

CABINET
2 FEBRUARY 2017**2017-18 BUDGET AND COUNCIL TAX**

Relevant Cabinet Member

Mr S E Geraghty

Relevant Officer

Chief Financial Officer

Recommendation

1. **The Leader of the Council (and Cabinet Member with Responsibility for Finance) recommends that Cabinet agree the following recommendations to Full Council:**
 - a) **the conclusions set out in the report concerning revenue budget monitoring up to 30 November 2016 be endorsed;**
 - b) **the virement and transfers to Earmarked Reserves in paragraph 20 be endorsed;**
 - c) **the budget requirement for 2017/18 be approved at £318.478 million including a transfer from earmarked reserves of £5.185 million;**
 - d) **the Council Tax band D equivalent for 2017/18 be set at £1,155.31 which includes £44.05 relating to the ring-fenced Adult Social Care precept, and the Council Tax Requirement be set at £236.204 million;**
 - e) **consistent with the provisional Local Government Finance Settlement that revenue cash limits be set for each Directorate:**

	£m
Adult Services	130.999
Public Health*	0.101
Children, Families and Communities	82.766
Economy and Infrastructure	67.018
Commercial and Change / Finance	42.779
	<hr/> 323.663 <hr/>

*Public Health services are funded by a £0.1 million budget as above plus a £29.9 million specific grant.

- f) **the Council's Pay Policy Statement is recommended for approval as set out in Appendix 8;**
- g) **the conclusions set out in the report concerning capital budget monitoring up to 30 November 2016 be endorsed;**
- h) **the capital programme as set out in Appendix 9 be approved;**

- i) that £10 million be added to the Capital Programme to support the overall A4440 Worcester Southern Link Road improvements;
 - j) the Medium Term Financial Plan as set out in Appendix 10 be approved;
 - k) the Treasury Management Strategy set out in Appendix 11 be approved; and
 - l) the Statement of Prudential Indicators and Minimum Revenue Statement as set out in Appendix 12 be approved.
2. **The Cabinet Member with Responsibility for Finance (also the Leader of the Council) recommends that Cabinet:**
- m) gives delegated authority to the Leader of the Council to recommend to Full Council, in consultation with the Chief Financial Officer, any further adjustments to the revenue cash limits in (c) and (e) above as a result of Central Government confirming the final Local Government Finance Settlement, Council Tax and Business Rates Income, and associated Specific Grants for 2017/18;
 - n) gives delegated authority to the Cabinet Member for Children and Families, in consultation with the Director of Children's, Families and Communities, to approve the decision on the new Early Years Single Funding Formula (EYSFF) and Early Years provider rate;
 - o) gives delegated authority to the Chief Financial Officer, in consultation with the Leader of the Council, to allocate funding to specific projects within the Revolving Investment Fund (RIF), subject to satisfactory business case completion, financial and operational due diligence advice from the RIF Investment Board. Details of decisions made will be published on the County Council's website as part of the Record of Officer Executive Decision process;
 - p) authorises the Director of Adult Services and the Director of Children, Families and Communities to finalise the details in respect of their Directorates and formally execute the Section 75 agreement for Commissioning arrangements with Health for 2017/18;
 - q) gives delegated authority to the Director of Economy and Infrastructure, in consultation with the Cabinet Member for Economy, Skills and Infrastructure to allocate capital projects within the £2 million Town Centre Improvements programme and the National Productivity Improvement Fund. Details of decisions made will be published on the County Council's website as part of the Record of Officer Executive Decision process; and
 - r) gives delegated authority to the Director of Economy and Infrastructure in consultation with the Cabinet Member for Highways to allocate funding to specific projects with respect to the £5 million Cutting Congestion programme, the £6 million investment into Footpaths and Pavements, and the Pothole Action Fund. Details of decisions made will be published on the County Council's website as part of the Record of Officer Executive Decision process.

Introduction

3. This report represents the penultimate stage in the formal process to determine the County Council's budget and precept levels for 2017/18. If approved, the report will form the basis for proposals to Full Council for approval on 9 February 2017. The approach to preparing the budget is in accordance with the Budget and Policy Framework Rules and reflects the County Council's Corporate Plan, 'Shaping Worcestershire's Future' and

Medium Term Financial Plan (MTFP). The Cabinet received the draft budget for 2017/18 at its meeting on 15 December 2016 and:

- a) approved for consultation the draft budget, which includes proposed changes to income generation and expenditure budgets that are currently being consulted upon arising from the Service Reform programme, a number of which have already been subject to detailed Cabinet and Scrutiny reports;
- b) endorsed that plan to address a remaining forecast savings requirement of £2.9 million as a result of updating the MTFP taking account of Central Government's Autumn Statement, presented for approval;
- c) endorsed an investment of £1 million in the Road Maintenance budget, £6 million over two years for Pavement Improvements, £5 million for Cutting Congestion and a £2 million extension to the existing Town Centre Improvements programme following residents' feedback on the importance of improving roads, pavements and tackling congestion in support of the Council's Open for Business priority;
- d) noted that whilst the full detail of the provisional Local Government Finance Settlement included the multi-year financial settlement deal agreed with Central Government, the County Council is still likely to be awaiting confirmation of around £90 million of specific grant income;
- e) endorsed the view that the County Council will continue to address financial challenges in future years; and
- f) agreed that it is minded to recommend to Full Council in February 2017 an increase in Council Tax Precept by 2.94% in relation to two parts:
 - 0.94% to provide financial support for the delivery of outcomes in line with the Corporate Plan Shaping Worcestershire's Future and the priorities identified by the public and business community
 - 2% Adult Social Care Precept ring-fenced for Adult Social Care services in order to contribute to existing cost pressures in 2017/18 due to demographic changes and an increased demand for more complex services

4. The County Council continues to listen to the needs and priorities of residents and local business through the annual Viewpoint Surveys, Roadshows, Budget Consultations, public participation in Council meetings and through ad-hoc tailored consultations and surveys. This extensive interaction has made it clear that the three priorities identified by the public are and remain to be:

- Maintenance of the Highways;
- Protecting vulnerable older people, particularly those with physical, learning and mental health difficulties; and
- Protecting vulnerable young people, particularly those in or leaving care to ensure they are safe and can make the most of the opportunities they have.

5. This report provides recommendations that would enable the County Council to remain ambitious, continue to deliver what is important to local people and the four priorities contained in 'Shaping Worcestershire's Future' as well as have robust plans for the significant financial challenges of the draft Local Government Finance Settlement.

