worcestershire countycouncil

**AGENDA ITEM 4**

# CABINET
# 30 JANUARY 2020

# 2020/21 DRAFT BUDGET AND MEDIUM-TERM FINANCIAL PLAN UPDATE 2020-22

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**Relevant Cabinet Member**
Mr S E Geraghty

**Relevant Officer**
Chief Financial Officer

**Recommendations**

**The Cabinet Member with Responsibility for Finance (who is also the Leader of the Council) recommends that Cabinet recommends to Council that:**

**(a) the budget requirement for 2020/21 be approved at £346.246 million as set out at Appendix 1B, having regard to the proposed Transformation and Reforms programme set out in Appendix 1C;**

**(b) the Council Tax Band D equivalent for 2020/21 be set at £1,311.05 which includes £116.04 relating to the ring-fenced Adult Social Care precept, and the Council Tax Requirement be set at £279.130 million, which will increase the Council Tax Precept by 3.99% in relation to two parts:**

- **1.99% 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**

- **2.00% Adult Social Care Precept ring-fenced for Adult Social Care services in order to contribute to existing cost pressures due to Worcestershire's ageing population;**

**(c) the Capital Strategy 2020-23 and Capital Programme of £338.594 million be approved as set out at Appendix 1D and 1E and section 9;**

**(d) the earmarked reserves schedule as set out at Appendix 2 be approved;**

**(e) the Treasury Management Strategy and Prudential Indicators set out at Appendix 4 be approved; and**

**(f) the Council's Pay Policy Statement set out at Appendix 5 be approved.**

**The Cabinet Member with Responsibility for Finance (who is also the Leader of the Council) recommends that Cabinet:**

**(g) 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 as a result of Central Government confirming the final Local Government Finance Settlement, Council Tax and Business Rates Income, and associated Specific Grants and income for 2020/21; and**

**(h) authorises the Strategic Director for People and the Director of Children's Services in consultation with relevant Cabinet Members with Responsibilities, to approve the agreement for the use of resources between the Council and the Clinical Commissioning Groups under Section 75 of the NHS Act 2006 (the Section 75 Agreement) for 2020/21.**

## 1. Executive Summary

1.1. This report provides an update to the December 2019 Draft Budget Report issued for consultation and confirms proposals for the 2020/21 precept need, an update on the Medium-Term Financial Plan (MTFP) and the Council's budget for 2020/21, to be considered at Full Council on 13 February 2020. The assessment considers 2019/20 Period 8 financial monitoring, the impact on Council Tax, Social Care Precept, the capital investment programme, schools' overall budgets, as well as council reserves. The report also sets out an indicative MTFP to highlight expenditure and income from 2020 to the end of the current Corporate Plan in 2022, although noting this is caveated due to the high level of uncertainty over the future funding of local government as a result of the forthcoming Fair Funding Review.

1.2. The main updates to the budget proposals are:-

- District Councils have confirmed their taxbase and Council tax surplus/deficits, and these have been included within the Medium-Term Financial Plan. This has increased the Council Tax income forecast by £1.3 million

- Central Government have issued their provisional Local Government Finance Settlement. The Council will receive an additional £0.9 million Social Care Grant on top of what was estimated in the December 2019 budget report, with all other funding streams as expected

- The additional £2.2 million of income set out in the last two bullet points has been used to offset the £1.1 million planned use of reserves in the December 2019 Cabinet proposals and result in a £1.1 million contribution to reserves. This helps the future financial position, which given the uncertainty over the future funding allocations and settlement is required to mitigate any unforeseen risk

- The County Council and its six District Council partners are currently in a one-year 2019/20 75% Business Rates Retention Pilot. For 2020/21, the pilot scheme will end but the County Council, all six District Councils and for the first time Hereford and Worcester Fire and Rescue Service will form a pool under the

allowed 50% Business Rates Retention Scheme which is likely to benefit Worcestershire residents by around £2.8 million. For the County Council we estimate this will yield £1 million which will be added to the business rates risk reserve to support the transition to the new Business Rates Retention System once Central Government have completed their review of this funding stream

- There have been minor budget amendments and reclassifications following a restructure of Directorate responsibilities and corporate recharge allocations have been updated

- The proposed capital programme has been updated to reflect the profile of planned expenditure

- Commentary from the Overview and Scrutiny Performance Board (will be tabled on the day)

- The Capital Strategy, Treasury Management Strategy, Pay Policy Statement and Equalities Duty Assessment have now been included (Appendices 1D, 4, 5, and 6 respectively)

- An analysis of the planned spend from the Public Health Ring-Fenced Grant has been included at Appendix 7.

1.3. In recent years the County Council, working in partnership with the Worcestershire Local Enterprise Partnership, has significantly invested in the County to enable economic growth by improving the digital and physical infrastructure, through our programme of economic "game changer" sites, and other Open for Business investments. These developments support the Strategic Economic Plan and will feed into the future Local Industrial Strategy (LIS) for the County to grow the economy, deliver more homes and create higher skilled and better paid jobs. As a result, the Council's funding tax base is growing.

1.4. The recent 2019 Worcestershire Viewpoint Survey results told us what is most important in making Worcestershire a good place to live and those issues that are most in need of improvement. These are road and footways improvements, reducing traffic congestion and improving public transport. This budget invests in each of these areas as well as supporting social care for vulnerable people and promoting wider economic growth.

1.5. Following the Chancellor's Spending Round announcement in September 2019, the provisional settlement has identified that the referendum limit will be 1.99% for general council tax, and a further year of the Social Care Precept capped at 2% in 2020/21. This gives a potential precepting total of 3.99%. Given the ongoing social care pressures we are now recommending a Council Tax rise of 2% Social Care Precept and 1.99% to support the Corporate Plan.

1.6. We therefore expect that in 2020/21 we will collect £15.8 million more from Council Tax and that this source of income will represent 81% of our funds. We also forecast that through the growth in our local businesses we will see a further £1.2 million of funding

through the business rates retention system.

1.7. In the 2019 Provisional Settlement following on from the Chancellor of the Exchequer's Spending Round Announcement in September 2019, our grant income for social care and high needs was significantly increased. This specific grant income was not forecast in our previous MTFP and as a result the Council is recognising a growth in its social care funding (Adults and Children's) and this has been rolled together with an Adult Social Care support grant to total £13.5 million funding in 2020/21. Given the uncertainty impacting on years after 2020/21 we have only set out an iterative MTFP to 2023.

1.8. As a result, the Council projects it will have an additional £15.8 million income in 2020/21 to spend on Council revenue services.

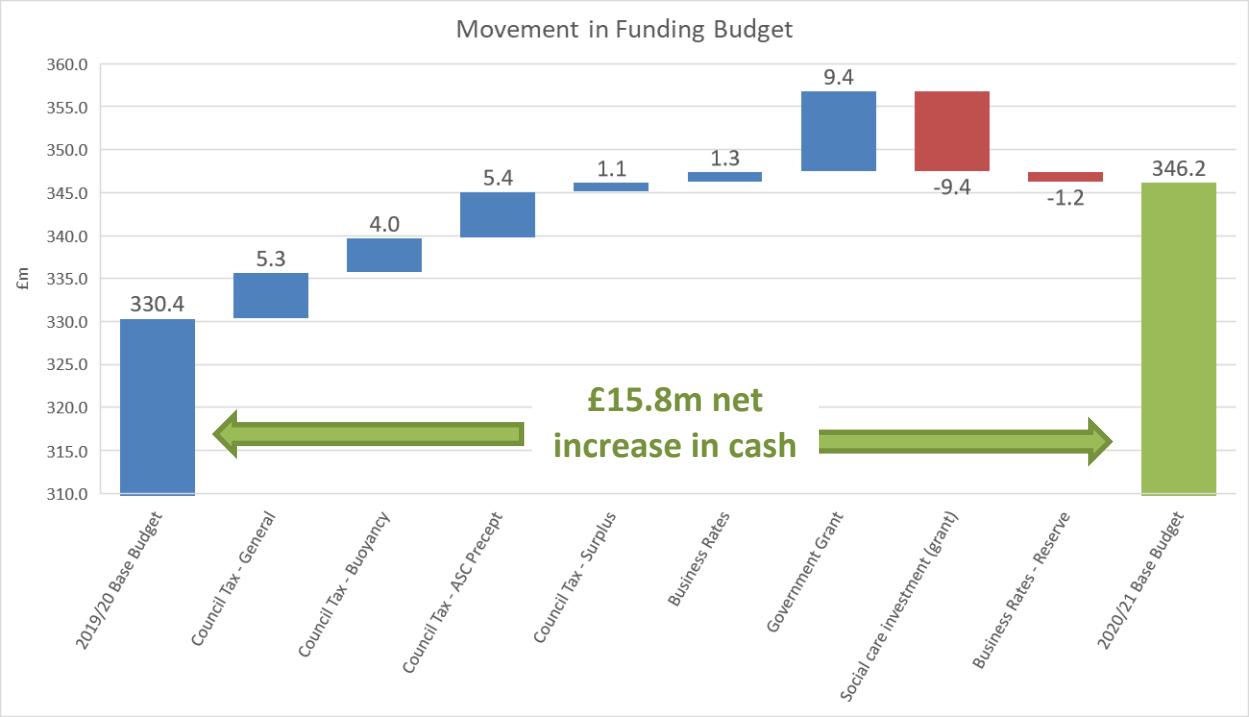
1.9. However, whilst income is growing, it is not increasing fast enough to keep pace with the complexity and demand of all our services, inflation, and the National Living Wage. In 2020/21 we need to invest £13.2 million in Adults Social Care and £4.5 million in Children's Social Care and Transport (following investment already of £14.1 million and £7.8 million in 2019/20 respectively). This reflects a significant increase in the volume, complexity and cost of care. Whilst the additional funding for 2020/21 is welcomed, Central Government will indicate in future budget allocations how this funding can be ongoing. Any future funding will need to address demand and costs which are forecast to increase.

