%	76.8%	37.5%	24.8%	6.6%	7.9%

48. The entire £8.690 million of savings carried forward to 2019/20 related to DAS, and this covers 23.2% of the Savings Programme.

49. The full programme with RAG status for each project is included at Appendices 5 and 6.

Additional Savings Proposals

50. The whole purpose of budget monitoring is to enable early identification of issues in order to take action promptly to manage the situation. In line with best practice, senior officers have received monthly financial monitoring information and the forecast potential overspend has been a focus of management.

51. As part of this work, a review was urgently undertaken relating to all savings plans, for all years, to establish a current realistic view on risk, together with clear milestones for achievement to identify in what financial year savings are likely to be achieved. For savings deemed not to be achievable, these were reported back to the Senior Leadership Team (SLT) for discussion and actions agreed around their continuation, any changes to savings targets or the need to replace with new savings plans. SLT also looked at the savings that could be achieved earlier and at what cost/risk.

52. As a result, management are implementing £12.7 million of new saving proposals focused on:

- a) Management of long term borrowing. Following an active Treasury Management Strategy, taking advantage of the future forecast for borrowing interest rate rises, together with a forecast of working capital cash balances that the Council has (the difference between cash income and cash expenditure plus the cash impact of holding unspent grants, reserves and balances), we plan to defer taking long term borrowing in 2018/19 as much as we can. The resulting one off saving of £3.1 million in the financing transactions budget will be utilised to support cost pressures across the Council.

However, it is noted that there is a risk that this one off saving for 2018/19 could reduce in later years if the national economic position worsens and the forecast for rates or actual borrowing rates rise or that Central Government intervenes with imposed increases in borrowing rates through the Public Works Loans Board.

- b) Capitalise £2.250 million of appropriate expenditure across service consistent with best practice, for example highways maintenance.
- c) Increased cost control activity and stopping or reducing expenditure whilst maintaining existing service delivery. This will include reducing the use of procurement cards and removing delegations for committing and approving spend.
- d) Reviewing contract terms and re-negotiating services that the Council commissions.
- e) Optimising staffing structures, including tighter recruitment controls and reduced use of agency staff, whilst minimising the impact on service delivery to vulnerable children and adults, as well as any other essential statutory service wherever possible.
- f) Making best use of commercial payment terms agreed with suppliers.
- g) Releasing £0.625 million of contingency set aside in the 2018/19 setting of the base budget to cover non delivery of savings.

53. A full list of saving proposals is set out at Appendix 9. These are largely management actions, such as vacancy control for low risk service areas. However the following actions are brought to Cabinet's attention:

- a) Capitalisation of £2.250 million of transformation activity:
 - This includes £1.5 million further highways Type 1 defects and staffing capitalisations. Cabinet will recall that Council approved £5 million of such capitalisation in the February Council which set the budget.
 - £0.750 million of capitalisation to facilitate transformation in Adult and Children's care provision.
- b) Proposed changes to some areas of the Service Specification within the Highways Maintenance Service Contract (HMSC) without compromising core safety or safety critical defects to the highway network.
- c) The Care Act allows a self-funder to request the council to source a package of domiciliary care on their behalf, it also allows the Council to charge them for this service based on the actual cost of negotiating or managing the contract with the provider and administrative costs incurred. It is now proposed to introduce a charge of £81 per search which is estimated to raise £0.01 million in 2018/19.

Balance Sheet Payment and Income measures

54. It is important for the Council to manage how fast it collects its debts and pays its creditors in order to maximise the amount of working capital available. The following two measures indicate the current position, and senior officers are working on improvements to speed up debt collection and ensure creditor payment terms are optimised.

- **Debtor Days:** the average number of days for debtor income to be collected. The 2018/19 quarter 1 position was 36.5 days which is an improved position in relation to 2017/18 quarter 4 when it was 40 days. This is against a target of 35 days for 2018/19.
- **Creditor Days:** the average number of days for payment to be made to a supplier. The 2018/19 quarter 1 position was 5 days (2017/18 quarter 4 was 5 days) against a target of 20 days. The County Council currently pays authorised invoices immediately after receipt rather than to payment terms and performance is therefore as expected. The payment processes managed through a service contract with the Council's HR and Transactional Finance service provider Liberata and will be reviewed in light of best practice.

