

Worcestershire County Council

# Agenda

## Cabinet

**Thursday, 26 March 2020, 10.00 am**  
**County Hall, Worcester**

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## DISCLOSING INTERESTS

There are now 2 types of interests:  
**'Disclosable pecuniary interests'** and **'other disclosable interests'**

### WHAT IS A 'DISCLOSABLE PECUNIARY INTEREST' (DPI)?

- Any **employment**, office, trade or vocation carried on for profit or gain
- **Sponsorship** by a 3<sup>rd</sup> party of your member or election expenses
- Any **contract** for goods, services or works between the Council and you, a firm where you are a partner/director, or company in which you hold shares
- Interests in **land** in Worcestershire (including licence to occupy for a month or longer)
- **Shares** etc (with either a total nominal value above £25,000 or 1% of the total issued share capital) in companies with a place of business or land in Worcestershire.

**NB Your DPIs include the interests of your spouse/partner as well as you**

### WHAT MUST I DO WITH A DPI?

- **Register** it within 28 days and
- **Declare** it where you have a DPI in a matter at a particular meeting
  - you must **not participate** and you **must withdraw**.

**NB It is a criminal offence to participate in matters in which you have a DPI**

### WHAT ABOUT 'OTHER DISCLOSABLE INTERESTS'?

- No need to register them but
- You must **declare** them at a particular meeting where:  
You/your family/person or body with whom you are associated have a **pecuniary interest** in or **close connection** with the matter under discussion.

### WHAT ABOUT MEMBERSHIP OF ANOTHER AUTHORITY OR PUBLIC BODY?

You will not normally even need to declare this as an interest. The only exception is where the conflict of interest is so significant it is seen as likely to prejudice your judgement of the public interest.

### DO I HAVE TO WITHDRAW IF I HAVE A DISCLOSABLE INTEREST WHICH ISN'T A DPI?

Not normally. You must withdraw only if it:

- affects your **pecuniary interests** **OR** relates to a **planning or regulatory** matter
- **AND** it is seen as likely to **prejudice your judgement** of the public interest.

### DON'T FORGET

- If you have a disclosable interest at a meeting you must **disclose both its existence and nature** – 'as noted/recorded' is insufficient
- **Declarations must relate to specific business** on the agenda
  - General scattergun declarations are not needed and achieve little
- Breaches of most of the **DPI provisions** are now **criminal offences** which may be referred to the police which can on conviction by a court lead to fines up to £5,000 and disqualification up to 5 years
- Formal **dispensation** in respect of interests can be sought in appropriate cases.

## Cabinet

**Thursday, 26 March 2020, 10.00 am, County Hall, Worcester**

**Membership:** Mr S E Geraghty (Chairman), Mr A T Amos, Mr A I Hardman, Mr M J Hart, Mrs L C Hodgson, Ms K J May, Mr A P Miller, Dr K A Pollock, Mr A C Roberts and Mr J H Smith

### Agenda

Item No	Subject	Page No
1	<b>Apologies and Declarations of Interest</b>	
2	<b>Public Participation</b> Members of the public wishing to take part should notify the Assistant Director for Legal and Governance in writing or by e-mail indicating both the nature and content of their proposed participation no later than 9.00am on the working day before the meeting (in this case Wednesday 25 March 2020). Further details are available on the Council's website. Enquiries can also be made through the telephone number/e-mail address listed below.	
3	<b>Confirmation of the Minutes of the previous meeting</b> The Minutes of the meeting of 30 January 2020 have been previously circulated	
4	<b>Approval of Worcestershire Children First's Business Plan</b>	1 - 6
5	<b>West Mercia Energy - Treatment of WMS Pension Liability</b>	7 - 18
6	<b>Resources Report - Revenue and Capital Budget Monitoring - Month 10 (31 January) 2019/20</b>	19 - 30
	<b>Exclusion of Public and Press</b> The Cabinet will be asked to exclude the press and public from the meeting for the following item as it is likely that exempt information relating to the financial or business affairs of any particular person (including the authority holding that information) will be disclosed and the public interest in maintaining the exemption outweighs the public interest in disclosure.	
7	<b>Corporate Landlord and Facilities Management</b>	31 - 40

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To obtain further information or a copy of this agenda contact Nichola Garner, Committee & Appellate Officer on Worcester (01905) 843579 or email: [ngarner2@worcestershire.gov.uk](mailto:ngarner2@worcestershire.gov.uk)

All the above reports and supporting information can be accessed via the Council's website.

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**NOTES**

- **Webcasting**

Members of the Cabinet are reminded that meetings of the Cabinet are Webcast on the Internet and will be stored electronically and accessible through the Council's Website. Members of the public are informed that if they attend this meeting their images and speech may be captured by the recording equipment used for the Webcast and may also be stored electronically and accessible through the Council's Website.

**CABINET**  
**26 MARCH 2020****APPROVAL OF WORCESTERSHIRE CHILDREN FIRST'S  
BUSINESS PLAN**

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**Relevant Cabinet Members**

Mr A C Roberts, Mr M J Hart

**Relevant Officer**

Director of Children's Services

**Recommendation**

**1. The Cabinet Member with Responsibility for Children and Families recommends that Cabinet:**

**(a) notes the contractual performance update on Worcestershire Children First (WCF);**

**(b) approves Worcestershire Children First's Business Plan 2020/21; and**

**(c) notes the agreed contract sum for 2020/21 to WCF as set out in paragraph 15 and notes the indicative contract sum for 2021/22 and 2022/23 included in the Business Plan.**

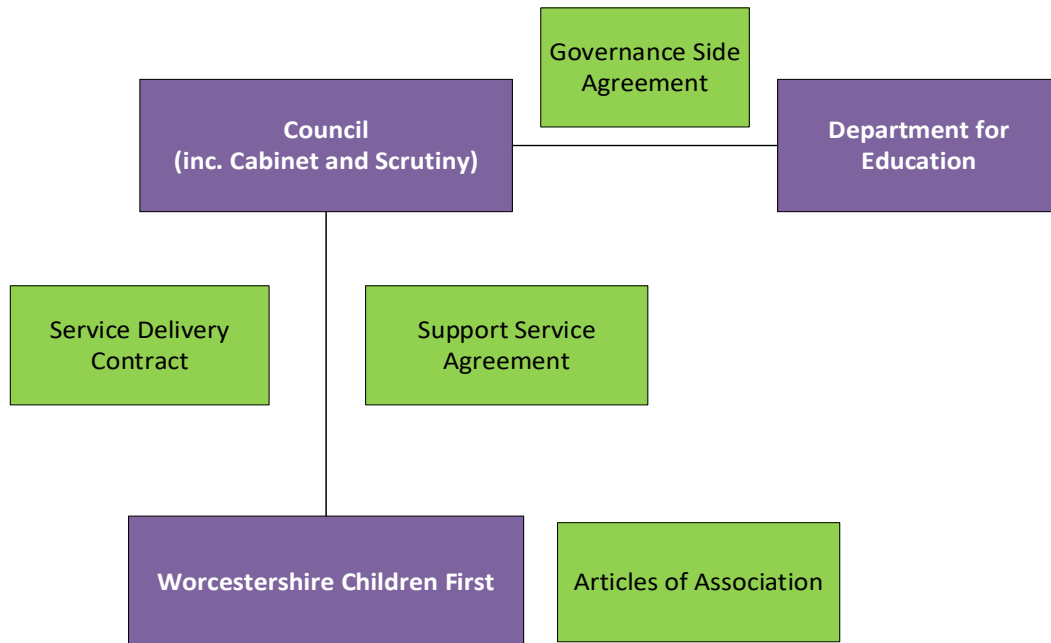
**Background**

2. On 1 October 2019, following a two-year programme of activity, Worcestershire Children First (WCF) officially took over the operational responsibility for the delivery of Children's Services on behalf of Worcestershire County Council (the Council). The decision to develop WCF as wholly-owned council company was made in direct response to the statutory direction published on 19 September 2017, with the Council agreeing to work in partnership with the Department for Education (DfE). The aim being at the point of transferring services into WCF, services would be performing well and WCF would have a positive platform on which to sustain and continue to improve outcomes for children and young people.