1.10. In addition to pressures in care we also need to maintain all our other services, especially to deliver our Corporate Plan targets around the economy, highways and the environment. We are also seeing significant increases in the cost of the provision in these services through inflation and other external factors, including the impact of weather on our roads and the transport provider market. At the same time more homes mean more waste disposal costs. Local authorities are also still in negotiations locally over the level of pay award for its staff, with Trade Unions. Altogether we are forecasting a further £14.3 million of pressure on other services, on top of the £17.7 million from social care and related transport. This means a £32 million pressure, offset by a £23.5 million growth in funds and £9.6 million of efficiencies or increased income which will leave £1.1 million to be transferred into earmarked reserves.

1.11. Based on our assessed levels of need to deliver services and our Corporate Plan within our funding the draft Budget proposes a series of measures to further increase income, continue the redesign of the organisation and save money to bridge the financial gap. These are set out in more detail at Appendix 1C.

1.12. This change in our funding and reprioritisation of resources is summarised in the chart below:

**Chart 1: Movement in funding 2019/20 to 2020/21**




1.13. The Council will continue to support measures to grow our local economy, and therefore our income base, through our Open for Business, Infrastructure and Investment Programmes for which we continue to set aside £16.9 million in earmarked reserves and £50 million in the Capital Programme for investment in the economy, infrastructure (£26 million) and transformation (£24 million) of the County.

1.14. Turning to schools and the funding of education in the County, we welcomed the Chancellor's Spending Round announcement of additional national funding and the additional £780 million funding for high needs that will come through the Dedicated Schools Grant with Worcestershire's allocation being £8.7 million. The current annual deficit is around £9 million and as such there is still a shortfall in year and cumulatively. As a result, the Council is working with schools to look at local actions to address this spend and lobbying Government over this issue to address the cumulative deficit.

1.15. Going forward, this report also highlights how we are planning to manage our finances in the medium term, although recognising that there is a significant degree of uncertainty arising from the long awaited new fairer funding settlement and other changes to local government funding expected to be announced in 2020. Given the level of uncertainty over the future funding we have provided an iterative model based on the current level of funding. There is a risk given the impact any reduction in the quantum of funding awarded to the County could have if the additional grants were removed. We will continue to lobby Government on this matter and keep Council abreast of developments.

1.16. Subject to the outcome of the Fair Funding Review, the Council's reserves are adequate, and a risk assessment identifies that the budget and reserves are robust. Improvements in budget monitoring and control continue to be made, and there will be regular monitoring of the delivery of the 2020/21 budget throughout the year.

## 2. Purpose of Report

2.1. This is a covering report that provides a recommendation to Full Council on 13 February 2020 to set a budget for 2020/21, that considers the impact on Council Tax, the extended Social Care Precept, the capital investment programme, schools' overall budgets, as well as Council reserves. The report also sets out an indicative Medium-Term Financial Plan (MTFP) to highlight expenditure and income from 2020-22.

2.2. In previously approving the draft consultation budget, Cabinet commenced the consideration of the proposals by Scrutiny and any feedback will be presented back to Cabinet for consideration. Cabinet and Council will also be asked to consider any comments alongside any other feedback received including those from the Schools Forum, Trade Unions and any other stakeholders. This feedback will be attached at Appendix 8 for Full Council and presented verbally at Cabinet as the Overview and Scrutiny Performance Board meeting occurs the day before Cabinet.

2.3. Council will be asked to debate and approve the budget, capital programme, schools' overall budget as well as the level of reserves.

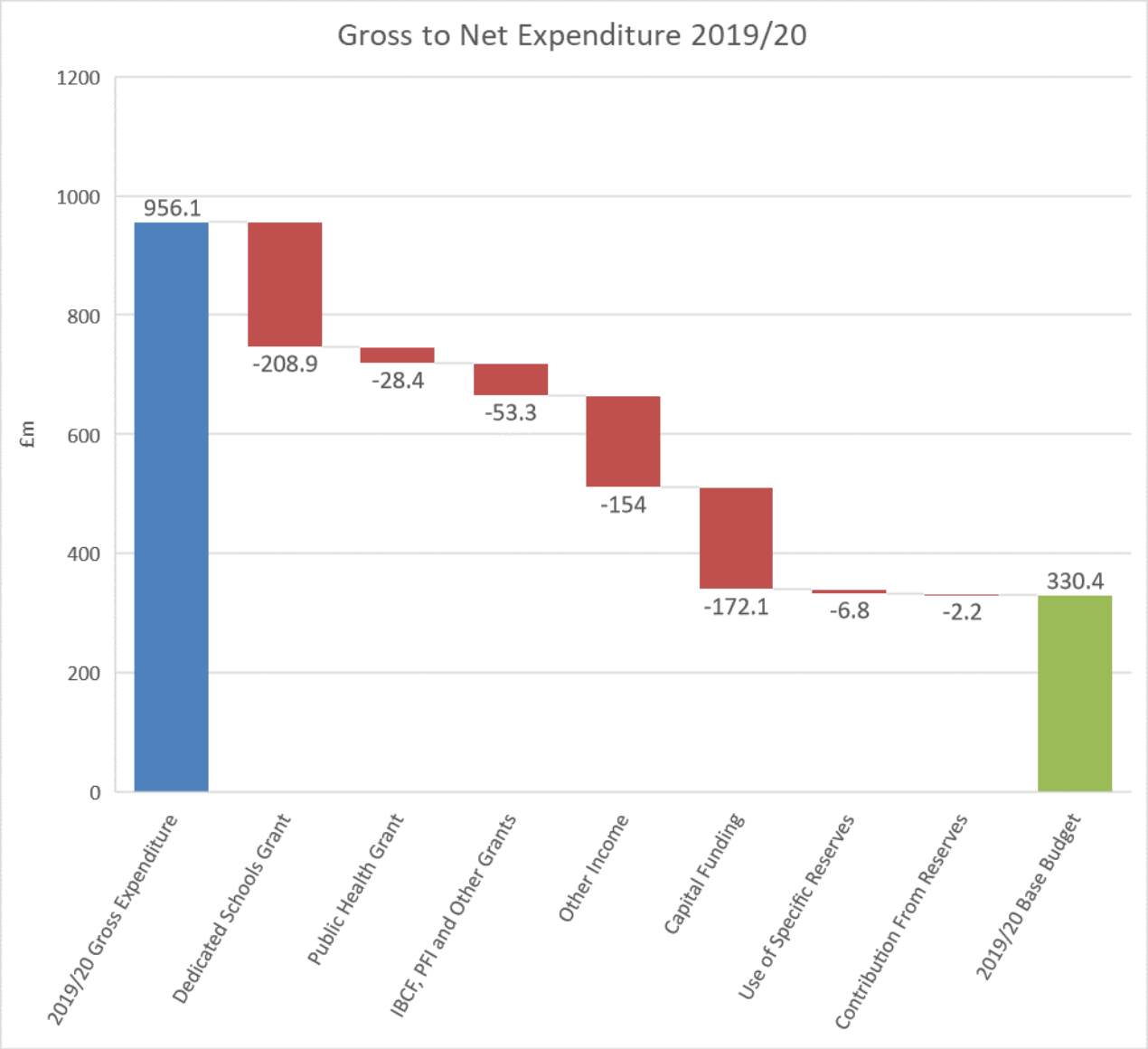
## 3. Background

3.1. In November 2016, Council approved its latest Corporate Plan (see attached Link - Shaping Worcestershire's Future. This report sets out a revised Medium-Term Financial Plan and draft budget for 2020/21 to deliver the priorities set out in the Corporate Plan. The Council is obliged by legislation to set a balanced budget. As a result, Cabinet Members and the Strategic Leadership Team have been revising the MTFP to present to Council to set its element of the 2020/21 Council Tax precept.