6. This report brings together:

- a budget summary setting out key aspects of this report;

- the results of the budget consultation and engagement process;
 - confirmation of the areas of investment for residents and the Council;
 - the latest revenue forecast outturn and reserves movement for 2016/17;
 - summary of changes made in relation to the County Council's funding for 2017/18;
 - developments in expenditure budgets for 2017/18 from the plan presented to the December 2016 Cabinet; and
 - the effect of those changes on the budget and the forecast financial planning gap of £2.9 million for 2017/18 included in the December 2016 Cabinet report.
7. At the time of writing there are three income forecasts that have yet to be confirmed:
- Central Government have yet to issue the final figures for the Local Government Finance Settlement;
 - All District Councils have yet to confirm their forecasts for 2017/18 Business Rate income and some for 2017/18 Council Tax income; and
 - there remain a small number of Specific Grants that are yet to be confirmed by the Department for Communities and Local Government (DCLG) and other Government Departments.
8. A verbal update will be provided at Cabinet with regard to any confirmations that have been received. Within this report forecasts relevant to these items have been reviewed and refined based on the latest information that is available.
9. Delegated authority is requested in this report to be given to the Leader of the Council who is also the Cabinet Member with Responsibility for Finance, in consultation with the Chief Financial Officer, to make any final adjustments to the proposed cash limits being recommended to Full Council once these three remaining items are resolved.
10. This report also summarises the work undertaken in the following areas since the draft budget in other areas of financial planning:
- Joint Commissioning arrangements with the NHS, known as Section 75 agreements;
 - the proposed settlement in relation to funding of Worcestershire schools, including Dedicated Schools Grant passed directly to schools and the Education Services Grant that supports the County Council's services to schools;
 - the proposed pay policy for the County Council in 2017/18;
 - confirmation of the forecast New Homes Bonus payments;
 - the County Council's proposed 2017/18 and medium term Capital Programme; and
 - the base assumptions supporting the County Council's MTFP and associated areas of risk that will continue to be kept under review.
11. Finally the report covers these reporting responsibilities that are required to be included in the budget by statute. These include:
- the proposed Treasury Management Strategy;
 - the proposed Prudential Code parameters for the County Council to operate within;
 - consideration of the County Council's Equalities Duty in relation to this budget;

- commentary from the Overview and Scrutiny Board;
- arrangements around the consideration of alternative budget proposals and amendments; and
- statutory duties in relation to calculating the Budget.

Budget 2017/18 Consultation and Engagement

12. This report confirms the initiatives that were set out in the draft budget report to the December 2016 Cabinet and supports the delivery of the four Corporate Plan focus areas.

13. A number of consultation sessions have been held and continue to be run including:-

- Public and staff roadshows involving the Leader of the Council and the Chief Executive
- The 2016 Worcestershire Viewpoint survey
- Worcestershire Businesses survey
- Voluntary and Community sector events
- Press briefings and social media

14. Since the December 2016 Cabinet meeting, budget consultation has taken place with the following organisations:

- Parish and Town Councils;
- Staff associations, School governors and head teachers;
- The local Business Community through the Worcestershire Local Enterprise Partnership (WLEP) Business Board including National Non Domestic Ratepayers;
- Voluntary and Community organisations;
- Employee representatives including Unions; and
- Partners including health service organisations.

15. A verbal update will be provided at Cabinet of the consultation and engagement feedback.

Priority Investments

16. Set out below is confirmation of areas of investment into residents' and the County Council's core priorities and across the MTFP:

- Open for Business

The County Council and its partners have enabled significant investment to be made in a number of infrastructure schemes which are either well progressed or have now opened. These include Kidderminster Hoobrook Link Road, Bromsgrove Railway Station Relocation, Worcester Six development and investment in Malvern Hills Science Park.

This budget in addition includes a further allocation towards major infrastructure improvement on the Worcester A4440 Southern Link Road, keeping on track development work on a potential second Carrington bridge crossing in advance of a Central Government decision later in 2017 to support financially this vital piece of infrastructure.

The County Council is also continuing with the delivery of the new Worcestershire Parkway Regional Interchange railway station as a vital part of delivering the Strategic Economic Plan for Worcestershire.

- Children and Families

The budget confirms the strengthening of the Children's Social Care budget through confirmation of the allocation of £0.7 million investment in response to the recommendations within the Local Safeguarding Children's Board. This budget proposes a further £0.8 million of permanent funding to support the Children's Services Social Work Improvement Plan in response to the recommendations within the Children's Services Ofsted report that was published on 24 January 2017. This £1.5 million permanent allocation is planned to be supported by at least £1 million in 2017/18 from the County Council's Transformation Fund through existing delegation arrangements.

Taken together for 2017/18, this £2.5 million revenue funding will support an action plan to address the recommendations and to strengthen social care recruitment and retention as part of the workforce strategy, provide additional support for care leavers and increase administration and management capacity. A further £1 million capital investment is also recommended into Social Care Systems and Information Technology which will support the Children's Services Social Work Improvement Plan.

The budget also includes investment of £1.5 million into Special Education Needs and Disability (SEND) transport due to additional demand and the impact of national changes relation to SEND Reforms. Since implementation of the reforms, requests for a service have increased by over 250%, which has resulted in a significant increase in requirement for transport as the 'acceptance' rate for service provision has remained stable. Many children require specialist provision that is not available within Worcestershire, necessitating significant transport costs. This is an issue that is being experienced across many county areas in addition to Worcestershire and work is underway to examine ways in which mitigation of cost pressures in this area are delivered in partnership with other County areas.

- Health and Wellbeing

The budget confirms the strengthening of the Adult Social Care budget through the allocation of £2 million in response to the demographic growth and increasing complexity of supporting vulnerable older people and adults with disabilities. This forms part of a spending power increase of around £9 million which includes funding for inflation, for pay, pensions and prices, as well as increases in the base budget to support increased demand.

A funding allocation of £2.4 million represents a one off allocation of income from the Adult Services Support Grant made available by Central Government in the draft Local Government Finance Settlement on a one off basis. This income will need to be replaced in 2018/19 through other sources and we continue to lobby Central Government for this funding to be made permanent.

- The Environment

The County Council is proposing a £1 million permanent increase to the Road Maintenance budget to support the Corporate Plan's aims of upper quartile performance. In addition, one off and significant investments remain in the plan that were included in the draft budget, including £6 million for improving pavements over the next two years and £5 million to reduce congestion that include improvements to

local pinch points and installation of smarter traffic signalling equipment with an aim of reductions in journey times.

A £2 million extension to the existing Town Centre improvements programme is proposed to create more vibrant social spaces improving the heart of the local economic centres.

Building on a solid financial basis – Revenue budget monitoring 2016/17

17. The County Council's outturn forecast at Month 8 indicates a cost pressure of £1 million against authorised cash limits, 0.3% of the overall budget. It is anticipated that this variance will be reduced by mitigation plans through to the end of the financial year so that the County Council delivers services within its cash limited budget alongside further potential flexibility in the County Council's financing transactions budget as interest rates remain at historic lows.

18. The Adult Social Care budget is facing significant pressures in 2016/17 and the latest forecast cost pressure is £2.2 million after taking into account the planned use of earmarked reserves. This has mainly arisen due to the increased complexity of services users in receipt of care over and above that anticipated at the budget planning stage in Older People and Learning Disability services. Flexibility in Directorate reserves will be used to mitigate this forecast overspend in 2016/17, however it is important that ongoing reform plans are delivered as reserves can only be used once.

19. The County Council has experienced significant growth in recent years on both the numbers of Looked after Children and the associated expenditure. Whilst there are signs that the financial recovery plan, overseen by the Director of Children's, Families and Communities is beginning to gain traction with regard to Placement costs, there remains a risk that the plans do not deliver the required improvements in outcomes and reductions in costs as envisaged over the MTFP. Cautiousness in decision making and an increase in referrals following the Ofsted judgement, which has been seen in other local authorities following an Ofsted judgement, may also impact on the achievability of this plan.