3. In June 2019, the Council's Children's services were inspected by Ofsted. The judgement was published on 29 July 2019 and the service was judged to be Requires Improvement to be Good. Ofsted recognised that progress had been made in many areas of children's services in Worcestershire since the previous inspection in 2016, when the local authority was judged to be inadequate. They stated that effective work by senior management and staff, together with commitment and investment by political leaders, had led to improved responses to the needs of children and families. As a result, outcomes for many children and their families are better, and there is evidence of a sustained trajectory of improvement. This rate of improvement was a significant achievement for the Council and is testimony of the hard work and tenacity of the

leadership team, managers and frontline staff, as well as the wider Council and safeguarding partners.

4. As part of the development of WCF three contractual arrangements were developed and agreed. These are depicted in the diagram below and now form the basis of the relationship between WCF and the Council and the Council and the DfE.



5. The service delivery contract confirms what the Council is expecting WCF to deliver on the Council's behalf, how the Council will pay WCF along with how the Council will hold WCF to account for the services it has delegated to it. The service delivery contract also includes a set of obligations for WCF which include the production of a Business Plan and the maintenance of several key performance indicators within an agreed tolerance level.

6. The Support Service Agreement consists of a set of overarching core terms and 14 individual support service specifications ranging from HR, Property & Facilities Management, Finance and Project Management. These individual specifications describe the services to be provided by the Council to WCF along with the relevant financial information (e.g. the cost of the support services) and the relevant performance information.

7. The Governance Side Agreement is between the Council and the DfE and builds on the agreed Memorandum of Understanding and Statutory Direction. It is in place only whilst the Council remains under Direction.

### **Performance and Contract Monitoring Update**

8. In line with expectations agreed within the contractual arrangements, a monthly Performance and Commissioning Group (PCG) and a Quarterly Review Board are now operational. The PCG closely monitors the progress of the contractual Key Performance Indicators (KPIs) and Support Service Agreements and receives updates on actions taken by WCF and the Council. The PCG also reviews and monitors issues which may have an impact upon the WCF business. The Quarterly Review Board provides a more

strategic oversight to the governance arrangements and the PCG feeds into this group, providing an update of the discussion at those meetings.

9. In relation to contract performance, all but two of the KPIs have remained within contractual performance levels for the past four months of data reporting. For the two KPIs that have fallen outside of monthly tolerance levels there is remedial action taking place and this will be closely monitored by the PCG. WCF are also fulfilling their obligations in reporting performance and financial information through to the Council's Children and Families Overview and Scrutiny Panel and Corporate Parenting Board. This has been important to ensure that there is political oversight and transparency over the Company. Feedback from the elected members has been positive. WCF are also holding monthly Board meetings with every third meeting held in public.

### **Worcestershire Children First Business Plan 2020/21**

10. The Council requires WCF to develop and publish a Business Plan and the DfE requires the Council to consult with them prior to its approval. The draft Business Plan has been sent to the DfE and they have confirmed their support with no significant amendments. In September 2019, Cabinet approved WCF's Interim Business Plan which was adopted in time for the launch of WCF and continues until 31 March 2020. The Business Plan is owned by WCF on a day to day basis and will be refreshed by WCF and approved by Cabinet on an annual basis. The Plan sets out WCF's vision and strategic goals for the next three-five years and outlines how they will deliver services for children, young people and families, on behalf of the Council. It also describes WCF's staffing and governance structure as well as predictions and proposals in relation to finances. The full version of the refreshed 2020/21 Business Plan is available in the supporting information as an Appendix.

11. The refreshed 2020/21 Business Plan maintains the previously agreed aims for WCF which are to improve outcomes for all children and young people (up to the age of 25) in Worcestershire, by addressing their needs holistically through excellent early help and prevention, education provision and social care. Its Vision, Mission and Values define the way WCF will work to improve outcomes for children and young people. They are indicators of the direction of travel, to guide services and colleagues:

- **Vision:** Worcestershire to be a wonderful place for all children and young people to grow up
- **Mission:** Supporting children and young people to be happy, healthy and safe
- **Values:** Children at our heart. Value family life. Good education for all. Protection from harm.

12. Taking into consideration the population and deprivation statistics of Worcestershire as well as the current service levels, the Plan provides details of WCF's strategic goals over the next five years.

13. The Business Plan for 2020/21 outlines that, in the short term, WCF, will focus on:

- Implementation of Liquidlogic Case Management System – April 2020
- Supporting delivery of the Early Help Strategy 2020-2024 – April 2020 onwards
- Troubled Families Programme -throughout 2020/21
- Transfer and Integration of Learning and Achievement Services (Babcock Prime) – Transfer 1 June 2020

- Delivery of the Education and Skills Strategy 2019-2024 – Ongoing
- Special Educational Needs and/or Disabilities (SEND) – Ongoing
- Supporting Families First (Edge of Care)
- Implementation of Family Safeguarding.

14. In the medium to longer term the Plan sets out that WCF will increase its efforts to co-produce with service users and have a relentless focus on delivering good quality, impactful services. They intend to exploit opportunities that will help deliver the vision and mission and aim to work effectively and efficiently within an agreed financial envelope. WCF also aims to have national recognition for the quality of services it provides and the positive impact it makes to children and young people's lives.

15. Within the financial section of the Business Plan it outlines the agreed contract sums which are shown as two separate elements, net funding from the Council's base budget and grants passed through to WCF to arrive at the gross contract price. These are shown below.

<b>Contract Sum</b>	<b>2019/20 6 months</b>	<b>2020/21 Full Year</b>
	<b>£000</b>	<b>£000</b>
Net Budget funded by WCC	49,808	100,214
<b><i>Other Funding passed through:</i></b>		
Funding added to contract (Grants / Income / Reserves)	6,708	14,408
<b>Total Gross Cost</b>	<b>56,516</b>	<b>114,622</b>

16. The 2020/21 gross cost is equivalent to the budget set by Council in February 2020. The future year budget with the Business Plan is indicative at this stage as the Council is currently reviewing its Medium-Term Financial Plan and awaiting the outcome from the future Spending Review.

17. Any additional funding in year is required to be requested by WCF (either capital or revenue) through the governance schedules. These agreements require WCF to complete a business case that will be discussed with Council officers and agreed (if appropriate) through a change control process managed by the monthly and quarterly contract monitoring meetings.

18. WCF has already established sound financial controls which are working well e.g. cash management, payments to staff and suppliers and PAYE/NI to the Inland Revenue submission of monthly VAT returns. Internal Audit is provided from the Council's internal function and reported to both WCF's and the Council's Audit Committees and through the production of both company and Council group audited financial statements.

19. The Support Services figure includes the costs of services, covered by Support Service Agreements (SSA), which has been agreed through dialogue meetings. The basis of charge is based on 2020/21 budget and appropriate relevant service metrics to establish the service price which is £7.2m.



20. The cost of learning and achievement services (currently provided by Babcock Prime) c£6.5M is not currently included in the WCF budget at this point. This will be included in the 2020/21 budget once the services transferring to WCF have been agreed. The proposed date for transfer is 1 June 2020, the contract price will be amended accordingly by contract variation.

21. Achieving these ambitious aims for WCF's long-term future will be dependent on several internal and external factors meaning they will be subject to change as the needs of the Council changes and WCF matures. Therefore, in line with Council expectations, the 2020/21 Business Plan and WCF's budget will be reviewed and refreshed on an annual basis alongside the Council's annual review of its own medium-term financial plan and budget setting process.

22. The 2020/21 Business Plan now includes the necessary response to June 2019's ILACS Inspection report as well as reference to management of cash-flow and financial reporting. It will also be available in a summarised easy read version.

### **Legal, Financial and HR Implications**

23. The paragraphs above outline the legal/contractual arrangements that will be in place between the Council and WCF. The term of the contract is an initial five years with the option to extend by a further five years.

24. Budget monitoring and reporting will continue to be carried out and reported through quarterly overall Council budget forecasts to Cabinet. Any variations or change orders arising in a change to the contract value would be reported or approved through that forum dependent on the scheme of delegation.