3.2. 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 the MTFP.

3.3. The current total gross expenditure budget for the Council is in excess of £950 million as shown below:

**Chart 2: The Gross expenditure incurred annually by the County Council**




3.4. Over the last two to three years the Council has faced a continued increase in the demand for some services; particularly for those who are most vulnerable, as well as inflationary pressures and changes in Government policy and funding. The Council has worked hard to deliver the 2019/20 overall performance, efficiencies and investment plans. The 2019/20 Period 8 budget monitoring forecast highlighted the risk of a year-end overspend of £3.6 million without further action and use of £3 million of reserves as planned. If that were the case the level of reserves would be reduced and the balance for 2021/22 would need to account for this slippage. The latest projections for ongoing expenditure have been included in the budget for next financial year and is considered further in section 13 of this report.

3.5. National and local circumstances have been appraised against the Council's plans. The Council's 2017-22 Corporate Plan sets a clear vision and four distinct priorities for the organisation and wider partnership to focus on delivering. This is set out alongside a revised way of working, move towards financial self-sufficiency and encouraging those individuals, families and communities, who can, to do more for themselves to enable limited resources to be targeted on protecting the most vulnerable in society. This is backed up by public engagement which has also consistently highlighted the following important aspects to consider when allocating resources: -

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

3.6. Under each of the Corporate Plan priorities, goals and actions are set out along with what will be different in the future. The Corporate Plan reflects a horizon to 2022 that is set alongside funding changes anticipated from Government reforms that are still in development. The MTFP is set out in more detail in Section 6 and at Appendix 1 of this report.

3.7. This report is an assessment to inform Council of the decision-making process and the adequacy and ability to deliver the proposals made by Cabinet, and the impact that this will have on the Council's financial standing.

3.8. This report therefore considers:

- The current financial position of the Council for 2019/20 – **Section 4**
- Funding the Council's Corporate Plan priorities– **Section 5**
- The Council's Medium-Term Financial Plan – **Section 6**
- The level of funding available for 2020/21 – **Section 7**
- The level of investment required for delivering the Corporate Plan in 2020/21 – **Section 8**
- The consequences of capital investment – **Section 9 and Appendices 1D and 1E**
- School's funding - Dedicated Schools Grant – **Section 10**
- The level of efficiencies, reforms and income required – **Section 11**
- The resultant Council Tax precept calculation – **Section 12**
- An assessment of reserves – **Section 13 and Appendices 2 and 3**
- Engagement on the proposals – **Section 14**
- Treasury Management Strategy, including Prudential Indicators – **Section 15 and Appendix 4**

- Pay Policy Statement – **Section 16 and Appendix 5**
- Consideration of other factors and professional advice – **Sections 17 to 22**

## 4. 2019/20 Forecast Outturn

4.1. The Council has received regular updates on its financial performance. Various management actions and elected member decisions throughout the year have been taken to deliver an improved financial position. The latest position at Period 8 (November 2019) forecasts a year-end overspend without further action of £3.6 million, assuming the use of £3 million of reserves as planned to cover the delay in delivery of the redesign efficiencies. Whilst management action continues to be taken and it is our aim to see a balanced budget by 31 March 2020 there may be an additional one-off call on reserves in year. The following table summarises the variances as at Period 8.

**Table 1: Summary Outturn forecast for Services as at Period 8 2019/20**

| Dir. | 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| CFC | Children, Families and Communities (Excl DSG) | 95,550 | 97,109 | 1,559 | (807) | 0 | 0 | 752 | 0.8% | 752 | 0 |
| E&I | Economy & Infrastructure | 57,911 | 61,238 | 3,327 | 191 | (3,638) | (33) | (153) | -0.3% | (192) | 39 |
| COACH | Commercial and Commissioning | 17,194 | 20,677 | 3,483 | (417) | (3,524) | 18 | (440) | -2.6% | (345) | (95) |
| CEX | Chief Executive | 431 | 2,994 | 2,563 | 0 | (2,585) | 0 | (22) | -5.1% | 3 | (25) |
| DAS | Adult Services | 135,829 | 138,258 | 2,591 | 0 | (162) | 0 | 2,726 | 2.0% | 2,726 | 0 |
| PH | Public Health | 1,717 | 1,717 | 0 | 0 | 0 | 0 | 0 | - | 0 | 0 |
| Serv | Total : Services (Excl DSG) | 308,632 | 321,993 | 13,523 | (1,033) | (9,909) | (15) | 2,863 | 0.9% | 2,944 | (81) |
| FIN | Finance / Corporate Items | 30,870 | 22,055 | (8,815) | 0 | 0 | 5,000 | (3,037) | -9.8% | (3,037) | 0 |
| NON | Non-Assigned Items | (6,865) | (115) | 6,750 | 0 | (3,000) | 0 | 3,750 | -54.6% | 3,750 | 0 |
| TRF | Funding - Transfer From Reserves | (2,247) | (2,247) | 0 | 0 | 0 | 0 | 0 | 0.0% | 0 | 0 |
| Total | Total (Excl DSG) | 330,390 | 341,686 | 11,458 | (1,033) | (12,909) | 4,985 | 3,576 | 1.1% | 3,657 | (81) |
| Total | Total - Funding | (330,390) | (330,390) | 0 | 0 | 0 | 0 | 0 | 0.0% | 0 | 0 |
| | Grand Total - Services and Funding (Excl DSG) | 0 | 11,296 | 11,458 | (1,033) | (12,909) | 4,985 | 3,576 | | 3,657 | (81) |
| | Dedicated Schools Grant (DSG) | 0 | 8,024 | 8,024 | 0 | 0 | (8,024) | 0 | | 0 | 0 |
| | Total | 0 | 19,320 | 19,482 | (1,033) | (12,909) | (3,039) | 3,576 | 1.1% | 3,657 | (81) |

4.2 Overall the Period 8 forecast is a net £3.6 million overspend (1% of budget). A £0.1 million improvement on Period 7, due mainly to an increase in the achievement of efficiency savings. The forecast position includes £2.9 million overspend on services, a gross £6.8 million overspending on Corporate Savings Targets offset by £3.0 million planned withdrawal from Financial Risk Reserve, £1.3 million saving on corporate debt interest and pension payments and a £1.8 million saving from releasing the corporate contingency.

4.3 The main variances at P8 are as follows:

- +£2.1 million demand pressures on Adults Older People Residential and Nursing services. A deeper review of Adult's data is being carried out to analyse the forecasting and current monitoring to inform further improvements in monitoring and projecting for 2020/21. We are in the process of allocating additional resource and tools to enable this support and challenge going forward.
- +£1.0 million cost pressure on Children's Services which relates to inflation and accrual reversals for Home to school / college transport. Demand continues to be monitored and there is an underlying pressure that continues to be reviewed

by a technical working group from across all areas of the Council and led by the Head of Finance. There are other underlying pressures in WCF arising from care costs which are being offset by vacancies, but these are built into the 2020/21 budget setting and thus no further action is suggested in 2019/20.

- £0.4 million underspend in Commercial & Commissioning Directorate
- £0.2 million underspend on E&I, after withdrawing £3.0 million from the Waste reserve.
- £1.4 million net underspend on Corporate Items, of which £1.2 million is from reduced borrowing costs and £0.2 million lower back-funding pensions costs.
- £1.8 million release of whole organisation contingency to support overspend forecast.
- £3 million withdrawal from Financial Risk Reserves to support the revised timing delivery of the corporate efficiencies programme.

4.4 The main issue is the timing to deliver the proposed redesign efficiencies agreed by Council in February 2019. This risk was discussed in Scrutiny and other forums at the time and the Council engaged a third party to advise and support delivery. This report identifies how over the two years 2019-21 the overall target will be met, but the majority of the delivery has been rescheduled from 2019/20 to 2020/21. As such there is the need for the planned reserves to be utilised in 2019/20. A total of £0.5 million has been spent in year on engaging staff, as well as challenging, designing and drawing up plans to deliver the changes. This has been funded from the Transformation Reserve. Cabinet approved at its December 2019 meeting that a further £0.750 million is spent with a third party to deliver the efficiencies in 2020/21, and again this will be funded from the Transformation reserve.

4.5 As a result of the overall position there could be a further need to draw on reserves to support the recurrent revenue budget up to the sum of £3.6 million, albeit a far lower scale than in previous years. However, at this stage management actions are being taken to recover this position. This movement on reserves is reflected in section 12 and appendix 2 within this report, however every action is being taken to reduce this by 31 March 2020.