Transfers to Earmarked Reserves

20. It is recommended that Cabinet approve the Virement and transfer to earmarked reserves from the Financing Transactions budget of £0.6 million with regard to continuing the Councillors' Divisional Fund scheme by a further year to the end of 2018/19.

21. This will ensure the scheme is funded for the next two financial years and means that each of the 57 County Councillors will be able to authorise up to £10,000 to be spend on locally determined initiatives within their divisions for each year. The scheme has been in operation since 2011/12 and has supported many organisations to deliver community based events and improvements.

22. This proposal does not require alteration of the net cash limits approved by Full Council. Virement can be made within existing 2016/17 directorate budgets from the favourable variance for financing transactions arising as the need for the County Council to take external borrowing is deferred following strong cash balances and no significant rise in borrowing rates expected for the immediate future.

Closing the forecast financial planning gap

23. The December 2016 Cabinet report set out a budget requirement of £319.7 million against funding from Central Government and Council Tax of £316.8 million leaving a forecast financial planning gap of £2.9 million. This is summarised in the following table;

Table 1: Initial Funding Gap – December 2016

	£m
Revised estimate of 2017/18 budget requirement	319.7
Less provisional Revenue Support Grant funding from Central Government	-19.9
Less estimated funding from Business Rates Retention Scheme:	
Top Up Grant	-41.9
Local Share	<u>-18.0</u>
	-59.9
Less provisional funding received from Council Tax	-237.0
Forecast financial planning gap for 2017/18	2.9

24. The Leader of the Council, who is also the Cabinet Member for Finance, responded to Central Government's Provisional Settlement in January 2017. A full copy of the response is provided at Appendix 2. The response raised concerns including:

- whilst the County Council welcomes Central Government's acknowledgement of the growing pressure on Adult Social Care, the transfer of recurrent funding from the New Homes Bonus to create the Adult Social Care Support Grant for what appears to be one year only is of significant concern;
- the new offer to support an increased Adult Social Care Precept of up to 3% per year (but still restricted to the previous limit of 6% over three years) will not address the national funding gap for these services;
- disappointment that Central Government continues to use a distribution system that favours deprivation instead of real cost pressures and age profiles and double counts the impact of considering local tax raising powers;
- in 2019/20 the County Council will not have any Revenue Support Grant (RSG) and, moreover, still faces around £0.7 million reduction in business rates top up grant (previously considered out of scope for reductions) whilst such adjustments for Local Authorities in earlier financial years have been removed; and
- It is not clear why the Provisional Settlement leaves some authorities with significant levels of RSG at 2019/20 and others have none at all, meaning differential levels of Council Tax per household across different parts of the Country financing a similar set of services.

25. It is expected that Central Government will confirm the outcome of the consultation on the Provisional Local Government Finance Settlement during the first week of February 2017. This report has therefore been drafted on the basis of the Provisional Local Government Finance Settlement which is supported by the County Council's acceptance of a multi-year settlement deal.

26. Any potential changes are therefore expected to be minimal but may cover, for example, confirmation of the new Adult Social Care Support Grant. A verbal update will be provided at Cabinet confirming whether more information has been released and if there are any resulting changes to the content of this budget report.

27. The work to close the £2.9 million initial funding gap identified in the December 2016 Cabinet report is outlined in the following table and confirms the proposal to finalise a balanced budget.

Table 2: Closing the Initial Funding Gap

	£m	£m
Initial funding gap – December 2016 Cabinet report		2.9
Changes in income:		
Adult Services Support Grant	(2.4)	
Reduction in Council Tax buoyancy assumption	0.8	
Sub total		(1.6)
Changes in expenditure:		
Further investment towards the Children's Services Social Work Improvement Plan	0.8	
Release of remaining Strategic Initiative funds	(0.8)	
Release of Pay Provision Reserve	(0.3)	
Legal Services Safeguarding case support	0.2	
Further increased recurrent investment in Children's SEND transport	0.7	
Reduction in Education Services Grant greater than anticipated in December 2016 requiring Base Budget increases	0.3	
New / increased service reform and budget adjustment proposals	(2.6)	
Further Increase in Adult Social Care to be applied to existing cost pressures	1.2*	
Collection Fund surplus contribution to support reduction in buoyancy assumption	(0.5)	
Collection Fund Surplus contribution to funding gap	(0.2)	
Other budget adjustments	(0.1)	
Sub total		(1.3)
Proposed Funding gap February 2017		0.0

*The £1.2 million investment represents a recurring additional investment in Adult Social Care services across the period of the Medium Term Financial Plan.

Council Tax

28. Income from Council Tax will gradually fund a greater proportion of the County Council's budget in the future, excluding any further transfers in business rates income. The increase is influenced by growth in domestic property, local decision making concerning any percentage increase in Council Tax, and the annually percentage directed by Central Government that would trigger a local referendum to agree the increase.

29. Set out in the Local Government Finance Settlement, as indicated within the Autumn Statement, was an increased set of options that the County Council could choose to make use of, if it chose to utilise the opportunity to raise an Adult Social Care Precept over the next three financial years. Whilst the total maximum increase over three years remained the same at 6%, Central Government provided potential greater flexibility on how that could be applied in each year, as previously the maximum in any one year was set at 2%, that when combined with the general precept raising powers provides a maximum of 5% for 2017/18.

30. Following careful consideration, balancing the needs of Adult Social Care with the ability for residents to support a larger increase in Council Tax for 2017/18, Cabinet are recommending the approach outlined within the December 2016 Draft Budget and therefore are not proposing any further increase in Precept. Therefore, the proposed increase of 2.94% in Council Tax Precept, consistent with the Draft Budget is recommended to provide a total forecast income of approximately £236 million. This increase represents:

- 0.94% to provide financial support for the delivery of outcomes in line with Corporate Plan, resident and business communities' priorities; and
- 2% Adult Social Care Precept ring-fenced for Adult Social Care services in order to contribute to existing cost pressures due to demographic changes and an increased demand for more complex services

31. District Councils have confirmed during January 2017 increases to the Council Tax base of £4.5 million (2%) for 2017/18. This increase in funding is available on an ongoing basis. In addition District Councils have declared an overall surplus in their Collection Funds of £2.5 million. This surplus is available as a one-off income stream for 2017/18. The following table sets out how these increases and surpluses have arisen:

Table 3: Council Tax Income

	£m
Bromsgrove District Council	0.7
Malvern Hills District Council	0.7
Redditch Borough Council	0.4
Worcester City Council	0.6
Wychavon District Council	1.7
Wyre Forest District Council	0.4
Total recurring additional income from an increase in Council Tax recurrent income as a result of buoyancy and District Council's support schemes changes	4.5
One off 2016/17 Collection Fund Surpluses	2.5

32. The one off Collection Fund Surplus is proposed to be utilised in the following ways:

- £1.5 million Worcester A4440 Southern Link Road Phase 4 enabling works
In support of continued revenue expenditure on the proposed second crossing of the River Severn adjacent to the Carrington Bridge in advance of Central Government financial support for its construction;
- £0.5 million in support of Council Tax Reduction Scheme shortfalls
The County Council worked with the six District Councils in 2016 to identify ways in which the Council Tax Reduction Scheme operating across Worcestershire could be harmonised. Whilst changes were approved in most areas, the minimum payment of a certain percentage of Council Tax Bills and/or account being taken of other income remains inconsistent in a small number of areas. For 2016/17, this has resulted in a shortfall in income projections. The County Council will continue to work with all District Councils in support of a harmonised Council Tax Reduction Scheme for 2017/18.
- £0.3 million addition to the Transformation Fund
With the intention to support service reforms through to 2020 as part of Shaping Worcestershire's Future based on proven business cases
- £0.2 million to support general services for one year only in 2017/18
Replacement permanent reform plans will be developed by Directorates for implementation in 2018/19.