25. In development of the financial model and as part of the development of the 3-5-year business plan for WCF, a detailed review, analysis, challenge and scrutiny has been completed by finance staff and operational staff within the Council. A review has also been undertaken by both the Council's Chief Financial Officer and the Director of Resources for WCF.

26. All future year figures at this stage are indicative and no decisions have been taken. The Business Plan for WCF and its medium-term financial plan will be considered alongside the annual budget setting cycle and be presented to Full Council alongside the Council Tax precept decision in February 2021.

### **Equality and Diversity Implications, Privacy and Public Health Impact Assessments**

27. The Council must, during planning, decision-making and implementation, exercise a proportionate level of due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act 2010
- Advance equality of opportunity between people who share a protected characteristic and those who do not
- Foster good relations between people who share a protected characteristic and those who do not.

28. An Equality Relevance Screening has been carried out in respect of these recommendations. It identified that further equality impact analysis and public health impact assessments will be required in respect of staff, service users and the wider community during design and implementation of activity needed to give effect to the recommendations set out in this report.

29. The services and functions being transferred into WCF have the duty to improve outcomes for children and young people, and these outcomes directly or indirectly impact on their health. The Public Health Ring-fenced Grant is being used to support some of these services, specifically some Early Help services, in this context. A full Public Health Impact review will be carried out on services, including evaluation of impact and effectiveness.

### **Risk Implications**

30. WCF's 2020 Business Plan outlines, within its appendices, an overview of the significant risk that WCF will be managing on a day to day basis. These risks will also form part of the Council's high-level risk register as the Council remains accountable.

### **Supporting Information**

- Appendix - WCF 2020/21 Business Plan (electronic version only)

### **Contact Points**

#### County Council Contact Points

County Council: 01905 763763

#### Specific Contact Points for this report

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

### **Background Papers**

In the opinion of the proper officer (in this case the Director of Children's Services) the following are the background papers relating to the subject matter of this report:

Agenda papers for the meetings of the Cabinet held on 29 March 2018, 12 July 2018, 15 November 2018, 14 March 2019 and 5 September 2019. Available on Worcestershire County Council's website here:

<https://worcestershire.moderngov.co.uk/ieListMeetings.aspx?CId=131&Year=0>

**CABINET**  
**26 MARCH 2020****WEST MERCIA ENERGY – TREATMENT OF WMS PENSION LIABILITY**

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**Relevant Cabinet Member**

Mr A I Hardman

**Relevant Officer**

Chief Financial Officer

**Recommendations**

1. **The Cabinet Member with Responsibility for Adult Social Care (who is also the Deputy Leader of the Council and a Council appointee to the West Mercia Energy Joint Committee) recommends that Cabinet, subject to the Executives of Shropshire County Council, Telford & Wrekin Council and Herefordshire Council agreeing to the same recommendations, agrees:**
  - (a) **to remove the responsibility for the discharge of its function in relation to the pension deficit liability in relation to former WMS employees (including Compensatory Added Years Benefits) as identified in this report from the business of the WME Joint Committee with effect from 1 April 2020;**
  - (b) **to allocate the pension deficit liability identified in Recommendation (a) above to a new employer within the Shropshire County Pension Fund, called ‘WMS Pension’;**
  - (c) **to establish a joint committee pursuant to section 101(5) of the Local Government Act 1972, with Shropshire County Council, Telford & Wrekin Council and Herefordshire Council known as the WMS Pension Joint Committee and delegate responsibility with effect from 1 April 2020 to the WMS Pension Joint Committee to discharge the functions of Worcestershire County Council relating to the pension deficit liability from former WMS employees (including Compensatory Added Years Benefits) as set out in paragraphs 9 to 19 below allocated to the WMS Pension employer within the Shropshire County Pension Fund;**
  - (d) **to approve the proposed governance arrangements set out in the Appendix, and that the Council’s appointed Executive Members to the WMS Pension Joint Committee shall be the Deputy Leader and Cabinet Member with Responsibility for Adult Social Care and the Cabinet Member with Responsibility for Health and Wellbeing, as the Council’s current representatives on the West Mercia Energy Joint Committee;**
  - (e) **to delegate authority to the Chief Financial Officer to progress and agree the arrangements as set out in paragraphs 9 to 19, including a relevant payment mechanism and finalise a Joint Agreement for the WMS Pension Joint Committee incorporating the terms set out in the**

**Appendix, in consultation with Section 151 Officers from the remaining Owing Authorities;**

- (f) to approve the treatment of the WME asset share to be fully funded with effect from 1 April 2020 using IAS19/FRS102 actuarial assumptions with the resulting additional cost of this funding option allocated to the WMS Pension employer within the Shropshire County Pension Fund; and**
- (g) to delegate authority to the Chief Financial Officer to agree the final figures, of which estimates are set out in paragraphs 20 to 32, and in consultation with the Section 151 Officers from the remaining Owing Authorities.**

## **Summary**

2. Worcestershire County Council, together with Shropshire Council, Telford & Wrekin Council and Herefordshire Council, is one of the member authorities (the 'Owing Authorities') of West Mercia Energy Joint Committee, formerly known as West Mercia Supplies. At the point of sale of the West Mercia Supplies stationery division (WMS) in 2012, the existing pension deficit relating to the former WMS staff was retained within the continuing West Mercia Energy business and is overseen by the West Mercia Energy Joint Committee. It is proposed to transfer this pension deficit directly to a new body 'WMS Pension' overseen by a new 'WMS Pension Joint Committee'.

3. The West Mercia Energy Joint Committee formally approved a request to the Owing Authorities to take direct responsibility for this pension deficit liability on the 24 September 2019. Having undertaken discussions via their respective senior Finance Officers, the Owing Authorities are each seeking approval to take on this liability, which is proposed to be achieved by the transfer of this pension deficit to a newly created 'employer body' within the Shropshire County Pension Fund ('WMS Pension') managed and overseen by a new 'WMS Pension Joint Committee' comprising the same Owing Authorities.

## **Risk Assessment and Opportunities Appraisal**

4. WME's Risk Register has identified a potential risk in bidding for future contracts while carrying the pension deficit liability for former WMS employees on its balance sheet as potential customers will consider the financial position (through the accounts) of WME in assessing their bid. In order to facilitate WME in bidding for future contracts, the aim is to put it in a position where, at least initially, it is not carrying a pension deficit (and certainly not relating to former WMS employees) within the Shropshire County Pension Fund. To achieve this the liabilities relating to former WMS employees would need to be removed from the WME business and instead more clearly allocated to the Owing Authorities. In practice this proposed change would make very little difference to the liabilities of the Owing Authorities which are currently responsible for their share of the net liabilities of WME including the WMS pension liability.

5. To achieve implementation by April 2020, it is necessary for all four Owing Authorities to approve the proposal set out in this report. Failure of any Owing Authority to meet the necessary timescales or gain the approvals will result in the proposal not progressing and WME continuing to operate with and bid for contract opportunities showing a negative balance sheet each year, with net liabilities of around £5m each year due to the pension deficit liability.

6. There is still a technical (albeit unlikely) risk that the retained WME pension liability could, under unfavourable market and/or actuarial assumptions and circumstances still deliver a negative balance sheet position for WME in the future.