4.6 The recurring service overspends have been accounted for in the planning and preparation of the investment needs in the 2020/21 budget proposals and plan. The Corporate items also have been reviewed and whilst there was some delay in delivery which was covered by reserves assumptions, there are plans to deliver these fully and the 2020/21 targets within the saving proposals, as such these will not roll over as a pressure in 2020/21.

4.7 The School's budget is reported to be balanced at 31 March 2020, however the Dedicated School's Grant continues to face significant in year pressures from high needs. Members may recall that in 2018/19 we rolled forward the overspend and began discussions with the Schools Forum over a recovery plan. Further information on the Schools budget is set out at section 9.

4.8 The underlying position regarding DSG High Needs is an increased net overspend of £9.0 million with a risk that it will increase further with increase in demand. This will be carried forward within the schools' balances and whilst it is noted that provisional finance settlement has indicated that additional funding of £8.7 million of additional grant will be received in 2020/21 this will still leave a cumulative carry forward and still an ongoing, albeit smaller, deficit. 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 funding. The Council continues to lobby and assess actions to address this area of spend.

4.9 Monitoring of the capital budgets shows schemes are broadly on target to be within the re-programmed spend profile at year end, with some planned expenditure being carried forward to next financial year. There are a number of amendments within the current programme that do not change the total programme but set out the spending within the allocation.

## 5 The Council's Medium-Term Financial Plan and funding its priorities

5.1 The current Financial Plan takes account of the Corporate Plan set alongside the uncertainty of Government funding. As such this report sets out an updated MTFP that covers the remaining two years only of the Corporate Plan. It also reflects the current Government funding announcements, including additional Adult and Children's Social Care Grant.

5.2 The key changes reflect:

- the revised forecast for the increasing demand for care for the vulnerable, including adults and children with complex care needs and special educational needs and disabilities (SEND);
- the forecast is in part matched by the additional assumed one-off social care grant and the one-year extension of the Social Care Precept at up to 2%; and
- the additional pressures faced on the cost and demand for services outside of care, for example waste, highways and transport.

5.3 In relation to the Council's priorities in the Corporate Plan, the financial plan confirms the commitment to continue to resource these:

**Open for Business**

5.4 The continued commitment and spending of over £125 million, to grow the local economy and improve our connectivity. Plans to invest in the local economy include:

- Continuing investment into the capital programme for schemes including A4440 Worcester Southern Link Phase 4, A38 Bromsgrove, Pershore Northern Infrastructure, upgrades and parking at railway stations, Kidderminster Churchfields, broadband connectivity, economic game changer sites and public realm improvements.

- In conjunction with Worcestershire LEP and Partners, the Council has been successful in securing ongoing finding to support 5G initiatives which support productivity improvements in manufacturing, The Council has also submitted a bid to central government for Rural 5G connectivity programme. This will run alongside the existing broadband programme.
- £7.4 million through the Open for Business and Revolving Investment Fund Reserves on progressing development opportunities around key town centre and railway sites.

  New Investment:

- c. £0.3 million one-off revenue expenditure to further progress the North Cotswold Line rail development proposals

**Health and Wellbeing**

5.5 The draft budget proposes a substantial increase in the resources available for Adult Social Care. There is a commitment to invest £13.2 million gross to meet the demand led Adult Social Care pressures. Section 8 Table 10 below provides further detail. In 2020/21, there are plans set out to invest:

- £1.9 million to address the pressures faced in 2019/20 above those planned in the base budget.
- £10 million gross to reflect the rising demand, complexity and cost of Adult care. A forward looking strategy Link was presented to Cabinet in November 2018 which sets out how going forward the Council is continuing its focus on helping people live longer and in better health through prevention, reablement and support to live in their own homes including the development of assistive technology. Section 6 of this report also sets out some of the future pressures and how the Council is looking to manage within that forward strategy.
- £0.8 million of Public Health grant will be focused on preventative actions to improve the health of County residents, including early years and reablement of adults. The grant will continue to spend within budget and in line with grant conditions. This supports a broad, population-based programme of preventive work to improve health and well-being and narrow health inequalities, with a focus on evidence-based prevention. This year as in previous years, an investment from the Grant is made in areas of the Council outside the Public Health service, such as libraries and planning, in order to maximise their impact on health.
- £1 million of the additional Business Rates Retention System 75% Pilot funds will be rolled forward to support spending on preventative measures in 2020/21 to manage future demand and help residents live healthier lives in their own homes for longer.
- £10 million in capital, as well as transformational funding, to ensure technology can improve care.

**Children and Families**

5.6 There is a continued commitment to invest £7.2 million to improve outcomes for children and young people (up to the age of 25) in Worcestershire, by addressing their needs holistically through early help and prevention, education provision and social care. There is a further £1.1 million set aside in earmarked reserves which was established through the 2019/20 budget process to mitigate any potential financial risk on placements for looked after children which reflect the ongoing demographic and cost pressures in the service. However, this has not been required in 2019/20 due to the strong leadership, good practice in the service and careful financial management. The budget in 2020/21 includes new investment for:

- Continuing the Council's journey of improvement in children's safeguarding with further full year investment of £4.1 million to reflect an increase in overall demographic pressures and costs.
- Funding of recurrent costs pressures of home to school transport £1 million and an increase of £0.5 million on the placements budget to address the overspend reported in 2019/20.
- A further investment £0.6 million into Special Educational Needs Transport.
- The full year effect of £0.4 million for running costs for our new wholly owned Council company, Worcestershire Children First (WCF), that went live on 1 October 2019.
- Providing £6.5 million in capital to improve schools across the County.

**The Environment**

5.7 There is a commitment to maintain an investment of £100 million, to improve the local environment and highway network. These plans include:

**Highways:**

- £15 million spent on the Highways Infrastructure Investment Fund (HIIF) (£37.5 million over three years 2018-21) including a focus on striving for top quartile performance in the condition of our roads and pavements. This is on top of structural maintenance grants received from Government.

New Capital Investments:

- An extra £5 million to add to our existing £5 million budget on the Cutting Congestion programme to deliver the schemes planned at A38 Upton, Bromsgrove, Evesham and Kidderminster
- £6 million on highways with a further £6m for 2021/22
- £4 million on footways with a further £4m for 2021/22

**Environment:**

New Capital Investments:

- £1 million on street lighting with a further £1 million in 2021/22 for continuation of the LED replacement programme
- £1 million on flood mitigation with a further £1 million in 2021/22

5.8 The Council is also committed to improving the environment through the delivery of its Corporate Plan.

5.9 As such in 2020/21 the Cabinet is committing the following:

- We will increase the public transport revenue budget by £0.2 million to support the Worcestershire Public Transport Strategy.
- Investing £0.1 million of revenue in a woodland planting scheme which will see the planting and maintenance of new woodland that will support 150,000 new trees on land owned by the Council to contribute to our environment initiatives. The Council will forego over £1.5 million of capital land receipts to make this happen.
- We are arranging to purchase green energy for all our electricity supplies from next year.

**Efficient and effective organisation**

5.10. In continuation of our plans to spend £29 million, to ensure that the County Council is operating efficiently, prepared for the future including more digitally enabled operations and closer working with our key partners. This includes plans to invest:

- £7.3 million in digital and technological improvements
- £14 million in the way we work across the organisation and with our residents
- £7.7 million in our buildings and working environment to ensure we work smarter.

5.11. As part of the 2019/20 efficiencies programme the Council has begun to undertake a number of reforms and redesign to make efficiencies in the way it works and buys. There was a target to deliver c.£6 million efficiencies across 2019-21, £3 million each year. It has been reported during the year as part of budget monitoring that the delivery has taken longer to implement due to the scale of the task, however all the efficiencies target will be delivered in 2020/21.

5.12. The Council will continue to secure efficiencies from challenging the way it works, including standardising our processes and using technology to avoid delays. The Council has invested in developing its in-house capacity to undertake system thinking reviews and is in the next phase of developing its digital strategy. This continued focus to reduce unnecessary costs will form the bedrock of future saving plans.

5.13. Since the December 2019 Cabinet we have received the Provisional Settlement. An increased Social Care Grant allocation is reflected in the reduction in total net expenditure. Updates from District Councils are reflected by an increase in total funding available. The following table summarises the updates made since the December 2019 Cabinet Report to funding and expenditure for 2020/21.