33. The County Council has established a model with all Districts to support their Hardship Funds and is working to target improvements in collection rate and anti-fraud initiatives.

Business Rates Retention Scheme

34. Approximately £60 million of the County Council's funding for 2017/18 will be received through the Business Rates Retention system. Around £14.5 million relates to the 'local share' as defined in Central Government existing 50/50 scheme and District Councils are confirming their estimates of this local share amount towards the end of January 2017. The balance represents grant funding from Central Government.

35. The County Council retains a small risk reserve to cover adverse changes in grant funding or falls in the local share of income received. Cabinet are requested to delegate to the Leader of the Council in consultation with the Chief Financial Officer any final adjustments following confirmation of forecast Business Rates funding from District Councils.

36. Central Government has implemented a revaluation review. The change in individual valuations is offset by a change in the Central Government set multiplier and therefore at a national level this is designed to be cost neutral. The impact for the County Council of this change is minimal and has been included in the MTFP.

37. The County Council continues through the Hereford and Worcester Treasurers Association to refine forecasts for locally generated business rates. Future growth in income will be reset at 2020 as Central Government will review levels of income relative to other local authorities at this time and adjust baselines. Central Government has been consulting on the proposed move to 100% local retention of business rates and the County Council's responses were included in the October 2016 Cabinet report. It is expected that any transfer in income will be largely offset by a transfer in new responsibilities as the levels of specific grant funding will fall to compensate.

Specific Revenue Grants

38. The County Council receives a range of specific revenue grants from Central Government spending departments. For 2016/17 this was estimated at £93.8 million. National spending limits and policy dictate the level of specific grants that the County Council receives to fund Central Government initiatives. At the time of drafting this report, Central Government has confirmed around 83% or £77 million of Specific Grants for 2017/18. A verbal update will be provided at Cabinet to confirm the level of specific revenue grants that remain outstanding together with any associated risks.

Adult Social Care Support Grant

39. The Local Government Finance Settlement included a new Specific Grant for one year only, the Adult Social Care Support Grant. Whilst not included in the preceding Autumn Statement, Central Government has utilised some further savings from its reforms to the New Homes Bonus in providing a Specific Grant of £2.4 million to the County Council for 2017/18.

40. The proposal as set out in Table 2 is to utilise this Specific Grant in full during 2017/18 to both provide an increase to the cash resources available for adult social care services for 2017/18 and reduce the need to develop further service reform proposals to meet the £2.9 million forecast financial planning gap set out in the December 2016 draft budget. This will allow the County Council to consider service reforms in a planned and measured way.

41. Whilst welcome, the County Council notes that this Specific Grant is one off and does not represent any new funding for Local Government as it is paid for by permanent reductions in New Homes Bonus through the application of a permanent threshold being applied to New Homes Bonus payments.

42. The reduction for the County Council in New Homes Bonus is £0.2 million. In addition the reduction across Worcestershire's District Councils of £0.75 million is more significant and presents a potential challenge for delivering services in 2017/18. Therefore the County Council will be working with District Council colleagues to request that Central Government provides new funding to Local Government to support Adult Social Care Services rather than recycled monies and retreats from its policy direction of placing an increased burden on local residents through Council Tax to fund pressures in Adult Social Care.

43. In consideration of the national pressures on adult social care services, it is proposed that any additional monies received between the publication of this report and confirmation of the final figures from business rates and council tax income as indicated in paragraph 7 above will be allocated to Adult Social Care.

44. Set out below is a summary of how the Adult Services Support Grant, together with other funding streams has resulted in an increase in spending power of £9.0 million in the Adult Social Care Directorate for 2017/18.

Table 4: Summary of Adult Social Care spending power increase for 2017/18

£m	Total
Adult Social Care Precept	4.6
Adult Services Support Grant	2.4
Council-wide resources	1.9
Improved Better Care Fund	0.1
Total	9.0

45. The table above also highlights that Central Government's contribution towards fully funding the service pressures in Adult Social Care does not meet the needs of the service for 2017/18. The County Council has needed to top-up that funding received for a specific purpose from Central Government with £1.9 million of other Council-wide resources. The £9.0 million increase in funding supports forecast pay and price inflation as well as demand pressures that will be experienced in Adult Services during 2017/18.

46. The County Council continues to actively lobby Central Government to develop a sustainable resolution to funding shortfalls for Adult Social Care rather than one off solutions or moving the funding burden away from raising addition funding from Council Tax.

Section 75 Agreements

47. In order to provide the best and most efficient results for residents' wellbeing the County Council has a history of joint commissioning with the NHS across Adults' and Children's' Services. Section 75 of the NHS Act 2006 empowers the NHS and local government to enter into formal agreements. The overall purpose of the Section 75 agreement is to formalise partnership arrangements designed to jointly improve outcomes for patients and service users.

48. The County Council renews its Section 75 partnership arrangements with Health for the Commissioning of Services on an annual basis. In Worcestershire the Section Agreement incorporates three types of budget management:

- Pooled, includes the Better Care Fund (BCF). Decision making is shared, budgets are managed by the County Council and there are agreed arrangements for risk sharing;
- Delegated, from the Clinical Commissioning Groups (CCG) to be managed by the County Council, with decision making, accountability and risk lying with the CCGs; and
- Aligned, County Council budgets are managed alongside the CCG budgets, with decision making, accountability and risk for County Council budgets remaining with the County Council.

49. A requirement of Central Government is that all plans for the use of the BCF are agreed by the Health and Wellbeing Board, which is responsible for the strategic oversight of the Section 75 arrangements. Headline information on the BCF for future years was provided in the December 2016 Cabinet report. The total BCF revenue budget for 2017/18 is expected to be £33.9 million. The County Council is still awaiting confirmation of the Disabled Facilities Grant.

50. Formal BCF guidance has not yet been received from Central Government. This makes the timeline for formal local agreement very challenging, however draft plans for 2017/18 are being prepared and will be subject to a number of assurance processes through the national framework. Partners are required to establish a Section 75 agreement in order to implement the BCF plan.

51. The formal Section 75 agreement will be a detailed legal agreement, the detail is being currently being finalised. The County Council's MTFP includes an assumption of increased funding through the Improved Better Care Fund and work is underway to agree joint spending plans with NHS colleagues.

52. Cabinet is requested to authorise the Director of Adult Services and the Director of Children, Families and Communities to agree the final details and formally execute the agreement in readiness for the 2017/18 financial year. County Council budgets falling within the proposed Section 75 agreement will only be those agreed as part of the 2017/18 budget approval process.

Further Service Reforms and Budget Adjustments

53. The following table sets out £2.6 million of Service Reforms and Budget Adjustments developed since publication of the Draft Budget in support of delivering a balanced budget for 2017/18.