7. There are no direct privacy, equality and diversity and Public Health implications from this report.

### **Options Consideration**

8. In developing the proposal recommended in paragraphs 9 to 19 below, the Owing Authorities have considered alternative options with their respective merits and disadvantages as follows:

- a. Each authority could make a direct payment to Shropshire County Pension Fund to remove the pension deficit. This option was considered and discounted at the time of the sale of the WMS business due to the significant financial cost to the Owing Authorities. This opinion and position has not changed in the intervening years since the sale and is not considered value for money.
- b. The WMS pension liabilities and assets could be separated from the WME business and allocated in equal shares to the four Owing Authorities via the transfer of the liabilities and assets to the respective Local Government Pension Schemes that each Owing Authority participates in. In principle, 50% of these WMS liabilities and assets would be transferred to the Worcestershire Pension Fund, to become the financial responsibility of Worcestershire County Council and Herefordshire Council, with the remaining 50% being retained within the Shropshire County Pension Fund (but allocated to the employer's liabilities of Shropshire and Telford & Wrekin, rather than Shropshire on behalf of WME) and being the financial responsibility of Shropshire Council and Telford & Wrekin Council. An application (signed by the four Owing Authorities) to the Secretary of State for Communities and Local Government for a "Direction" could allow the transfer of the relevant proportion of WMS assets and liabilities (being the responsibility of Worcestershire County and Herefordshire Councils) from the Shropshire Fund to the Worcestershire Fund with the balance remaining in the Shropshire Fund (being the responsibility of Shropshire and Telford and Wrekin Councils). It should be noted that the original intention of these Directions was to allow the transfer between Funds of an employer's entire pension assets and liabilities, so there was no guarantee that the Direction would be granted for a partial transfer such as this. Calculations by the Shropshire County Pension Fund actuaries would determine a subset of members which make up (as near as practically possible) four blocks of 25% of the WMS liabilities. Formal agreement by the Worcestershire Pension Fund actuaries to the figures and proposed allocation of membership between the two funds would be required before transfer of appropriate pensioner payroll, membership records and asset share from the Shropshire County Pension Fund to the Worcestershire Pension Fund, and splits to the relevant employers. This option would have resulted in one off costs of up to £80,000 and included the risk that the Secretary of State would not approve the necessary direction. On the basis of the discussions between officers of the four Owing Authorities it is not recommended that this option is pursued as it does not represent value for money.

### **Proposal**

9. Discussions between the Owing Authorities have identified a viable and value for money proposition to remove the pension deficit liability from WME and allocate it jointly to

the Owing Authorities by creating a second Joint Committee to manage the WMS pension liabilities.

10. It is proposed to introduce the above proposal from 1 April 2020. In doing so, the arrangements would be based upon the latest triennial actuarial valuation (as at 31 March 2019, and implemented across all employers from 1 April 2020) improving the quality of the information used at the agreed date of separation of the WME/WMS liabilities, and also removing the need for further actuary costs, as these are absorbed within the existing workload. Furthermore, the option to pay deficit contributions up to three years in advance (to deliver a saving), or other options would be available to be considered, forming part of the delegation outlined in recommendation (e). The 1 April 2020 date also removes the practical difficulties of eradicating any existing or proposed pre-payment arrangements made by WME.

11. The overall proposal is that the WMS pension liabilities and assets will be separated from the allocation of the WME employer and allocated to a new employer (called WMS Pension) within the Shropshire County Pension Fund.

12. Given that the main issue in WME bidding for contracts is the appearance of its (and the WMS) pension deficit in its accounts, the recommendation is that the asset shares should be determined so that WME is initially fully funded (at the point that the position is crystallised), with the remaining assets (and the historic WMS liabilities) being allocated to the four Owing Authorities. This approach will transfer a slightly larger deficit to the Owing Authorities which will marginally increase their respective employer's liability calculation of the new WMS Pension employer. Furthermore, it is recommended that WME's pension liabilities should be fully funded on actuarial assumptions used for accounting purposes using IAS19/FRS102 actuarial assumptions. This would leave a larger deficit to the Owing Authorities which will further increase their respective employer's liability calculation of the new WMS Pension employer. These implications are identified in the Financial Implications section of this report.

13. The proposal would result in the removal of the WMS Pension liability from WME's Balance Sheet by transferring the responsibility for the liability to the four Owing Authorities, to be managed through the establishment of a new employer, whilst retaining the assets and liabilities within the Shropshire County Pension Fund. This resulting new employer would manage the WMS pension assets and liabilities within Shropshire County Pension Fund via a Joint Committee.

14. The setting up of a new WMS Pension employer, which is the responsibility of a new Joint Committee established by the Owing Authorities, would enable any pension deficit to be separately identified, separately valued and monitored, and allocated to the new WMS Pension employer with the Shropshire Fund. It remains the joint liability of the four Owing Authorities in a reasonably cost-effective way without the transfer of risk between any of the parties.

15. The proposal would require formal arrangements to be drawn up between the four Owing Authorities, for each authority to agree to establish a new Joint Committee and make appropriate delegations to the Committee for the management of its share of the WMS pension liability. To reduce administration, it would be proposed to replicate the membership and governance arrangements of the WME Joint Committee as far as possible for the WMS Pension Joint Committee so that the same Members sitting on WME Joint Committee could potentially also sit on a new WMS Pension Joint Committee and meetings of the two Joint Committees could be diarised to take place at the same venue and running one after the other. Worcestershire's member representatives are currently the Deputy

Leader and Cabinet Member with Responsibility for Adult Social Care and the Cabinet Member with Responsibility for Health and Wellbeing. The WME Treasurer would take the role of Treasurer for WMS Pension Joint Committee.

16. The governance arrangements for a new WMS Pension Joint Committee would be based, as far as possible, on the existing WME Joint Agreement. The WMS Pension Joint Committee would have delegated authority from each Owing Authority to be responsible for any WMS Pension Liability, and historic WMS Compensatory Added Years Benefits. The enclosed Appendix contains the draft governance arrangements proposed for the WMS Pension Joint Committee.

17. The risks associated with retaining a pension liability for WMS remain with the Owing Authorities and are not influenced in any way by the removal of responsibility for the deficit from the WME Joint Committee and resulting change in accounting treatment.

18. Deficit contributions of the Owing Authorities would be subject to the same triennial valuations and treatment whether they are the responsibility of and accounted for within the WME Joint Committee or separately by the Owing Authorities under a new WMS Pension Joint Committee.

19. The pension liability arising from employees within WME (the WME Pension Liability) would continue to be shown within WME Accounts, with the expected IAS19/FRS102 calculations and (should this be necessary in the future) a deficit recovery plan drawn up and subject to the existing scrutiny and consideration by the business and the WME Joint Committee. The expectation is that these calculations would be significantly less impactful on the Balance Sheet, although the risk remains that an impact could be seen nonetheless.

## **Financial Implications**

20. Worcestershire County Council, Herefordshire, Shropshire and Telford & Wrekin Councils have for many years been constituent members of a Joint Committee undertaking procurement activity. This business was originally called West Mercia Supplies, but following the sale of the stationery supplies business it has been renamed West Mercia Energy (WME).

21. At the point of sale of the WMS division (April 2012) the business had a pension fund deficit as identified in the actuarial valuation of the Shropshire County Pension Fund. The deficit related, in the main, to WMS employees whose employment was transferring as part of the sale. To deal with this position, the Owing Authorities had the following options:

- a. Transfer the WMS pension deficit to the buyers of the WMS business.
- b. Use the capital receipt from the sale, plus other Owing Authority funds (if necessary) to clear the WMS pension deficit retained by the Owing Authorities.
- c. Allocate liability for the WMS pension deficit to the continuing WME business and continue to make deficit recovery payments from any WME profits delivered.

22. During the sale process it was identified that option (a) was unviable. Furthermore, the Owing Authorities concluded that they did not wish to forego a capital receipt from the sale of WMS as represented by option (b) which would also have necessitated a revenue payment from owning authorities to make up the shortfall between the value of the capital receipt and the larger pension deficit. As a result, the WMS pension fund deficit was retained by the Owing Authorities and the liability to meet that deficit was allocated to the continuing WME business. A deficit recovery plan was agreed with Shropshire County Pension Fund (SCPF) and revised every three years in line with the actuarial valuation. The

latest valuation is being conducted at the time of writing, as at 31 March 2019, with contribution changes for all employers within the fund from 1 April 2020. In the 2019/20 Financial Year, the budget for WME deficit recovery payment is £161,726, plus £31,713 for Compensatory Added Years benefits (CAYs).

23. While the direct financial implications of this arrangement within the WME Profit and Loss Account currently are affordable, the impact on the business balance sheet is significant. The pension liability is in excess of £6 million which is not offset to any great extent by the business' fixed assets (minimal) or working balance (generally in the order of £1 million). This results in WME producing a negative balance sheet each year, with net liabilities of around £5 million each year.