**Table 2: Summary of changes since December 2019 Cabinet**

| | December £'000 | January £'000 | Change £'000 |
|---|---|---|---|
| Council Tax | 278.287 | 279.130 | 0.843 |
| Collection Fund Surplus | 2.331 | 2.815 | 0.484 |
| Business Rates Retention | 63.801 | 63.801 | 0.000 |
| Business Rates Reserve Release | 0.500 | 0.500 | 0.000 |
| **Total Funding Available** | **344.919** | **346.246** | **1.327** |
| **Total Net Expenditure** | **346.068** | **345.139** | **-0.929** |
| Transfer (from)/to Earmarked Reserves | -1.149 | 1.107 | 2.256 |
| Funding Shortfall | 0.000 | 0.000 | 0.000 |

## 6. Medium Term Financial Plan

6.1 As part of our good financial management, the Council has an MTFP that is updated annually as part of the process of setting the Budget and Council Tax levels. The Plan sets out both the process and assumptions in aligning the Council's financial resources with its Corporate Plan which in 2020/21 will be in its fourth year of five and remains unchanged, however a number of factors locally and nationally have changed since the MTFP was last considered by Full Council in February 2019. The impact of the provisional Local Government Finance Settlement has been included in the MTFP. However, the Fair Funding Review of local government funding and settlement allocations has been delayed by 12 months meaning there is still a high degree of uncertainty going into the final year of the Corporate Plan in 2021/22. Therefore, the MTFP scenarios have been updated on an iterative basis on the assumption of CPI inflation and that the current level of funding will be maintained and included as part of this report at Appendix 1A. The following paragraphs summarise some of the key challenges and approaches.

6.2 The MTFP assesses both the funding Worcestershire County Council expects to receive and the cost of doing tomorrow, what it does today, to identify what if any, gap exists. The latest forecast is based on certain assumptions that could change (the longer the forecast the greater the risk of change). Factors on both sides of the equation mean that the gap shown below may change (for the Government's grant funding is still being reviewed and we do not have clear forecasts beyond 2020/21; and we are still unclear of other external factors).

6.3 The assumption at present for 2020/21 to 2022/23 is that there will be a need for efficiencies, reforms and income generation as follows:

**Table 3: Funding Gap Forecast 2020-23 Assuming all grant income is retained**

| | 2020/21 | 2021/22 | 2022/23 |
|---|---|---|---|
| **Medium Term Financial Plan** | **£000** | **£000** | **£000** |
| Funding | 346,246 | 355,782 | 367,281 |
| Transfer (to) Reserves | -1,107 | 0 | 0 |
| Total | 345,139 | 355,782 | 367,281 |
| Projected Budget Requirement | 345,139 | 364,029 | 383,079 |
| Funding Gap (Retaining current quantum of grants) | 0 | 8,247 | 15,798 |

6.4 As previously noted in Section 5, the Council will continue to challenge the way it works, from business processes to the way we use technology. This will be critical to ensure we can manage the organisation effectively within resources available.

**Funding**

6.5 The provisional settlement was delayed due to the General Election and finally published on 20 December. The key changes to the MTFP reported to Council in February 2019 are:

- £1 billion of extra adult and children's social care grant – of which Worcestershire County Council is expected to receive £9.4 million which is £0.9 million more than forecast in December 2019 which has been rolled together with an existing £4.1 million social care support grant to total £13.5 million.

- £0.5 billion of tax raising power through the extension of the Social Care Precept for a further year, of up to 2%. For Worcestershire this would mean a further £5.4 million.

- £780 million nationally for High Needs which we estimate will mean an extra £8.7 million for Worcestershire's DSG.

6.6 The Provisional Local Government Finance Settlement was released on 20 December 2019 and has therefore necessitated an update to the previous Social Care Grant assumption in the December Draft Budget Report. A summary of the amendment is illustrated in the table below:

**Table 4: Social Care Grant Update**

| | Dec 2019 Budget Report | Provisional Settlement | Change |
|---|---|---|---|
| **Medium Term Financial Plan** | **£m** | **£m** | **£m** |
| Social Care Support Grant 19/20* | 4.074 | 0 | |
| Social Care Grant 20/21 | 8.500 | 13.503 | |
| **Total** | **12.574** | **13.503** | **+0.929** |

*rolled into social care grant 20/21

6.7 As such the main sources of the Council's income will be collected and spent locally. The local taxation (Council Tax and Adult Social Care Precept) will account in 2020/21 for 81% of all funding income, with 19% coming from our share of the Business Rates.

6.8 The MTFP forecasts that the Council will experience a positive cash flow for the next two years, subject to the outcome of the Fair Funding Review. 2020/21 will see a £14.7 million increase in Council Tax (3.99%) of which 2% is the Social Care Precept. The increase also reflects a growth in new homes of 1.5% across Worcestershire as well as no drop off (which had previously been assumed) in empty properties following the full implementation in some parts of the County of the 150% Council Tax for empty homes.

6.9 Future year increases in the number of new properties range between 1% and 3% at this stage due to prudence in the projection of future growth by district councils.

6.10 The funding increase expected in between 2020/21 and 2021/22 is £9.5 million, as follows:

**Table 5: Funding increase forecast between 2020/21 and 2021/22**

| | 2020/21 | 2021/22 | Change 2020-22 |
|---|---|---|---|
| **Funding** | **£000** | **£000** | **£000** |
| Council tax | 279,130 | 289,095 | |
| Collection fund surplus | 2,815 | 1,610 | |
| Business rates reserve release | 500 | 0 | |
| Business rates retention scheme | 63,801 | 65,077 | |
| **Total Funding** | **346,246** | **355,782** | **9,536** |

**Challenges to our spending**

6.11 If all things were equal the Council would be able to use the additional funding income for new service provision and to fund growth. However, the scale of cost pressures facing the Council is more than the projected increase in income. The potential increase in the base budget is as follows:

- **Investment decisions** – this is policy decisions to invest monies from another service area, or from external funding into a new service or area that will deliver a change; and that supports the Corporate Plan delivery.

- **Growth in demand** – this is recognition that some demand cannot always be prevented, and as such we have to allocate funding – see next steps below regarding how we fund some of this.

- **Cost Pressure** – this is the recognition that inflation cannot always be avoided. It could also be recognition of a prior year base budget 'issue' that needs to be addressed, an example that could include an over statement of income target not achieved – see next steps regarding how we plan to fund some of this.

6.12 Examples of each of the above areas over the last 12 months and for 2020/21 are:

- **Investment –** £2 million Strategic Initiatives increase in the revenue borrowing budget to fund highways, flood mitigation and cutting congestion capital investment (detailed in Section 8)

- **Growth –** £4.3 million net increase in care services required for older people

- **Pressures –** £19 million of inflationary uplifts in contracts and utility costs; and addressing prior year non-delivery of efficiencies and pay awards

6.13 The reason we recognise investment, growth and pressures is so that we understand the scale of the task. If we simply gave a service the same cash budget as the previous year, that service would still have to make efficiencies to standstill as pay costs or contract prices may have risen. The next step is to assess what is a 'priority' and needs to be funded and what is 'not a priority' and will not be funded and each service must make changes to stay within its current (prior year) base budget.

6.14 The focus of the spending challenges faced in year 1 (2020/21) are coming from:

- **Continued rise in demand** for adult and children's social care (£3.5 million and £4.5 million respectively projected);

- **Underlying pressures** of £3 million from rescheduled efficiencies from redesign due to the complexity and scale of change, as well as not delivering all of the corporate contract saving target and £2.5 million adult social care cost pressures.

- **Contract and other inflation** in total we forecast over £6 million of pressures to maintain the purchasing ability of current budgets.

- **Pay and NLW inflation** - in total we estimate a c.2% pay uplift. The pay and related bill will increase by £3.1 million.

6.15 This results in a gross funding requirement in 2020/21 to meet all of these challenges of £32.0 million.

## Table 6: Funding pressures faced 2020/21

| Service | 2019/20 Net Budget £'000 | Rebase / Virement £'000 | 2020/21 Pay Inflation £'000 | 2020/21 Contract Inflation £'000 | 2020/21 Growth (Demand) £'000 | 2020/21 Growth (Investment) £'000 | 2020/21 Growth (Pressure) £'000 | Total Growth £'000 |
|---|---|---|---|---|---|---|---|---|
| Children's Services (Excl DSG) | 99,664 | (2,260) | 1,507 | 544 | 4,257 | 235 | 230 | **4,513** |
| E&I | 55,539 | 251 | 648 | 834 | 0 | 200 | 0 | **1,933** |
| COACH | 6,561 | (719) | 474 | 444 | 0 | 20 | 0 | **219** |
| Chief Executive | 1,599 | 38 | 225 | 0 | 0 | 0 | 0 | **263** |
| People | 144,843 | 6,224 | 1,702 | 4,117 | 3,450 | 1,845 | 1,121 | **18,459** |
| Finance / Corporate Items | 31,296 | (579) | (1,425) | 58 | 0 | 1,700 | 0 | **(246)** |
| Non-Assigned Items | (6,865) | 6,865 | 0 | 0 | 0 | 0 | 0 | **6,865** |
| Total | **332,637** | **9,820** | **3,131** | **5,997** | **7,707** | **4,000** | **1,351** | **32,006** |

6.16 The Council's fees and charges will be uplifted where appropriate in accordance with the existing policy of Retail Price Index (RPI) +2% up to full cost recovery.