Table 5: Proposed further Service Reforms and Budget Adjustments

	£m
<u>Internal Transport</u> The Service has developed plans to manage planned financial pressures within its current cash limited budget without a significant impact on service outcomes	0.1
<u>Managing with Directorate Cash Limited Budgets</u> Directorates have established plans to operate services within 99.6% of proposed cash limited budgets without a significant impact on service outcomes. This initiative is already in operation with the Economy and Infrastructure Directorate and is being rolled out across other Directorates	1.2
<u>Inflation allocations</u> Following a review of the impact of the Office for Budget Responsibility Forecast and the Autumn Statement announcements on pay pressures, the inflation allocation could be reduced to take into account small flexibility in these areas	0.3
<u>Financial Services Service Reforms</u> Additional 5% Service Reform programme developed in those services led by the Chief Financial Officer to reduce the need to target further service reforms for 2017/18 to front line services	0.1
<u>Removal of a 10% Planning Contingency on Existing 2017/18 Reform Proposals</u> Planning contingency for new proposals contained within the November 2016 Cabinet Report can be removed as all plans have now been developed further	0.8
<u>Senior Management Restructure</u> Proposal to bring forward savings from the restructure of Senior Management within the County Council planned previously for 2018/19	0.1
Total	2.6

Dedicated Schools Grant and Schools grant funding

54. The 2017/18 provisional allocation is detailed in Appendix 16 under the notional Dedicated Schools Grant (DSG) blocks. This is prior to the recoupment deduction for Academies and non-LA maintained specialist providers. It also compares the provisional allocations to the 2016/17 DSG final settlement.

55. The headline is that DSG overall has increased due to additional pupil numbers giving a higher Schools Block allocation, the additional funding for Early years, and additional information is provided in Appendix 16 with regard to each element of the DSG.

56. In overall terms the indicative DSG allocation for Worcestershire is £386.2 million. This allocation from the Education Funding Agency includes funding for academies and

free schools across the County. The County Council's allocation from this amount will be confirmed by the Education Funding Agency at a later date to reflect the up to date position of the number of academies and free schools.

57. Appendix 16 shows an overall increase in pupil numbers between October 2015 and October 2016 and that the overall split of children across primary and secondary education remains broadly the same.

58. Within the sectors there were also some variations, with increases and decreases for individual schools when comparing October 2015 and October 2016. This will create some budgetary impact for some schools. The pupil numbers are reduced for the purpose of the SEN adjustment to reflect those pupils in Special Units in Mainstream Schools where place funding of £10,000 is allocated.

59. Funding for 3 and 4 year olds and Early Years will change in 2017/18. In August 2016 the Government consulted on changing the way in which the Department for Education (DfE) funds free childcare and Early Years education. The proposals were:

- Introducing a new Early Years DSG national funding formula for 3 and 4 year olds;
- Changing the way local authorities fund the Early Years providers in their area; and
- Making sure that children with special needs or disabilities attract the extra funding they need.

60. On 1 December 2016 the DfE published the consultation response, with further operational guidance published on 6 January 2017. As part of the consultation response the DfE has published an exemplification of the new Early Years DSG for 3 and 4 year olds as shown in Appendix 16. This confirms additional funding due to enhanced hourly rates for 2, 3 and 4 year olds and an estimate of the take up by working parents for the additional 15 hours part year from September 2017.

61. The next steps are that the new national formula for Early Years will commence in April 2017 for the existing universal entitlement for 3 and 4 year olds at the same time as the increase to the average funding rate. The additional 15 hour entitlement for working parents is implemented nationally in September 2017 and will also be subject to new funding rates.

62. The allocations confirmed as part of the new funding settlement are shown in Appendix 16. These reflect the new national DSG for Early Years, the enhanced hourly rates for 2, 3 and 4 year olds and an estimate of the take up by working parents for the additional 15 hours part year from September 2017.

63. Local Authorities are required to introduce a new Early Years Single Funding Formula (EYSFF) by 2019/20 at the latest and sooner if practicable. This must include a basic hourly rate covering all providers, a mandatory deprivation supplement and national restrictions on any centrally retained services. Following discussion at the Worcestershire Schools Forum on 11 January 2017, the Council is currently consulting with providers on their proposed funding approach. Consultation ends in early March 2017. The final decision on the new EYSFF and funding rate rests with the local authority.

64. The High Needs allocation of £48.1 million (£39.6 million net of Education Funding Agency place recoupment) and the pupil premium rates are detailed in Appendix 16.

Education Services Grant (ESG)

65. It has been confirmed that the ESG Retained Duties rate per pupil of £15 cash equivalent per pupil for all state funded schools has been transferred into the Schools Block DSG. The current ESG General Duties rate per pupil £77 per pupil or place for

maintained schools, £288.75 per Pupil Referral Units and £327.75 for special schools will be withdrawn completely from September 2017. This is a direct reduction in funding for Councils without a reduction in duties.

66. As reported in the December 2016 Cabinet report, an increase in base budget is needed to be funded locally to take account of a reduction in grant funding for general statutory duties relating to maintained schools. Whilst there is a transitional protection available to cover the period April – August 2017, this is not at the current rate and as a result the pressure from the withdrawal is estimated to be £2.1 million in 2017/18 and £1.0 million in 2018/19.

67. Work is currently underway on further service reforms with regard to those services that have been funded by ESG and whether these continue to be funded over the medium and long term given the funding reductions imposed by Central Government. Further analysis and mitigations will be provided as part of the 2018/19 draft budget.

68. The Department for Education deducts ESG from the County Council when an academy converts and passes this funding directly to the academy. Some of the services provided by the County Council have a large element of fixed cost associated with them, as such a reduction in grant does not necessarily equal a reduction in spend. However, there will be a review of all spend currently funded by ESG against the statutory regulations, when they are published. The provisional allocation to Worcestershire in 2017/18 is £1.2 million. This will change depending on the number of in year conversions.

Public Health Ring-fenced Grant

69. The specific grant for 2017/18 is £29.9 million, a reduction of £0.8 million from £30.7 million received in 2016/17. Public Health England indicates that further budget reductions and efficiencies will be phased in at 2.6% and flat cash in 2020/21. The changes will also take into account each area's funding position compared to Public Health England's "target" funding and therefore the County Council's reductions may be greater in the future.

70. The County Council has discussed and consulted in some detail with partners plans for 2017/18 as the grant received is in line with expectations. Further reform targets of £1 million in 2017/18 and £0.5 million in 2018/19 have been agreed and work is continuing to identify areas of County Council base budget expenditure where public health impact could be maximised through the use of the Grant.

71. The position as to whether the ring fence will be removed as part of the Business Rates reform work continues to be monitored, but as yet, no such removal has been confirmed.

Independent Living Fund

72. The funding and administration of the Independent Living Fund (ILF) was transferred from the Department of Work and Pensions (DWP) to the County Council in 2015/16. The ILF makes cash payments to disabled people enabling them to purchase care and support services.

73. The County Council received £3.1 million in grant in 2016/17 but there is expected to be an attrition rate applied of approximately 5% in 2017/18 with an estimated grant settlement of £2.9 million. The reduction in funding will need to be managed within the overall 2017/18 Adult Services budget.