24. In adopting option c above, the resulting capital receipt from the sale of WMS was split evenly between the owning authorities and it is appropriate, therefore, to continue to apply this methodology to the Pension Liability calculation. In the intervening years no formal methodology was followed for the deduction of the pension liability in relation to the owners shares of WME profit. As a result, the actual deduction for each authority would have been incorporated within the distribution of surplus calculation and would have varied slightly from an equal share. There will be no backdating of the methodology, however, to adjust for this. Upon implementation, this arrangement will have a positive financial implication for WME (removing the WMS pension deficit from the balance sheet and removing the WMS pension deficit payments from the Profit and Loss Account) and there will be a reciprocal negative financial implication for the Owing Authorities. The Owing Authorities will be required to cover the cost of 25% of the WMS pension deficit payment annually. The Owing Authorities will, however, benefit from marginally increased distributions from WME as a result of the pension deficit payments for WMS no longer being charged to the WME Profit and Loss Account.

25. Given that the main issue in WME bidding for contracts is the presence of the pension deficit in its business accounts, there is a presumption that the asset shares should be determined so that WME is initially fully funded (at the date the WMS pension liabilities are separated), with the remaining assets (and the historic WMS liabilities) being allocated to the four owning authorities in equal shares. This will potentially transfer a slightly larger deficit to the Owing Authorities. Furthermore, there is a choice as to whether WME's pension liabilities should be fully funded on ongoing actuarial assumptions or on actuarial assumptions used for accounting purposes, as the two will generate different answers. The Shropshire County Pension Fund actuaries have been asked to calculate the approximate figures using both approaches, and the details below provide an estimate of how the final figures may look. The figures have been calculated as at 31 March 2019 as part of the 2019 actuarial valuation of the Shropshire County Fund but will in due course need to be updated to the date of separation. Given that IAS19/FRS102 liabilities have increased over recent months, as a result of falls in bond yields, it is likely to need a slightly higher asset allocation to WME (resulting in a slightly lower asset allocation and therefore slightly increased deficit on an ongoing valuation basis for WMS):



**Table 1: WME fully funded on illustrative ongoing valuation assumptions:**

	<b>WME</b>	<b>WMS</b>
	<b>£m</b>	<b>£m</b>
<b>Illustrative ongoing valuation position</b>		
Assets	0.93	9.36
Liabilities	0.93	10.79
Surplus/(deficit)	-	(1.43)
<b>Estimated IAS19/FRS102 position</b>		
Assets	0.93	9.36
Liabilities	1.64	14.96
Surplus/(deficit)	(0.71)	(5.60)

**Table 2: WME fully funded on estimated IAS19/FRS102 assumptions:**

	<b>WME</b>	<b>WMS</b>
	<b>£m</b>	<b>£m</b>
<b>Illustrative ongoing valuation position</b>		
Assets	1.64	8.65
Liabilities	0.93	10.79
Surplus/(deficit)	0.71	(2.14)
<b>Estimated IAS19/FRS102 position</b>		
Assets	1.64	8.65
Liabilities	1.64	14.96
Surplus/(deficit)	-	(6.31)

26. The recommendation would be for the WME asset share to be fully funded using IAS19/FRS102 actuarial assumptions, and therefore the £1.64 million asset allocation would form the basis of the figures. This would leave £8.65 million worth of assets and £10.79 million worth of liabilities (on the Shropshire County Pension Fund's ongoing valuation assumptions) to be allocated to the four Owing Authorities (which would impact on deficit contributions payable, with the accounting deficit feeding through to the owning authorities' balance sheets). The figures should be updated (as far as is reasonably possible) to the agreed date of separation of the WME/WMS liabilities, so that at this "strike date" WME has no surplus or deficit for employer accounting purposes. It is recommended that the final arrangements are implemented in line with these estimates by Shropshire Council Section 151 Officer, in consultation with the Section 151 Officers from the remaining Owing Authorities.

27. All figures in Table 1 can vary significantly on a daily basis, depending on what is happening in the investment markets. Whilst investment markets as a whole have been fairly favourable over the period since the actuarial valuation, there has been a large fall in corporate bond yields over that period (much of it occurring in the previous three weeks). This has pushed up the value of the liabilities for IAS19 purposes, so as WME is to be 100% funded on IAS19 assumptions as at 31 March 2020 then based on current markets the allocation of assets to WME will need to be higher than the amounts calculated as at 31 March 2019. This will not impact the contribution rates already calculated, given that the ultimate financial responsibility is not changing and given that the contribution rates will be reviewed again at the next actuarial valuation.

28. By ensuring WME is fully funded under IAS19/FRS102 assumptions, it will be in surplus under on-going actuarial assumptions. As a result, WME may not be required to physically pay annual pension contributions to Shropshire County Pension Fund under this arrangement, as the actuarial surplus relating to former service would offset the on-going employers' contributions for WME staff. While this may look unusual in isolation, the overall position is unchanged and there are no overall financial implications arising from this.

29. The Owing Authorities would be required to make separate contributions for the WMS pension liabilities allocated to the new employer to cover deficit contributions and Compensatory Added Years Benefits. A separate contribution from each Owing Authority is required as the removal of the deficit from WME means that a share of the liability effectively sits with each Owing Authority to be funded by them, rather than being funded directly by WME from its income, prior to any calculation and distribution of profits. Consequently, the WME profits distribution would be proportionately higher as a result of the pension deficit contribution no longer being accounted for through this mechanism. The payment mechanism for the proposal would need to be agreed between the Owing Authorities' Section 151 Officers.

30. Over and above the funded pension liabilities, WME is responsible for some historic Compensatory Added Years benefits which currently amount to approximately £31,500 per annum. The recommendation is that these benefits should also become the responsibility of WMS Pension Joint Committee, so that the costs will then be split equally between the four Owing Authorities.

31. To implement the proposal there have been limited one-off costs of £7,140 in 2019/20, as most preparatory costs have been absorbed within the existing agreements between WME, Shropshire Council, Shropshire County Pension Fund and Mercer. There will be on-going costs associated with the managing and administration of a second Joint Committee and the cost of preparing a set of accounts for that new Joint Committee. These

are estimated to be £5,000 and would be split between the four Owing Authorities and recovered via the agreed payment mechanism.

**Table 3: On-going Financial Implications estimate:**

Details	Total Cost (£)	Cost to each authority (£)
Joint Committee	5,000	1,250
Deficit repayment	175,000	43,750
CAYS	31,500	7,875
Total Costs	211,500	52,875
Change in WME distribution of surplus	(206,500)	(51,625) <sup>1</sup>
Net impact	5,000	1,250

32. The following set up costs have been incurred in reaching the recommendations proposed within this report:

**Table 4: One Off Costs:**

Date	Details	Value (£)
Apr 2018	Work and advice in relation to the pension liability options – Mercer	2,865
Mar 2019	Advice/meeting/discussion on pension liability options – Mercer	1,285
	<b>Costs already charged to 2018/19 WME Accounts</b>	<b>4,150</b>
January 2020	Work and advice in relation to the pension liability options – Mercer	3,140
March 2020	Interpretation and report production - Shropshire Council, Shropshire County Pension Fund	4,000
	<b>Costs to be charged to 2019/20 WME Accounts</b>	<b>7,140</b>

33. It would be possible for the four Owing Authorities to make payments in advance (annually or three years in advance at each triennial valuation). This would generate a saving over the three year period but would have a cashflow implication for the Owing Authorities. Given the complexity of the arrangements, it may be necessary for all four Owing Authorities to agree to adopt the same mechanism, and this would be reviewed following each triennial valuation. This decision would form part of the delegation in Recommendation (d).

## Legal Implications

34. Part VI of the Local Government Act 1972 and Part 1A, Chapter 2 of the Local Government Act 2000 (as amended) makes provision for local authorities to establish joint committees. Provided that the functions to be exercised are executive functions, further to the Local Authorities (Functions and Responsibilities) (England) Regulations 2000, it is a matter for the respective Cabinets to determine the establishment of an executive joint committee and to agree the executive functions to be delegated to that joint committee. Every member of the joint committee must be a member of their nominating Council's Cabinet.