6.17 Looking ahead the growth and pressures on spend will continue at similar levels; however, as set out below the adult and children's reform programmes are expected on an escalating scale to cover annual pressures, and prevent costs rising as fast. Other programmes around enabling communities, digital and commercial will also help address pressures. As such the planned investment for 2021/22 is £19.8 million.

## Table 7: Funding Pressures 2020-22

| | 2020/21 | 2021/22 |
|---|---|---|
| | £000 | £000 |
| Rebase Budgets | 9,820 | |
| Growth - Demand | 7,707 | 8,500 |
| Growth - Investment | 4,000 | 2,000 |
| Growth - Pressures | | |
| • Pressures | 1,351 | |
| • Pay inflation | 3,131 | 3,300 |
| • Contract inflation | 5,997 | 6,000 |
| **Total 2020/21** | **32,006** | |
| **Total 2021/22** | | **19,800** |
| **Total 2020-2022** | | **51,805** |

**Transformation programme**

6.18 The Council has a number of transformation and change programmes focused on the corporate plan priorities and addressing the projected budget gap. The key programmes are:

- **Adult social care** – The Cabinet paper (November 2018) link sets out a future strategy for the services aimed at improving reablement, front door assessment, and health integration to manage the growth in demand. It focuses on implementing a more person centred and preventative approach, which encourages a community based and personal support model. It also looks at the assets available to individuals that can be used to support them for longer to stay in their local community and prevent further deterioration. In addition, the Council with the support of its district, health and voluntary partners has allocated over £3 million to support these preventative plans from additional business rates income secured from our one year 75% retention pilot. As a result, the Service Plan reported to Cabinet assumes that costs can be avoided, resulting in a shallower increase in the investment trajectory applied to adult social care. This programme has already started with a series of business cases progressing to a full business case and a number of contracts are in the process of being reviewed.

- **Children's Services -** following Ofsted reviews Worcestershire Children First was set up and went live 1 October 2019, however before that we had already seen an improvement in the Ofsted rating and assessment of our direction of travel. Whilst there has been an increase in costs arising from these changes, going forward the aim will be to avoid higher costs in safeguarding and young adults by investment in early help and prevention.

- **Commercial, procurement and efficiency** – The Council is progressing a Commercial Strategy which will set out an overall approach to greater trading and 'commercial challenge' of costs including procurement.

- **Redesign of services –** the Council is delivering on ways in which it can work more efficiently. The aim was to save £6 million across 2019 to 2021. The first stages of redesign have been completed and proposals within this paper address how this will be delivered in full over the coming year.

6.19 More detail on the 2020/21 proposed efficiencies is set out at Section 11 of this report.

6.20 As a result, the MTFP is aligned to corporate programmes to deliver efficiencies.

6.21 We will annually update the forecasts and assumptions to revise the goals and compare those against the corporate change programmes, as well as any changes in the Government's funding proposals.

**Reserves**

6.22 The Council's General Fund reserves are currently at £12.2 million (3.8% of net spend). This is in line with many other county councils. It has meant there is a need for a risk assessment of what the General Fund reserves can fund. This has resulted in a real focus on efficiencies as the Council cannot continue to allow overspends or underachievement of income to occur on a recurring basis.

6.23 As part of setting the MTFP we have appraised the earmarked reserves (EMRs) and challenged the future need as well as fit with the Corporate Plan. These reserves include a number of items that are not available to the Council such as schools and PFI are fully committed. The proposed EMRs is presented to Cabinet and Council that supports both the Corporate Plan and the change programme in Appendix 2.

6.24 More detail on the Council's reserves is set out at Section 12 of this report.

6.25 Overall therefore the Council has a robust MTFP to allocate resources to set and deliver balanced budgets for the remaining years of the Corporate Plan, starting with 2020/21, that supports the delivery of the Council's priorities. The following sections of this report set out in more detail the position for 2020/21.

## 7 2020/21 Funding Level

7.1 The Council draws its funding from two main sources – Council Tax and Business Rates. The Council's Government funding allocated for 2020/21 comprises of three elements; the first two make up what is referred to as Worcestershire's Settlement Funding Allocation (SFA), which is the MHCLG (formerly DCLG) calculation of what the Council's spending should be compared with other councils across the country. SFA consists of:

- Revenue Support Grant (RSG) – now nil;
- Baseline Funding - Business Rates Retention Scheme (BRRS).

7.1. A third element of Government funding is from additional ring-fenced grants, such as Public Health.

7.2. This funding and the impact for Worcestershire are set out in more detail in the following paragraphs. Section 11 of this report sets out the calculation of the proposed Council Tax precept, and Section 9 assesses assumptions on the funding for capital programmes including schools.

**Government Grant - Settlement Funding Assessment (SFA)**

7.3. In 2010, the Government simplified the funding for local authorities to one main funding stream – the SFA, and nine separate core grants. At the same time, it announced a review of the funding formula and system with the aim of introducing a more transparent and simplified scheme that also supports the localism agenda. These changes took affect from 2013/14. In 2016 the Government offered, and the County Council accepted, a four-year funding offer that ended in 2019/20. The SFA is split into two parts: The Revenue Support

Grant (RSG) and the Baseline Funding, or as it is sometimes known, the Business Rates Retention Scheme (BRRS). The BRRS is meant to reflect our needs-based assessment.

7.4. Since this initial allocation was set out the Government has made minor adjustments to the allocation to reflect a number of factors, including Worcestershire's baseline NNDR.

7.5. The announcement of Worcestershire's latest allocation of the Provisional Settlement was received on 20 December 2019 and is included in the table below. This baseline funding is supplemented by an estimated £2.5 million specific grant recompensing the Council for business rates reductions implemented by Central Government to support local businesses. This is £0.9 million more than assume in December 2019.

**Table 8: SFA movement 2019/20 to 2020/21**

| | 2019/20 £m | 2020/21 £m | 2019/20 to 2020/21 Change £m | 2019/20 to 2020/21 Change % |
|---|---|---|---|---|
| Revenue Support Grant | 0.000 | 0.000 | 0 | 0% |
| Baseline Funding | 62.471 | 63.488 | +1.017 | +1.6% |
| Total | 62.471 | 63.488 | +1.017 | +1.6% |

7.6. Going forward there are plans to radically overhaul this grant funding, further details are set out later in this report at paragraph 7.20.

7.7. Whilst the final settlement is likely to be confirmed around 7 February 2020, it must be noted that at the time of writing this report final details on a number of grants, notably Public Health, Better Care Fund and Dedicated Schools Grant are still to be confirmed.

**Government Ring fenced grants**

7.8. In addition to this the Government is issuing a smaller number of specific grants for various services. To date we have assumed a £0.5 million uplift in the Better Care Fund in the MTFP at Appendix 1 although it is like that all grants will see an inflationary uplift.

7.9. The additional Social Care monies announced by the Secretary of State provided a one-off grant in 2020/21 of £1 billion nationally. That equates to £13.5 million for Worcestershire. This is the fourth year of such one-off grants which have subsequently been rolled forward. There would be a significant risk if this grant is not included in the base as part of the expected Fair Funding Review allocations for Worcestershire.

**Adult Social Care Precept / Levy**

7.10. Given the continued demand pressures, the increasing cost of care for older people and the likely impact of the National Living Wage, the 2015 Autumn Statement (25 November 2015) set out a new local freedom for upper tier councils for four years 2016-2020 to raise a separate ring-fenced Social Care Precept of up to 2% on every household to support social care services.

7.11. In the 2017/18 Provisional Settlement announcement the Secretary of State for the MHCLG set out a new flexibility confirming the remaining 6% across the residual years (i.e. 2% each year 2017/18 to 2019/20). Across these three years Worcestershire applied 6%. It was assumed 2019/20 was the final year, however a further year of up to 2% for the precept was announced by the Chancellor in September 2019.

7.12. The total forecast pressures facing Adult Social Care (ASC) in 2020/21 is set out in more detail at section 8; the gross demand and inflation facing these services is £13.2 million.

7.13. Even with the grant and levy, the pressures faced in Adult Social Care still exceed the demand forecast and the service is seeking to make efficiencies in 2020/21 and beyond through transformation of the service in order to ensure the sustainability of the service is in line with a longer funding position. This is to ensure that where costs continue to be forecast that exceed funding, the service works on prevention and efficiencies so as to mitigate as far as possible the impact on the overall Council budget.