New Homes Bonus

74. As part of the provisional Local Government Finance Settlement announced in December 2016, Central Government issued a response to the New Homes Bonus consultation that took place at the beginning of 2016. The key outcome of the consultation is that Central Government will implement a reduction in the length of the bonus payments from the current six years to five years in 2017/18 and to four years in 2018/19. Additionally, despite over 80% of respondents rejecting the proposal, Central Government has introduced a growth baseline for 2017/18 of 0.4% beneath which no bonus would be paid, and reserves the right to change the baseline in future years. The bonus will also continue to be paid to Counties and Districts on the existing 20/80 ratio.

75. The County Council has prudently considered this income as a bonus to be used to support growth in housing development and therefore not included it in the recurrent budget. The consultation response confirms the amount of New Homes Bonus funding for 2017/18 at £3.2 million which will support the existing allocations of investments set out in previous budget reports. This has included:

- strategic flood alleviation schemes;
- previous strategic planning and improvements in the public realm; and
- infrastructure improvements including contributions to the Driving Home Programme.

76. At this stage an estimate can be made of future income based on predicted house building growth across Worcestershire. After taking account of existing commitments this could deliver new funding of over £2 million per year until 2019/20. However this is a reduction from the previous scheme that delivered around £3 million per year. Any application of the remaining headroom in 2017/18 will be brought to future Cabinet meetings for approval.

Capital Programme Financial Position 2016/17

77. The approved Capital Programme for 2016/17 is £157.2 million, which reflects new additions and revised cash flow forecasts approved since October 2016. The latest monitoring position for 31 November 2016 is given in the following table and the variance represents an anticipation for projects to be carried forward to next financial year:

Table 6: Capital Monitoring 2016/17

Directorate £m	Approved Budget	Spend to date	Forecast outturn	Variance
Adult Services	3.9	0.3	3.9	0
Children, Families and Communities	21.4	10.6	18.1	-3.3
Economy and Infrastructure	126.2	51.3	120.6	-5.6
Commercial and Change*	5.7	1.8	5.7	0
Total	157.2	64.0	148.3	-8.9

*Including Financial Services and Chief Executives

Capital Programme: Funding Proposals for 2017/18 and the medium term

78. The Capital Programme has been updated to reflect additions from the December 2016 Cabinet and the latest forecast for existing approved schemes and is attached at Appendix 9. The major areas of capital expenditure relate to Schools, the Local Transport Plan and other Economy and Infrastructure Directorate activities.

79. A further addition to the capital programme of £1 million to support system improvements is proposed. A £1 million investment into Social Care Systems and Information Technology to support the provision of information to Social Work professions to enable a better understanding of the work required to support their caseloads and improve outcomes. This periodic investment into Systems and Information Technology will in particular support the Children's Services Social Work Improvement Plan alongside associated revenue investment highlighted elsewhere in this report.

Confirmation of Schemes outlined in the December Draft budget

80. Cabinet recommends to Full Council the inclusion of the following schemes in the Capital Programme that were set out in the December Draft Budget Report. Delegation to the Director of Economy and Infrastructure is requested to allocate to schemes within these amounts in consultation with the Cabinet Member for Economy, Skills and Infrastructure in respect of a) and the Cabinet Member for Highways for b) and c).

- (a) £2 million Town Centre Improvements to create more vibrant social spaces improving the heart of the local economic. The investment will be allocated across priority schemes in Malvern, Tenbury (Phase 2) and the Shambles, Worcester; and
- (b) £5 million Capital Investment Fund for Cutting Congestion;
- (c) £6 million Capital Investment Fund to support investment into Footpaths and Pavements.

81. The proposed MTFP has been adjusted to incorporate commensurate revenue funding to finance the borrowing required and it can be confirmed that sufficient headroom in the Capital Programme exists to incorporate these proposals.

Strategic Roads Infrastructure Capital Funds

82. The County Council received notification from the Department for Transport on 13 January 2017 of capital allocations to be spent in 2017/18 in relation to the following

- (a) £13.341 million Confirmation of the Highways Maintenance Needs Block;
- (b) £1.169 million A new Pothole Action Fund;
- (c) £2.743 million A new National Productivity Investment Fund.

83. Cabinet Recommends to Full Council the inclusion of b) and c) identified above in the Capital Programme and delegation to the Director of Economy and Infrastructure in consultation with the Cabinet Member for Highways (b) and Cabinet Member for Economy, Skills and Infrastructure (c) to allocate these monies to particular schemes.

84. It should be noted that the National Productivity Investment Fund is a new Fund announced first in the Autumn Statement late in 2016. The County Council's intention is to direct this funding towards strategic infrastructure in support of reducing congestion including for example the Southern Link Road and other Strategic Infrastructure across Worcestershire.

85. It is further proposed that £10 million is allocated in the Capital Programme to support the overall A4440 Worcester Southern Link improvements over the life of the Medium Term Financial Plan.

86. There is a contribution request of £16.3 million towards the cost of Phase 3 of the dualling of the A4440 Worcester Southern Link Road which remains extant in the viability negotiations currently taking place between the Local Planning Authorities who are parties to the South Worcestershire Development Plan and the relevant promoters/landowners. However, until that contribution is secured in an enforceable agreement under section 106 of the Town and Country Planning Act 1990, or some other acceptable security, there is a risk that it is not received. Given the live nature of the current negotiations and market conditions, officers remain confident that the contribution will be made.

Routine Lifecycle Replacement and System Development

87. The approved capital programme already includes an allocation for minor works and other lifecycle replacement for 2017/18 and a review will be undertaken to propose the extent of these allocations for future years and Cabinet will be updated accordingly.

88. Cabinet Recommends to Full Council routine lifecycle replacement Capital budgets as set out in Appendix 9 to this report.

Revolving Investment Fund (RIF)

89. The idea of a Revolving Investment Fund was introduced within a previous budget cycle with the aim of increasing income generation through investment in cash generating assets around Worcestershire. The intention is to make use of income generated from existing 'seed' investments in rail stations, business parks and the Energy from Waste facility and recycle this into further economic development opportunities. The majority of benefit will be delivered by increasing the investments into schemes which themselves generate sufficient income to repay the investment over time and generate a surplus which could either be reinvested into new schemes (the "revolving" element), or used to support the delivery of the County Council's key priorities. In addition, financial modelling has confirmed the opportunity, already included in the MTFP, to provide income to support Council services through a £0.5 million dividend per annum from 2018/19 as well as stretching this target by a further £0.1 million per annum.

90. The accumulated surpluses from these schemes over a 10 year period are forecast to be c. £10 million and it is proposed to ring-fence these, as part of the revised capital programme, for cash backed, rather than investment based on borrowing, future income generating investments. Detailed investment criteria have been developed with the support of an external adviser and it is expected that an Investment Board will be set up to review all of the investment proposals. The Board will be chaired by the Leader of the Council, and will include the Chief Financial Officer, and other key senior advisers with operational and property expertise alongside a representative from the Local Enterprise Partnership.

91. Worcestershire is not unique amongst public sector bodies in pursuing investment in commercial property and various models have been adopted across the country. A minimum financial rate of return of 7% (including the cost of borrowing) will be expected from each of the investments alongside the need to deliver a maximum 10 years cash based payback period, although earlier returns would be preferable.