Corporate Income – Council Tax, Business Rates, Revenue Support Grant

55. The Council's overall budget is funded by a number of corporate income streams, the forecast being shown in the Table 4. At this stage the corporate income is forecast to achieve the budget.

Table 4: Summary of outturn forecast for Corporate Income 2018/19

P4 - 2018/19 SLT Revenue Budget Monitoring Forecast by Service				
Service	2018/19 Net Budget	Gross Forecast	Variance After Adjustments	Variance After Adjs
	£000	£000	£000	%
Revenue Support Grant	(9,436)	(9,436)	0	0.0%
Business Rates Retention Scheme	(61,136)	(61,136)	0	0.0%
Council Tax Income	(251,536)	(251,536)	0	0.0%
Collection Fund (Surplus) / Deficit	(2,084)	(2,084)	0	0.0%
Total - Funding	(324,192)	(324,192)	0	0.0%

56. Government issued a consultation inviting bids to be pilots for 2019/20 Business Rates Retention scheme at 75%. Councillors will recall that for 2018/19 the County and Districts were unsuccessful at a bid for the then 100% pilots, but all Councils expressed an interest to bid again if an opportunity arose. In response therefore to the consultation, Leaders and senior officers have been discussing around a bid that would see all funds retained by the County Council to invest in preventative measures around care (adults and children's). A bid will be submitted by the deadline, 25 September 2018, and a further update provided at future meetings.

General Balances

57. The County Council's General Balances are a contingency sum available to pay for unforeseen or exceptional circumstances. External auditors often refer to the level of general balances when considering an organisation's financial health.

58. Worcestershire's General Fund Balance stand at £12.2 million, or 3.8% of net expenditure. There is no defined minimum balance. It is the responsibility of the Section 151 Officer to advise the Council of that level based on an assessment of risk. At this stage a fuller review is underway against the current forecast the use of Minimum Revenue Provision (MRP) release, and how committed the earmarked reserves are. A further update will be provided to Cabinet in December 2018 and February 2019.

59. Given the County Council's drawdown of Earmarked Reserves in recent financial years it is important to ensure that General Fund Balances are maintained at least at the current level to support the County Council's financial resilience as it continues to balance the need to deliver services within a challenging medium term cash limit. This was identified by our external auditors in the 2017/18 statutory accounts opinion, and is an issue the Council is keen to address.

Earmarked Reserves

60. All earmarked reserves are retained either under the delegated authority given to Chief Officers in the Financial Regulations or by Cabinet / Cabinet Member approval, this is subject to recommendations jointly by a Chief Officer in agreement with the Chief Financial Officer for carry forward each year.

61. Given that the County Council is forecasting an overspend, this must be a first call on Earmarked Reserves once all options to reduce expenditure during 2018/19 have been exhausted.

62. This will enable the budget to be balanced at the year-end but would require a review of Earmarked Reserves. Management are reviewing earmarked reserves in light of this possibility and this will be included in future Resources reports to establish the extent to which they already have spending commitments and whether these commitments could be stopped, and to review where reserves are maintained for risk whether they could be prudently reduced.

63. It is important to recognise that to some extent these earmarked reserves are already committed as a result of the forecast overspend.

64. Following a review of the Minimum Revenue Provision (MRP) charge for 2018/19, a recurring (but time limited) saving of £7.5 million will be added to a financial risk reserve as approved as part of the 2018/19 February Cabinet budget report. This forecast arises from full implementation of last year's policy change after taking account of expected residual consultation outcomes from Ministry of Housing, Communities and Local Government. This forecast is subject to the professional judgement by the S.151 Officer with regard to making a 'prudent provision' in the accounts in consideration of future capital expenditure plans.