**Council Tax**

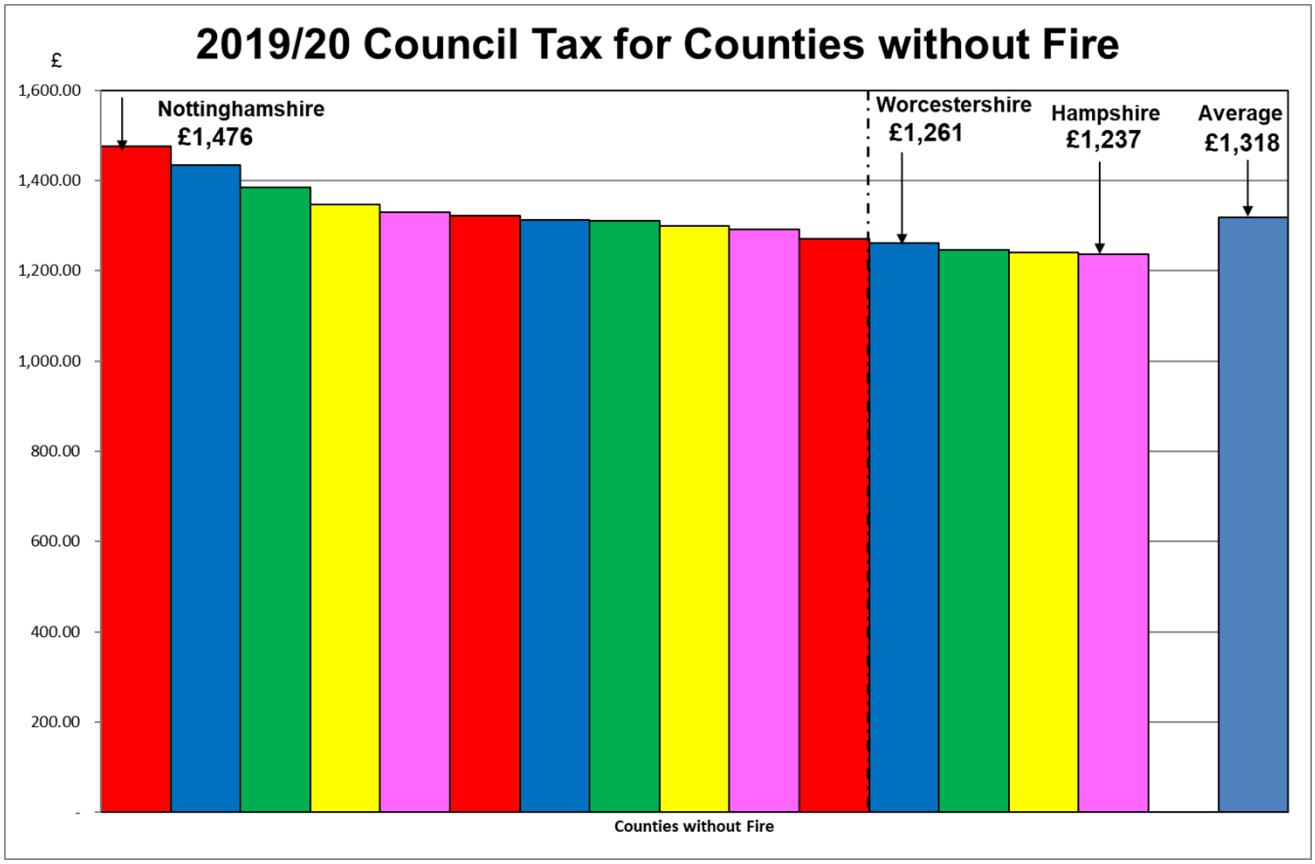
7.14. Central Government have confirmed a 2% referendum limit for Council Tax increases with the addition of up to 2% for the Adult Social Care precept.

7.15. The Council has seen an increase of 1.5% (3,166 Band D equivalent properties) which will generate £4 million additional income for the County Council, and District Councils have confirmed there will be a £4 million surplus from district council's collection funds.

7.16. Overall therefore it is projected that in 2020/21 these increases will mean £14.7 million more will be raised from Council Tax as shown in Section 12 of this report.

7.17. Overall, as Chart 3 shows, the County Council's level of Council Tax remains low when compared to comparative councils:

**Chart 3: 2019/20 Council Tax Band D County Council comparator**




## Government Funding – Fair Funding

7.18. The Government is due in 2020 to open consultation on revisions to local government funding and the localisation of NNDR (Business Rates). This review and consultation have been delayed; however, it is anticipated that the new Government will roll out a new formula distribution method for 2021/22 to replace the current one-year deal.

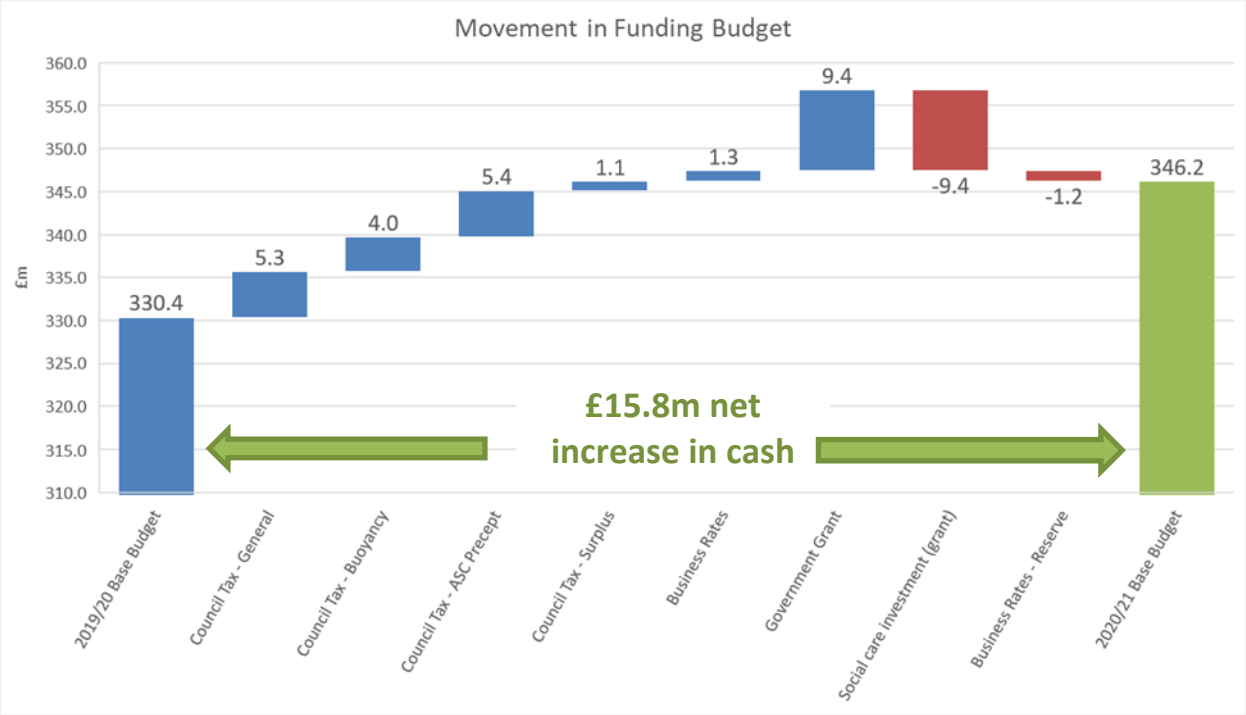
7.19. Whilst MHCLG indicate that ministers remain committed to local government taking greater control of their income, the consideration of exactly how this will be achieved has yet to be laid out and could require legislative changes. However, there are strong indications that the Needs Based Allocation of Resources will give more weight to rurality and sparsity. It is not clear what will happen to other funding streams such as New Homes Bonus. As a result the additional income arising from changes since the December 2019 Cabinet proposals will be moved into reserves to mitigate any uncertainty.

7.20. The refreshed MTFP therefore is based on assumptions that the current limited growth in our NNDR allocation will increase slightly (£2 million per annum) from 2020/21 onwards, but no further benefit has been included in the calculations at this stage due to the significant level of uncertainty.

**Overall funding levels**

7.21. After adjusting for movements in grant, the proposed levels of Council Tax and the new Adult Social Care Precept, the net impact is that the Council projects it will have £346.2 million of funds available (£330.4 million in 2019/20), that is a net increase from 2019/20 of £15.8 million (4.8%).

**Chart 4: Change in WCC's Government & Council Tax funding 2019/20 to 2020/21**




7.22. However, as the next section identifies the level of demand exceeds this amount and thus efficiencies as set out in section 10 are also required.

## 7. Level of investment and changes to the original plan

8.1. Changes to assumptions on both income and spend have occurred since the MTFP was reported to Council in February 2019. The gross level of pressures has also changed from the forecast financial plan reported to Council in February 2019 (£29.2 million to £32.0 million).