92. Cabinet are requested to delegate future funding decisions to Chief Financial Officer, in consultation with the Leader of the Council, and following all the relevant due diligence required in order for the County Council to respond appropriately to investment opportunities. Details of decisions made will be published on the County Council's website as part of the Record of Officer Executive Decision process.

The Medium Term Financial Plan (MTFP)

93. The MTFP has been updated to reflect the reductions in funding levels confirmed in the draft Local Government Financial Settlement and revisions to income and expenditure.

94. Notwithstanding the County Council's multi-year financial settlement deal with Central Government, the requirement to support the national deficit recovery remains in place. The implementation of 100% local retention of Business Rates will bring opportunities to take greater control over funding generated across Worcestershire to be retained in the County area, and the County Council is working with Central Government colleagues on modernising funding allocations to ensure service need is supported and that any funding is distributed in a fair and consistent manner across the local government sector.

95. The County Council continues to plan for the financial challenges over the medium term, including confirming existing reform plans which, in many cases, have already been considered through the Cabinet and Scrutiny process. The MTFP is set out in the following table with more detail provided within Appendix 10.

Table 7: Indicative Medium Term Financial Plan

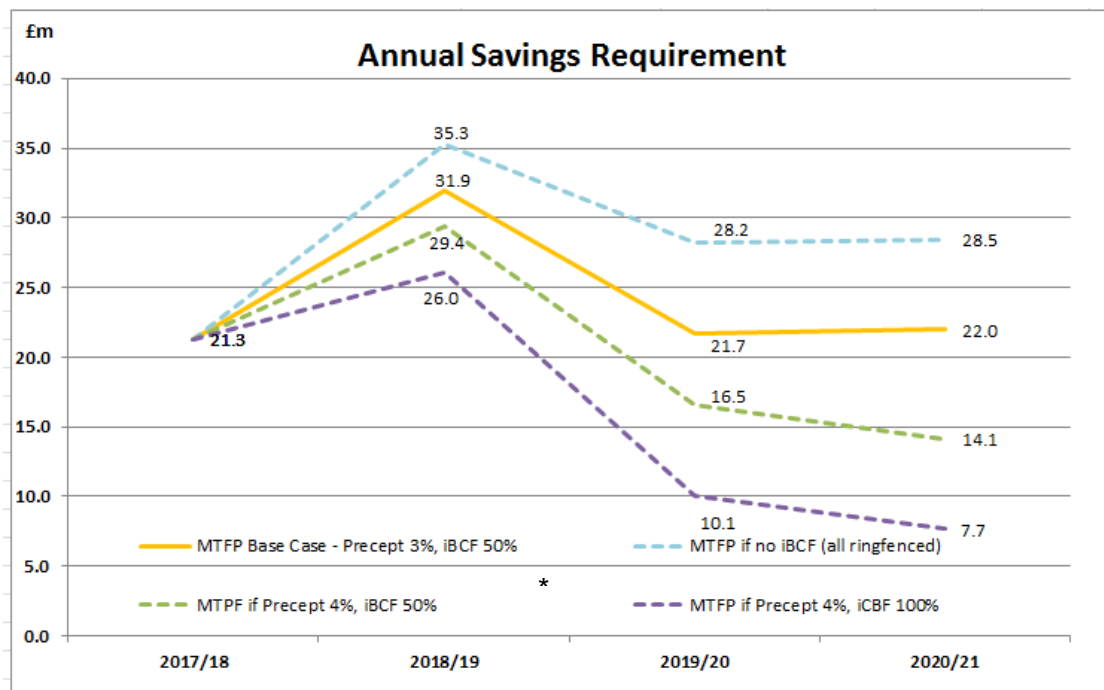
£m	2017/18	2018/19	2019/20	2020/21
Total Funding Available	354.8	357.9	367.5	381.0
Service costs based on provisional 2017/18 budget	(381.3)	(389.8)	(389.2)	(403.0)
Sub-Total	(26.5)	(31.9)	(21.7)	(22.0)
Withdrawal from Earmarked Reserves	5.2	-	-	-
Reform plans developed	21.3	12.7	2.6	0.6
Funding Gap	-	19.2	19.1	21.4
Cumulative Funding Gap	-	19.2	38.3	59.7

96. The above table confirms that £37.2 million reform plans have been identified across the MTFP planning period and are currently being progressed.

97. The cumulative funding gap over the MTFP period is £59.7 million and will be challenging for the County Council to address. Work will continue on confirming implementation of potential future reforms as part of the County Council's ongoing Corporate Strategic Planning process. This work will include critically reviewing income and all opportunities available through Central Government's plans for the full devolution of Business Rates funding to local government.

98. The following chart shows how MTFP reform plans could alter given changes in funding assumptions. Whilst the average annual savings required are consistent with planning assumptions, the profile of budget reductions is higher in 2018/19 and reduces over the following two years.

Figure 1: Potential planning scenario to be considered in the medium term



*3% Base Case incorporates 2% Adult Social Care Precept and 1% non-Adult Social Care Precept

99. In addition to changes in Central Government funding streams, the MTFP contains the following:

- precept assumptions beyond 2017/18 include the 2% Adult Social Care Precept and a 0.94% increase for the non-Adult Social Care Precept. This broad estimate takes into account the future needs of service users and residents of Worcestershire;
- increased in Council Tax yield due to forecast growth in house-building have been updated based on the latest data available from District Councils;
- planning assumptions have been made on the extent to which the Improved Better Care Funding will be available for supporting existing services when received in 2017/18 and future years; and
- planning contingencies have been reviewed in light of the increased uncertainty of future funding and cost pressures as part of the normal review of the MTFP.

100. The County Council will consult with partners, stakeholders, service users and residents during 2017 on these potential changes to inform strategic planning. The remaining shortfall over the MTFP and updates to this position will be considered.

Risks and sensitivities over the Medium Term

101. The extent of risks and sensitivities that may have a significant impact on the MTFP have remained consistent since a year ago taking account of future significant changes proposed by Central Government for funding over the medium term. Set out below are those areas that remain under review but where the financial effect cannot be reasonably estimated at this stage.

- Central Government Funding

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

- Demographic Growth and demand pressures

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

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

All efforts have been made to allocate a prudent level of additional investment into Children's Social Care. However, the impact of the Ofsted judgement and the pace at which improvements are required may impact upon delivery of the financial recovery plan. This will be regularly monitored and reviewed and mitigation actions taken where required.

- Medium Term implications of the Care Act

The County Council will continue to work towards the implementation of the Care Act and manage the implications for service provision.

- Inflation

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

- Brexit

The referendum result of 23 June 2016 set into train a process by which the UK Government are planning to reach an agreement with the European Union to withdraw from European Union Institutions. Whilst the formal process will not commence until the UK Government notify the European Union of its intention to trigger negotiations under Article 50 of the Lisbon Treaty 2007, volatility in the capital markets as well as variations in sentiment amongst industry and partners has been more pronounced.

As at February 2017, there has not been any detrimental effect on the County Council other than the need to seek to secure funding commitments for existing projects funded through European Union Programmes. It is expected that, now following a debate in the House of Commons, the UK Government will seek to commence negotiations no later than the end of March 2017. The risks and opportunities that this may present, including inflationary pressures or access to appropriately skilled workers both within the County Council and through our delivery partners will continue to be monitored and discussed through the Corporate Risk Management Group.