<sup>1</sup> Shown here for illustrative purposes using 25% distribution to each owning authority but will vary between authority and each year based on the distribution of surplus calculation.

35. The functions to be delegated to the WMS Pension Joint Committee are not functions relating to pension or related payments due to local authority employees pursuant to the Superannuation Act 1972 which are identified in the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 as Council (not executive) functions. Each Owing Authority's obligation to make payments to the relevant Pension Fund in respect of current or past employees for which they are responsible may therefore be exercised by the Owing Authority's executive and delegated accordingly.

## **Background**

36. Worcestershire County Council, Herefordshire, Shropshire and Telford & Wrekin Councils have for many years been constituent members of a Joint Committee undertaking procurement activity. This business was originally called West Mercia Supplies, but following the sale of the stationery supplies business it has been renamed West Mercia Energy (WME). Each of the four Owing Authorities have delegated their functions in relation to the procurement of energy and utilities to the Joint Committee and each Owing Authority has two votes each on the WME Joint Committee.

37. The WME Joint Committee operates under the Joint Agreement, the latest version of which was approved by the Owing Authorities and for Shropshire Council this was at Cabinet on 6 September 2017. The Joint Agreement sets out how the Joint Committee operates and that the four Owing Authorities are jointly liable in equal shares for the liabilities of the Joint Committee and the WME business.

38. On 24 September 2019 the Joint Committee approved recommendations to:

- a. propose that the four WME Owing Authorities take direct responsibility for the pension deficit liability relating to former WMS employees (including Compensatory Added Years Benefits) and WME with effect from 1st April 2020; and
- b. subject to the formal decisions of the four WME Owing Authorities to agree the above, to remove the pension deficit liability relating to former WMS employees (including Compensatory Added Years Benefits) and WME from the WME Balance Sheet from 1 April 2020.

39. It is a decision for each Owing Authority, rather than the WME Joint Committee, to agree that the Owing Authorities create a new Joint Committee and employer to take responsibility for the current WMS pension deficit so that it can be removed as a liability from the WME business.

40. It is a decision for each Owing Authority, rather than the WME Joint Committee, to remove the responsibility for the pension deficit from WME and the Joint Committee's management and to put in place a new mechanism under which the Owing Authorities take direct responsibility for the current WMS pension deficit.

41. The aim of the proposal identified in this report is to create a new Joint Committee and employer to take responsibility for this so that it can be removed as a liability from the WME business to put WME in a position where, at least initially, it is not carrying a pension deficit (and certainly not relating to former WMS employees) under the Shropshire County Pension Fund. To achieve this, the overall aim is that the liabilities relating to former WMS employees will be separated from the WME business and instead more clearly allocate the liability to the Owing Authorities.

## HR Implications

42. There are minimal if any HR considerations as a result of this report, although continued appropriate advice will be taken from the Council's Human Resources team.

## Equality Duty Considerations

43. 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 any changes to the budget. The Council will continue to ensure best practice is followed with regard to these requirements.

## Risk Implications

44. The Cabinet report includes recommendations regarding transferring financial responsibility between joint committees of the Council consistent with the three other Owing Authorities of West Mercia Energy. Any risk is borne and managed equally.

## Privacy and Public Health Impact Assessment

45. A Health Impact Assessment has been undertaken with regard to this report and recommendations relating to new governance arrangements for pensions costs to understand the potential impact they can have on Public Health outcomes across the county area.

46. This report is about changing the governance of an existing joint committee, and does not include any new or changes to policy or service provision.

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

48. A similar assessment has been undertaken with regard to privacy/data protection and has confirmed that there is no impact anticipated as a result of this report.

## Supporting Information

- **Appendix – WMS Pension Joint Committee – Principles of the Joint Agreement (electronic version only)**

## Contact Points

County Council Contact Points

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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:

West Mercia Energy Joint Committee Reports

**CABINET**  
**26 MARCH 2020****RESOURCES REPORT – REVENUE AND CAPITAL BUDGET  
MONITORING - MONTH 10 (31 JANUARY) 2019/20**

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**Relevant Cabinet Member**

Mr S E Geraghty

**Relevant Officer**

Chief Financial Officer

**Recommendations**

1. **The Cabinet Member with Responsibility for Finance (who is also the Leader of the Council) recommends that Cabinet:**
  - (a) notes the 2019/20 revenue and capital budget monitoring up to 31 January 2020;
  - (b) notes that £0.25 million has been made available from earmarked reserves to provide support for communities directly affected by the recent flooding incidences and that further updates will be brought back to Cabinet on this spend and any Bellwin claim;
  - (c) agrees that up to £0.7 million expenditure (the amount beneath the Bellwin Scheme threshold) is allocated from earmarked reserves to support recovery expenditure from recent flooding; and
  - (d) notes that £0.2 million has been made available this financial year from earmarked reserves as an initial sum to contribute towards costs arising in response to the Covid-19 outbreak – recognising that further support including from Central Government is likely to be available as circumstances continue.

**Introduction**

2. This report details the 2019/20 outturn forecast for the Council's £330 million net revenue budget as at Month 10 (31 January 2020) and progress to date on the savings and reforms programme.
3. The Council continues to deliver statutory services and deliver against its Corporate Plan although it is facing service cost pressures of £3.9 million (1.2% of budget), which includes £2.9 million in relation to Adult Services.
4. This is after taking management action around Corporate Budgets to achieve £3.4 million from reducing corporate debt interest costs and pensions payments, and withholding expenditure from the corporate contingency.
5. This report also notes significant underlying cost pressures with regard to the Dedicated Schools Grant (DSG) High Needs Block, which is forecasting a £9.5 million

overspend, with school's forecasting an overall net deficit of £3.4 million on their retained balances.

6. The latest Capital Programme is also reported.

### **Summary Revenue Budget Monitoring 2019/20 Forecast at Month 10 (31 January 2020)**

7. The County Council's net budget of £330 million was set by Full Council in February 2019.

8. This report covers the forecast financial position for 2019/20 to the end of Month 10 (31 January 2020).

9. The overall outturn forecast, as set out in Table 1, at Month 10 is for a net overspend of £3.9 million (1.2% of budget) at the end of 2019/20. This includes a £3.5 million forecast overspend on services, and £6.8 million relating to the timing of the achievement of savings plans, offset by a £3 million planned withdrawal from earmarked reserves, and £3.4 million forecast underspend on corporate items.

10. Whilst previously it had been anticipated that management actions would reduce cost pressures to achieve a balanced budget by the year end, this has not been possible for a number of reasons, including flooding and ongoing adult care demand and it is likely that the £3.9 million net overspend (1.2% of budget) will need to be funded from earmarked reserves (Financial Risk). There have been additional costs arising not only from the general adverse weather conditions of winter, but also from the direct and indirect impacts of flooding which have been incurred to maintain public safety, business continuity and to minimise travel disruption.

11. The Council is working collaboratively with District Councils, other County Councils and partners in response to the recent flooding and the costs of clean-up, recovery and support works will be drawn up for potential support from the Government under their Bellwin Scheme.

### **Worcestershire Flood Support Scheme and recent flooding events**

12. The Council was quick to respond by setting aside £250,000 from the 2019/20 budget to support residents and businesses most affected at this critical time. This money is in addition to and goes further than what the Government has promised to support.

13. This Worcestershire Flood Support Scheme will be managed locally within each divisional area affected to ensure it has the most impact.

14. The allocation of the funding was made under existing budget virement delegations to the Chief Executive and Chief Finance Officer, in consultation with the Cabinet Member with Responsibility for Finance. Progress on spend and outcomes will be reported back to Cabinet during 2020.

15. The total spend on the response to the flooding could exceed the £0.7 million threshold set under the current Government scheme to fund such events (The Bellwin Scheme) and as such officers are looking at submitting a claim. This could see some of the sums recovered, if not we will look at options to fund at year end through reserves. Now we are in the recovery stage we are evaluating total costs incurred during the response stage



for a potential claim through the Bellwin Scheme and a further update will be brought to a future Cabinet meeting.