65. Looking forward, the County Council's ability to manage the in-year financial risk is challenging. It is vital that the Council delivers services within cash limits on a recurrent basis and that transformation savings are also achieved in full recurrently and not by one off actions.

Capital Programme

66. The timing of capital expenditure over the current and future years has been reviewed and an updated profile is provided at Appendix 7.

67. The revised profile has taken account of the roll forward of capital schemes from last financial year and the impact that has on the current years profile of expenditure and estimate for future years, along with re-profiling across financial years based on current best information available.

68. The Capital Programme has also been updated to include the £2.250 million of new savings proposals for capitalisation of expenditure. It is intended that this expenditure is funded by re-profiling existing expenditure to later years, at this stage the capital programme will reflect this as a new expenditure item to be funded from borrowing until the specific re-profiling activity is known.

69. There have been changes to values of capital schemes due to increases in external income expected, and reallocations between schemes to take account of more realistic planning which are also shown in Appendix 7. Key amendments are:

- Capital grant totalling £1.2 million has been received from the Department for Transport (DfT) relating to the Flood Resilience Fund which will be utilised on Highways Flood Mitigation projects in 2018/19 and 2019/20.
- Capital grant totalling £3.8 million has also been received from the DfT relating to Structural Maintenance of Highways of which £1.2 million relates specifically to the "Pot Hole Action Fund"
- The total project cost for Kidderminster Rail Station is forecast to be £5.3 million. Of this, £0.8 million has been funded in previous years with £3.4 million expected to be incurred in 2018/19 and £1.1 million in 2019/20. This is an increase to the approved Capital Programme of £0.9 million. Additional funding is anticipated from Greater Birmingham and Solihull LEP (GBSLEP) of £0.6 million, along with £75k from Wyre Forest District Council and a £0.2 million contribution from the Worcestershire Local Enterprise Partnership (WLEP) Growth Fund

- An increase to the Capital Programme of £1 million is requested to be approved for the Kidderminster Town Centre Public Realm scheme. £0.5 million additional funding is expected from GBSLEP, along with a further £0.25 million from Wyre Forest District Council and a £0.25 million allocation by the County Council. Re-profiling and additional income receivable indicates a revised Capital Programme Provision of £0.6 million in 2018/19 and £1.3 million in 2019/20
- The Council has been successful in securing additional grants from the European Regional Development Fund (ERDF) to support business growth, energy efficiency, developing low carbon awareness, cyber security and for investment into environmental schemes for schemes. A total increase to the Capital Programme of £3.6 million is required to take account of these capital grants phased over the current and next two financial years
- The following allocations have been made from Highways Infrastructure Improvement Fund (HIIF) consistent with what was approved by Cabinet in February 2018:-
 - 2018/19 - £1.8 million to the Street Lighting Column Replacement and LED Programme and £7.8 million to the Structural Carriageway / Bridgeworks Programme, leaving £0.75 million remaining for allocation.
 - 2019/20 - £2 million to the Street Column Lighting Replacement and LED Programme, £8 million to the Structural Carriageway / Bridgeworks Programme, and £0.75 million for Highway Flood Mitigation, leaving £0.75 million remaining for allocation.
 - 2020/21- £8 million to the Structural Carriageway / Bridgeworks Programme and £0.75 million for Highway Flood Mitigation, leaving £0.67 million remaining for allocation.

70. The revised Capital Budget for 2018/19 totals £153 million.

71. In addition to this, elsewhere on this agenda is a report entitled "A38 Bromsgrove Major Scheme - Package 1" which is requesting a variation to the Capital Programme of £6.3 million, to be funded by external sources. Should this be approved, it will also be added to the Capital Programme.