- The current Business Rates Retention Scheme

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

within Worcestershire, which is significantly influenced by the economic development policies of the County and District Councils, can now benefit local authorities directly. Under current arrangements local authorities can keep 50% of their business rates growth locally as long as this increase is not disproportionate to the size of their revenue budgets. The impact of future growth plans is kept under constant review and updated to the MTFP accordingly.

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

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

Alternative Budget Proposals and Amendments

102. The Budget and Policy Framework Rules allow alternative budget and council tax proposals and amendments to those presented by the Cabinet to be considered in the period immediately prior to the budget and Full Council meetings.

103. A member of the County Council, or group of members, may wish to put forward alternative budget and council tax proposals and amendments. The more significant or substantial the alternative proposals and amendments are then the more likely they are to come within the requirements of section 25 (Budget Calculation Statutory Duties) of the Local Government Act 2003 falling on the Chief Financial Officer.

104. In the circumstances alternative budget and council tax proposals and amendments should to be lodged with the Chief Executive by noon 5 working days prior to the Full Council meeting – in this instance this means noon 2 February 2017, to ensure the obligations of section 25 are met.

Treasury Management Strategy

105. The County Council is required to review its treasury management strategy on an annual basis and the proposed strategy for 2017/18 is set out in Appendix 11. The strategy for 2017/18 is not fundamentally changed since last year, although it has been updated to include how the current forecast for interest rates will affect borrowing and lending transactions.

106. Investment priorities will continue to be firstly the security of capital (protecting sums from capital loss) and secondly the liquidity of investments (ensuring cash is available when required). Only when these two priorities are met will the third priority of achieving the optimum return on investments be taken into account.

107. The borrowing strategy will be to borrow to protect the County Council's cash flows, and to borrow to replenish some of the internal cash balances that have been temporarily used to fund recent years' capital expenditure. It is anticipated that the new borrowing could occur more towards December 2017, however this will have to take into account prevailing medium and long term borrowing rate forecasts and actual timing of any borrowing will be undertaken when it is financially prudent to do so.

108. It is important to remember that real value is being achieved through Treasury Management by utilising internal cash balances to temporarily support the capital

programme. This avoids the need to borrow at the prevailing Public Works and Loans Board Rate, currently around 3%. The Treasury Management Strategy includes the borrowing needed to support the Energy from Waste Contract Variation approved by Full Council on 16 January 2014.

The Prudential Code for Capital Finance in Local Authorities

109. The County Council is required to set specific parameters each year to control the extent of its borrowing. The essential purpose of this requirement is to ensure that the County Council always has the means to make repayments and doesn't borrow beyond its ability to service associated debts. The statement for 2017/18 is set out in Appendix 12.

Budget calculation – statutory duties

110. Section 25 of the Local Government Act 2003 requires the Chief Financial Officer as Section 151 officer to report to the County Council when it is setting the budget and the precept. The report must deal with the robustness of the estimates included in the budget and the adequacy of reserves.

111. The budget currently provides for the financial implications of the County Council's policies to the extent that these are known or can be reasonably assessed. However, there are a number of risks which are beyond the County Council's control and for which it is not possible to be precise:

- The County Council's demand-led services
- Inflation and interest rate volatility, and
- Unforeseen emergencies, for example flooding.

112. It is for this reason that an adequate level of reserves must be maintained and Appendix 15 provides a statement from the Chief Financial Officer considering an appropriate amount to retain in general balance considering risk.

113. Members will also recall our obligations as a Best Value authority to make arrangements to secure continuous improvement in the way in which our functions are exercised, having regard to a combination of economy, efficiency and effectiveness, including consultation with tax payers and users as appropriate.

114. These obligations are addressed in our medium term financial planning and brought together as part of the annual budget process in this report. This is supplemented by additional cabinet reports throughout the year with regard to the approval of significant investments and reforms.

115. The Chief Financial Officer states that to the best of his knowledge and belief these budget calculations are robust and have full regard to:

- the County Council's Corporate Plan and budget policy;
- the need to protect the County Council's financial standing and manage risk;
- the estimated financial position at the end of 2016/17;
- the financial policies of the Government as they impact upon the County Council;
- the capital programme set out in Appendix 9;
- the County Council's MTFP set out in Appendix 10;
- treasury management policy set out in Appendix 11;
- the prudential indicators set out in Appendix 12;

- the strength of the County Council's financial control procedures including audit considerations; and
- the extent of the County Council's General Balances and earmarked reserves.

Scrutiny

116. Scrutiny of the 2017/18 budget proposals is being undertaken by the Budget Scrutiny Task Group which is meeting with key senior officers, the Chief Executive and Leader of the Council to complement the work already being undertaken by individual scrutiny panels.

117. The conclusion of this work together with the individual views of the scrutiny panels will inform the Overview and Scrutiny Performance Board which will be meeting on 26 January 2017 to consider what comments it wishes to make to Cabinet as part of the budget consultation.

118. A copy of the commentary will be made available alongside Cabinet papers (as Appendix 1) in time for the Cabinet meeting on 2 February 2017.

Fulfilling the Public Sector Equality Duty requirements

119. The Public Sector Equality Duty is set out in the Equality Act, 2010. The Act lists 9 Protected Characteristics in respect of which the Duty applies. The duty requires public bodies to have Due Regard to (consciously consider) three aims in their decision-making and in policy-making and service delivery. The aims are:

- To eliminate unlawful discrimination;
- To advance equality of opportunity between people who share one or more of the Protected Characteristics (listed in the Equality Act) and those who do not; and
- To foster good relations between people who share one or more of the Protected Characteristics and those who do not.

120. An overarching strategic equality relevance assessment has been undertaken in respect of budget proposals for key transformational change programmes which are detailed at Appendix 13. The assessment quantifies the levels of Due Regard to the aims of the duty for each programme and provides a broad overview on the potential cumulative impact for the most relevant of the Protected Characteristics.

121. When proposals have been fully developed and are brought to a future Cabinet for decision, these reports will include a more detailed and specific equality impact assessment to ensure the findings are given due regard when any key decisions are made.

Health Impact Assessment

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

123. This report concerns a number of budget proposals for 2017/18 and associated updates to the Medium Term Financial Plan in advance of approval by Full Council in February 2017. Any specific public health considerations will be subject to separate and further detailed consultation as appropriate. 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	Key messages form Overview and Scrutiny Board (To follow)
Appendix 2	Local Government Finance Settlement 2017/18 consultation response
Appendix 3	Specific Revenue Grants 2017/18
Appendix 4a	Council Tax calculation
Appendix 4b	Council Tax Precept
Appendix 5	Revenue Budget 2017/18
Appendix 6	Analysis of budget variations
Appendix 7	Future Fit budget reductions, efficiencies and income generation opportunities
Appendix 8	Pay policy statement
Appendix 9	Capital Programme
Appendix 10	Medium Term Financial Plan
Appendix 11	Treasury Management Strategy
Appendix 12	Statement of Prudential Indicators and Minimum Revenue Provision
Appendix 13	Assessment of the County Council's Equalities Duty
Appendix 14	Directorate Revenue Budgets 2017/18
Appendix 15	General Balances Risk Review
Appendix 16	Dedicated Schools Grant

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Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.