## **Coronavirus – Covid-19 Budget for Initial Costs**

16. At time of writing, the County Council is prudently taking action and confirming public health and business continuity plans. This will inevitably result in additional expenditure being incurred and at this stage £0.2 million has been set aside from earmarked reserves to fund this activity. This will be subject to review as the situation develops, with updates to be reported to a future Cabinet meeting.

## **Budget Forecast**

17. The outturn forecast for each of the Council's services for 2019/20 is as follows:

**Table 1: Summary Outturn Forecast as at Month 10 2019/20**

Service	2019/20 Net Budget	2019/20 Forecast	19/20 Draft Variance Before Adj's	Transfer to Capital	Proposed Withdrawal from Reserves / Grants	Proposed C/Fwds	Variance After Adj's	Variance After Adj's	Variance Last Period	Change Since Last Period
	£000	£000	£000	£000	£000	£000	£000	%	£000	£000
Dedicated Schools Grant (DSG)	0	8,489	8,489	0	0	(8,489)	0	-	0	(17)
Children, Families and Communities (Excl DSG)	95,488	96,264	776	0	0	0	776	0.8%	752	24
Economy & Infrastructure	55,749	58,897	3,148	295	(2,999)	(33)	411	0.7%	(33)	444
Commercial and Commissioning	6,393	7,565	1,176	(193)	(1,506)	(4)	(526)	-8.2%	(536)	10
Chief Executive	1,566	4,337	2,771	(146)	(2,735)	11	(99)	-6.3%	(22)	23
Adults	125,870	128,738	2,868	0	0	0	2,868	2.3%	3,177	(309)
Communities	21,165	20,975	(190)	0	0	0	(190)	-0.9%	(518)	328
Public Health	2,388	2,668	279	0	0	0	279	11.7%	353	(74)
<b>Total : Services (Excl DSG)</b>	<b>308,619</b>	<b>319,443</b>	<b>10,828</b>	<b>(44)</b>	<b>(7,240)</b>	<b>(26)</b>	<b>3,519</b>	<b>1.1%</b>	<b>3,173</b>	<b>446</b>
Finance / Corporate Items	30,883	21,704	(9,179)	0	0	5,777	(3,401)	-11.0%	(3,401)	0
Non-Assigned Items	(6,865)	(115)	6,750	0	(3,000)	0	3,750	-54.6%	3,750	0
Funding - Transfer From Reserves	(2,247)	(2,247)	0	0	0	0	0	0.0%	0	0
<b>Total (Excl DSG)</b>	<b>330,390</b>	<b>338,785</b>	<b>8,399</b>	<b>(44)</b>	<b>(10,240)</b>	<b>5,751</b>	<b>3,868</b>	<b>1.2%</b>	<b>3,522</b>	<b>446</b>
<b>Total - Funding</b>	<b>(330,390)</b>	<b>(330,390)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0</b>
<b>Grand Total - Services and Funding (Excl DSG)</b>	<b>(0)</b>	<b>8,395</b>	<b>8,399</b>	<b>(44)</b>	<b>(10,240)</b>	<b>5,751</b>	<b>3,868</b>		<b>3,522</b>	<b>446</b>
Dedicated Schools Grant (DSG)	0	8,489	8,489	0	0	(8,489)	0		0	0
<b>Total</b>	<b>(0)</b>	<b>16,884</b>	<b>16,888</b>	<b>(44)</b>	<b>(10,240)</b>	<b>(2,738)</b>	<b>3,868</b>	<b>1.2%</b>	<b>3,522</b>	<b>446</b>

18. A further breakdown for each service area is set out in Appendix 1.

19. Forecast commentary on financial issues is included below in the following paragraphs and variances by individual service area greater than £0.250 million are set out in more detail in Appendix 2.

## **Children, Families and Communities – Budget £95.5m, £0.5m overspend**

20. These services include the contract budget for Worcestershire Children First (WCF) which are reporting alongside services that remain with the County Council. In total these services are forecasting an overspend of £0.5 million. This comprises £0.8 million overspend that relates to the Council and £0.3 million underspend for WCF since the company's creation in October 2019.

21. The WCF £0.3 million underspend comprises £0.3 million overspend on Placements and Provision offset by staffing underspend of -£0.2 million in social care and -£0.4 million for resources support services.

22. For the services prior to WCF, the £72.6 million Children's Social Care budget is forecasting a small underspend of £0.1 million. Within this forecast is a £0.5 million overspend forecast for Placements and Provision, offset in the main by underspends of -£0.6 million across safeguarding, family front door and targeted family support teams.

23. The service is forecasting an overspend of £1 million on the £14.4 million Home to school and college transport budget, which includes potential inflationary pressures of £0.6 million and £0.4 million relating to the reversal of a 2018/19 accounting accrual, and -£0.1 million on other services.

24. The Dedicated Schools Grant (DSG) High Needs block remains an area of significant concern. Last financial year saw expenditure in excess of funding, with the Council not only using up completely non-schools DSG reserves, but moreover ending the year with a £0.6 million 'overdrawn' reserve.

25. The forecast for this financial year continues to cause concern with a gross overspend forecast of £11.8 million compared with the £43.8 million budget for High Needs. The Government has allocated an additional amount of DSG to Worcestershire with around £2.3 million directed to support high needs pressures. There is a net overspend forecast, therefore, of £9.5 million for this financial year which will increase the Council's DSG High Needs 'overdrawn' reserve to £10.1 million.

26. The Council and WCF are working with Schools to optimise pressures within funding, whilst taking every opportunity to lobby Central Government about overall funding allocations.

27. It is worth noting that the Government have advised to treat this as an issue specifically relating to DfE/grant conditions.

28. The Government has announced national increases for Schools and High Needs funding which includes an additional allocation of £8.736 million in 2020-21, which is Worcestershire's share of the national £780 million announced in October 2019 to support High Needs placement and top-up pressures being experienced in all local authorities. This will support the future expected ongoing significant cost pressures in the High Needs DSG, however this will not eliminate the deficit from 2019/20 of around £9.6 million which will need to be carried forward into 2021/22. We understand the Department for Education are reviewing this and we expect further announcements about both the confirmation that this will not be considered a general fund reserve risk and further future funding. The Council continues to lobby and assess actions to address this area of spend.

29. The latest forecast for school's balances prepared for P9 31 December 2019 shows a forecast net deficit position of £3.4 million by the end of the financial year and this is a cause for concern going forward. There are 76 schools that are reporting a surplus and 50 schools forecasting a deficit outturn position. The deficit forecasts relate to secondary schools.

30. The Council continually works with those schools most affected to support them in plans so they can return to a balance position, but the relatively low funding level does not help. This position is consistent with funding pressures faced by local government

education services across the whole country and it remains a key issue for the Council to support schools by lobbying Government for the right level of needs-based funding.

**Table 2: Schools P9 Forecast Position - Summary**

£10.0m	Schools in Deficit
-£6.6m	Schools in Surplus
£3.4m	Net Deficit

**People Directorate** – Budget £149.4m, £3.0m Overspend

31. The People Directorate, comprising Adult Social Care, Communities and Public Health, is forecast to overspend its £149.4 million budget by £3.0 million (2%).

32. The Directorate's savings programme of £9.4 million is mostly on target for achievement, with £1 million identified as RED rated which contributes to the overspend forecast.

**People Services – Adults** – Budget £125.9m, £2.9m Overspend

33. The most significant variances from budget are as follows:

- £2.4 million overspend in respect of the Older People Residential and Nursing services budget due to increased activity and unit price of nursing placements
- £0.4 million net overspend in respect of Learning Disability
- £0.5 million overspend in respect of the Mental Health Residential and Nursing, and domiciliary services
- -£0.4 million underspend on support services.

**People Services – Communities** – Budget £21.2m, -£0.2m Underspend

34. The most significant variances from this budget are as follows:

- £1 million underspend as a result of vacancies in the Side by Side Service
- £0.5 million overspend in respect of external domiciliary care
- -£0.3 million underspend on archaeology field services due to additional income generation.