New Capital Investment – Malvern Hills Science Park

72. Cabinet are requested to approve the amendments to the capital programme scheme entitled QinetiQ Land Purchase for the land purchase and infrastructure works relating to the 4.5 hectares of development land at Malvern Hills Science Park (MHSP)

73. As part of the Council's Open for Business agenda, it is planned, alongside Malvern Hills District Council and Worcestershire Local Economic Partnership (WLEP), to develop it into serviced land to enable the commercial opportunity for HQ, Research and Development facilities and the opportunity to expand. The infrastructure works will include the creation of new accesses for vehicles, pedestrian, cycles, car and parking and provision of sustainable drainage measures.

74. The Capital Programme approved in December 2017 had a value of £1.2 million allocated which accounted for the WLEP contribution; however, the total scheme cost is estimated to be £4.2 million. A £0.9 million contribution has been received from Malvern Hills District Council and a £2.1 million reallocation is required from the previously approved capital contingency provision for new starts which was included in the 2018/19 approved capital programme.

Borrowing and Lending Transactions 2017/18

75. 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 8.

76. 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 and remained at this level during 2017/18. It was increased to 0.5% in November 2017
- Investments prudently made to the UK Debt Management Office, other local authorities, Money Market Funds and Ultra-Short duration Bond Funds are in line with the existing County Council Treasury Management Policy
- £22 million of existing loans have been repaid during the year
- New loans of £103 million have been taken out during 2017/18 at an average rate of 1.55%. This was planned activity and all of this was raised to support the Capital Programme and manage interest rate risk
- Total debt outstanding is within plan and stood at £444.1 million at 31 March 2018, at an average rate of 3.07% (3.83% for 2016/17).

Legal Implications

77. Legal advice will be provided to support any changes in service delivery in accordance with the requirements of the council's policies and procedures.

Financial Implications

78. Members are required under Section 25 of the Local Government Act 2003 to have regard to the Chief Financial Officer's report when making decisions about the budget calculations for each financial year. Specifically this is undertaken through the approval of the annual budget in February each year.

79. Section 25 of the Act also covers budget monitoring and this process monitors the robustness of budgets, adequacy of reserves and the management of financial risk throughout the year. This Cabinet report highlights forecast variances arising from current financial performance and the possible impact of existing pressures on future expenditure so that appropriate action may be taken.

80. In discharging governance and monitoring roles, Members are asked to consider the issues arising and the potential impact on the budget as well as the financial risks arising.

81. The Council's procedures for budget monitoring is reinforced through close financial support to managers and services on an ongoing basis to ensure processes and controls are in place to enable tight financial control.

HR Implications

82. A number of existing and new proposed savings may impact on staff roles and responsibilities and where appropriate senior officers take advice from the Council's Human Resources team.

83. This will include undertaking consultations with staff, trade unions and any other affected body as appropriate.

Environmental and Climate Change Implications

84. There are no significant environment and climate change implications arising from this report.

Equality Duty Considerations

85. The Council will continue to have due regard to proactively addressing the three elements of the Public Sector Equality Duty in all relevant areas – in particular the planning and delivery of our services. The Council will continue to assess the equality impact of all relevant transformational change programmes and will ensure that Full Council has sufficient equalities assessment information to enable it to have due regard to the three elements of the Equality Duty when considering and changes to the budget for 2018/19. The Council will continue to ensure best practice is followed with regard to these requirements.

Health Impact Assessment

86. A Health Impact Assessment has been undertaken with regard to this report and recommendations relating to new spending decisions to understand the potential impact they can have on Public Health outcomes across the County area.

87. This report is mainly about confirming the forecast outturn financial position for the end of the financial year reflecting existing Cabinet decisions and policies, and requesting approval for a land purchase at Malvern Hills Science Park.

88. 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** Budget Monitoring Outturn Forecast for Month 4 - 31 July 2018
- **Appendix 2** Budget variances greater than £0.250 million
- **Appendix 3** Capitalisation
- **Appendix 4** Use of Grants
- **Appendix 5** Savings RAG Summary 2018/19
- **Appendix 6** List of Savings – Agreed Budget Plan 2018/19
- **Appendix 7** Capital Programme
- **Appendix 8** Borrowing and Lending Transactions 2017/18
- **Appendix 9** Additional Saving Proposals

Contact Points

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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