**People Services - Public Health - £30.1m Expenditure Budget, funded by £28.4m Public Health Grant income. Net Budget £2.4m, £0.3m overspend**

35. The ring-fenced Public Health Grant is forecast to be fully spent this financial year with no issues arising.

36. Child Development Centres are now 100% funded by the CCGs with no contribution required from the Public Health Ring Fenced Grant. As such, an underspend is expected in 2019/20 and the reported break-even position above assumes a transfer to PHRFG reserves of £0.4 million.

37. Scientific Services is forecast to overspend by £0.4 million. The overspend represents net staff costs of £0.1 million, reduced income of £0.2 million and an estimate of £0.1 million in respect of additional premises costs.

**Economy and Infrastructure – Budget £55.7m, £0.4 million overspend**

38. The Economy and Infrastructure Directorate is forecasting to overspend its £55.7 million budget by £0.4 million (0.7%).

39. The main reason for this overspend is as a result of additional routine maintenance on highways and public rights of way as a result of adverse weather conditions experienced across the county. At the time of drafting this report, the Council is in the middle of taking action in response to the flooding events and it is likely that the costs of recovery will increase. We are keeping records in expectation of submitting a claim to Government under the Bellwin scheme to recover some of our costs.

40. Waste Services are forecast to overspend its £27.6 million budget by £2.8 million which relates mostly to achievement of the service savings target being deferred. It is likely that this will be funded by a transfer from the Waste Contract reserve of £2.9 million (subject to future Cabinet approval to withdraw from reserves when the Council's financial outturn at the end of 2019/20 is considered at its meeting in June 2020) with the remaining £0.1 million found through efficient cost management.

41. This reserve may be fully utilised over the next 2 years if no action is taken. The Council is working with its external provider on opportunities to ensure services are delivered within the cash limited budget.

42. The street lighting energy budget is forecast to overspend by £0.3 million, comprising £0.1 million inflationary pressure and £0.2 million energy usage reductions remaining short of the savings target.

43. The Streetworks budget is forecasting to underspend by £0.3 million as a result of staff vacancies and increased income from fees and charges.

44. The Transportation Service is forecasting a net underspend of -£0.4 million as a result of a reduction in Concessionary Fares payments and additional driver training income.

**Commercial and Commissioning** – Budget £6.4m, £0.5m underspend

45. The Commercial and Commissioning Directorate is forecasting to underspend its £6.4 million budget by -£0.5 million (8.3%).

46. The most significant variance is a £0.4 million underspend as a result of Property Services contract underspends.

47. The Directorate's savings target of £0.5 million is forecast to be achieved this year.

**Finance/Corporate Items** – £30.9 million, - £3.4 million underspend

48. The Financial Services budget includes corporate items such as Debt Interest and Minimum Revenue Provision (MRP).

49. The £30.9 million budget for Finance/Corporate Items is forecast to underspend in total by -£3.4 million as follows:

- -£1.8 million Whole Organisation Contingency. A corporate contingency of £0.750 million is maintained, which has been increased by a further £1 million set aside from specific grant income to £1.75 million. There are no commitments against this money so the total amount can be released as an underspend to support overall cost pressures
- -£1.2 million. Financing Transactions Borrowing Costs – active treasury management to defer 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
- -£0.4 million. Review of balance sheet commitments

50. Following the application of the MRP policy review, it is anticipated that £5 million will be transferred to the financial risk reserve.

**Cross Cutting Items – Saving Target £7.4m (-£6.9m of target plus £0.5m of costs).**

51. Savings targets are held centrally pending confirmation of specific budgets where budget reductions will be achieved. An additional £0.5 million expenditure has been set aside to fund increased capacity of the procurement team to support the achievement savings. This is anticipated to be funded from earmarked reserves.

52. With regard to the cross-cutting savings that comprise the £7.4 million target, £0.5 million will be achieved through organisational redesign. At this stage the remainder is categorised as RED on the basis that whilst work is ongoing, the individual savings are not likely to be achieved during 2019/20.

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

53. The Council's overall budget is funded by a number of corporate income streams, with the forecast being shown in the table below. Corporate income received was as expected during the year.

**Table 3: Summary of outturn for Corporate Income 2019/20**

Dir.	Service £000	2019/20 Net Budget	2019/20 Forecast	Variance After Adj's
Funding	Council Tax	(264,428)	(264,428)	0
Funding	Collection Fund (Surplus) / Deficit	(1,721)	(1,721)	0
Funding	Business Rates Retention Scheme	(62,550)	(62,550)	0
Funding	Business Rates Reserve	(1,691)	(1,691)	0
Total	<b>Total - Funding</b>	<b>(330,390)</b>	<b>(330,390)</b>	<b>0</b>

## Summary Capital Budget Monitoring 2019/20 Forecast at Month 10 (31 January 2020)

54. The latest Capital Programme was approved by Full Council at its last meeting on 13 February 2020 and is reported at Appendix 7.

55. The Capital Programme was updated to take account of the revised spend profile for key schemes and included significant new capital investment around highways, cutting congestion, street lighting and flood mitigation.

56. The latest information from operational managers is that there are no significant variances arising.

57. The overall revised Capital Budget for 2019/20 totals £160 million.

**Table 4: Capital Programme**

	LATEST FORECAST 2019/20	LATEST FORECAST 2020/21	LATEST FORECAST 2021/22	LATEST FORECAST 2022/23 and Beyond	LATEST FORECAST TOTAL
TOTAL EXPENDITURE	£000	£000	£000	£000	£000
CHILDREN AND FAMILIES	26,364	10,015			36,379
OPEN FOR BUSINESS	63,252	61,796	8,631	23	133,702
THE ENVIRONMENT	53,847	58,787	16,600	2,000	131,235
HEALTH & WELL-BEING	6,599	2,021			8,620
EFFICIENCY & TRANSFORMATION	10,608	7,375	5,620	5,056	28,659
<b>TOTAL</b>	<b>160,670</b>	<b>139,994</b>	<b>30,851</b>	<b>7,079</b>	<b>338,594</b>

58. The Council is awaiting details of future grant allocations from Government for 2020/21 and later. These will be added to the Capital Programme when known.

### Legal Implications

59. 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

60. 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. This is undertaken through the approval of the annual budget in February each year.

61. 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. This has identified the need to draw on reserves to address the overspend in 2019/20. This will be withdrawn from the Financial Risk reserve which is forecast to be around £8.9 million by the end of the year, this is still within the tolerable level and allows the General Fund balance to remain at £12.217 million as forecast by 31 March 2020.

62. 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.

63. The Council's procedures for budget monitoring are 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

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

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

## **Equality Duty Considerations**

66. 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 any changes to the budget. The Council will continue to ensure best practice is followed with regard to these requirements.

## **Risk Implications**

67. The Cabinet report includes recommendations regarding the Council's forecast financial position for 2019/20 and the carry forward of earmarked reserves and unspent grants.

68. If approved, there are normal risks regarding ensuring that appropriate qualifying expenditure is incurred, and that spending is within the cash limited for budgets. These risks are mitigated through the regular budget monitoring process.

## **Privacy and Public Health Impact Assessment**

69. 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.

70. This report is mainly about confirming the forecast financial position at this stage of the year reflecting existing Cabinet decisions and policies, and where appropriate utilising specific grant monies with spending restrictions associate with these grants, and allocating initial funding to support flooding and coronavirus outbreak.

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

72. A similar assessment has been undertaken with regard to privacy/data protection and has confirmed that there is no impact anticipated as a result of this report.

## **Supporting Information – available electronically only**

- **Appendix 1** – Budget Monitoring Outturn Forecast for Month 10 - 31 January 2020
- **Appendix 2** - Budget variances greater than £0.250 million
- **Appendix 3** - Capitalisation
- **Appendix 4** – Proposed withdrawal from Grants/Reserves
- **Appendix 5** – Proposed Carry Forwards – Grants / Earmarked Reserves
- **Appendix 6** – List of Savings / RAG Analysis
- **Appendix 7** – Capital Programme

## **Contact Points**

County Council Contact Points

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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

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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