8.2. The first call on the increase in Council Tax and Adult Social Care Precept is to directly fund these pressures.

8.3. Overall the gross pressures and change in spend is £32.0 million as follows:

**Table 9: Total pressures faced in 2020/21**

| Investment / Growth / Pressures | £000 |
|---|---|
| Adult social care | 13.2 |
| Children's Care, safeguarding, SEND Transport and Education | 4.5 |
| Pay and contract general inflation (Excl. Adults and Children's Care services) | 1.7 |
| Strategic Initiatives | 2.0 |
| 2019/20 pressures, including adult and children's care | 10.6 |
| **Total** | **32.0** |

Investment in each area is discussed in the following paragraphs:

**Adult Social Care - £13.2 million gross pressure from 2019/20 to 2020/21**

8.4. Overall there is a gross forecast pressure of £13.2 million, before accounting for £3.3 million of service efficiencies. The pressures include assumed increased cost of care services for older people, allowing for increased caseload, more complex care needs, the National Living Wage for 2020/21, pay inflation and those transferring from children to adult care, as follows:

**Table 10: 2020/21 Adult Care cost pressures**

| Description of pressure | 2020/21 £m | Comments |
|---|---|---|
| Additional demographic and complexity / acuity for over 65s | 3.5 | Additional cost to the Older People budget recognising an increased number of people receiving services and an additional complexity due to an ageing population.<br><br>If current trends continue, we can expect to see a rise of 61 clients per year over the medium term. Worcestershire is also experiencing an increase in the number of people who were previously self-funders or funded by Continuing Health Care who are transferring to council funded care and those entering care tend to have more complex needs. |

| Description of pressure | 2020/21 £m | Comments |
|---|---|---|
| Growth in the number and complexity of care packages for Adults with a Learning Disability and additional placements reflecting those transitioning from Children to Adults care | 0.5 | There is an ongoing increase in life expectancy and related care needs as children move into adult care that needs to be provided for. In addition, as carers get older, the service is facing an increasing need to provide sustainable placements for those who have previously lived at home with relatively low levels of support. |
| Growth in the number and complexity of care packages for Adults with a Physical Disability and additional placements reflecting those transitioning from Children to Adults care | 0.2 | There is an ongoing increase in life expectancy and related care needs as children move into adult care that needs to be provided for. |
| Greater cost of mental health packages of care and increased numbers | 0.2 | Worcestershire has a growing number of cases which continue to cause cost pressures in 2020/21. |
| Contractual inflation including the impact of the National Living Wage | 4.6 | The cost of care packages is increasing due to the general inflationary uplift requested by providers (£2.4m) and the increased costs of the 5.6% increase in the national minimum wage (£2.2m) |
| Inflation assumed on income receivable | (0.6) | An increase of fees in line with inflation |
| Liberty Protection Safeguards | 1.6 | The Mental Capacity (Amendment) Act 2019 required local authorities to reduce the cost and complexity of the current Deprivation of Liberty Safeguards scheme (DoLS), now known as the Liberty Protection Safeguards (LPS), whilst ensuring that a person's human rights are protected. This leads to an increase in costs to undertake the required assessments in a timely manner. |
| 2019/20 impact into 2020/21 | 1.9 | Full year effect of 2019/20 part year costs |
| **Total Demand Related Inflation** | **11.9** | |
| Pay Inflation | 1.3 | |
| **Total** | **13.2** | Note: The 2% Social Care precept contributes to these costs |

| Description of pressure | 2020/21 £m | Comments |
|---|---|---|
| ***Less*** | | |
| Efficiencies | (3.3) | Discussed at section 11 and Appendix 1C |
| Government Grant | (4.9) | £4.9 million new Social Care Grant as discussed at paragraph 6.6 |
| Increased BCF | (0.5) | £0.5 million of BCF as discussed at paragraph 7.9 |
| **Net change** | **4.5** | |

8.5. As set out in the last table, the cost pressure on adults continues to increase with pressures arising from increasing numbers that are cared for, as well as increases in the cost of both transport and care. The rise in numbers in adult care has in part come from more young people transitioning into adult care, as well as adults with disabilities living for longer. This often leads to more complexities of care and increased costs reflecting these complexities.

8.6. In addition to these pressures the service faces an ongoing issue of care increasing and will apply the 2% permitted uplift through the ASC Precept in 2020/21. The service faces a recurring forecast overspend at Period 8 of £2.7 million, which will need to be addressed in 2020/21. As such the service is proposing efficiencies to manage these pressures and focus on preventative actions.

8.7. After accounting for the ASC Precept and grant, the pressures and inflation (£9.3 million) costs means that there is still a need for £1.1 million of efficiencies to maintain a sustainable service going forward.

**Children's Services / Worcestershire Children First (WCF)** - £7.6 million gross increase in base budget, £3.5 million after accounting for the Social Care grant of £3.6m and service efficiencies of £0.5 million.

**Worcestershire Children First (WCF)**

8.8. In October 2016 Ofsted undertook a statutory inspection of Children Social Work services in Worcestershire County Council. The overall judgment of the service was "Inadequate" and the DfE appointed a Children's Commissioner to oversee improvement. A comprehensive service improvement plan has been in place since this time. In June 2019, the Council's Children's Services were inspected by Ofsted. The judgement was published on the 29 July 2019 and were 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 last inspection. They stated that effective work by senior management and staff, together with commitment and investment by political leaders, has 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.

8.9. On 1 October 2019 the wholly owned company Worcestershire Children First was launched with 833 full time equivalent staff transferring. As part of that Cabinet in September 2019 agreed WCF's first interim Business Plan 2019 to 2022, with an 18-month financial plan. The following Link to the Business Plan agreed by Cabinet sets out the company's vision which is summarised in the following diagram:


8.10. The Business Plan sets out the continuation of the Council's improvement journey to good, and the financial plan around key areas such as safeguarding, schools and early years remain unchanged in this report and supporting MTFP attached at Appendix 1C.

8.11. Further updates have been reported to Cabinet on the Edge of Care and Schools (October Cabinet Item 5 - Link), as well as the Annual Safeguarding Report and an update on the Special Educational Needs and Disabilities improvement plan (November Cabinet Items 5 and 6 - Link).

8.12. Overall this will see a total investment in social care improvement in the last three years of £20.3 million, against an original projection of £21 million. The proposed investment in 2020/21 will focus on:

**Table 11: 2020/21 Gross and Net Investment spend proposed to improve children's services**

| | £million | Comments |
|---|---|---|
| Full year company effect of new posts | 0.4 | As agreed, as part of 2019 budget report |
| Funding ongoing safeguarding, | 4.2 | includes £0.5 million for 2019/20 pressures, and reflects a 9% increase in numbers and inflation |
| SEND Transport, | 2.0 | includes £1 million overspend in 2019/20, £0.6m in demand and £0.4 million inflation |
| Pay inflation | 0.6 | National award pay inflation |
| Prices Inflation | 0.4 | Contracts inflation |
| **TOTAL** | **7.6** | |
| Less | | |
| Efficiencies | (0.5) | Discussed at section 10 and Appendix 1C |
| Government Grant | (3.6) | New Social Care Grant as discussed at paragraph 6.5 |
| **Net change** | **3.5** | |

8.13. As a result, the gross WCF contract budget will be approved in January 2020 alongside related income budgets that will be retained by the Council. The net position is estimated to be £100.2 million as indicated in Appendix 1B.

***Strategic Initiatives - £2 million investment***

8.14. It is proposed to further invest in infrastructure, the environment and the economy of the County to meet our Corporate Plan commitments. As such there is a £2 million allocated sum that will be used both to fund borrowing for capital schemes and increase the revenue budget over the next two years. This commitment will be repeated in 2021/22 and a further £2 million has been built into the MTFP. The following paragraphs highlight how that fund will be used.

***Highways, Footways and Cutting Congestion***

8.15. The county highways network is a key asset of the Council and our aim is to maintain the condition of our roads and pavements to strive to achieve national top quartile performance by 2022. The ability to attract inward investment for a thriving economy and to ensure residents benefit from well-maintained transport networks is vital to the Council's Corporate Plan. Over the last few years the Council has used specific grants, capital and one-off funding such as s106 to support the provision of these services. The services continue to face demand and cost increases due to contract and sector inflation.

8.16. In 2018/19 Government awarded the County £6.6 million of one-off in year investment. In addition, in 2020/21 the County will continue to invest the remainder of the £37.5 million HIIF programme. The Council has also capitalised a large element of highways spend to enable condition of the network to be maintained in order to continue to aim to achieve top quartile performance.

8.17. In addition, this report recommends a further £25 million capital investment on:

- £12 million on improving highways over the next two years (£6 million a year in 2020/21 and 2021/22).
- £8 million on improving footpaths over the next two years (£4 million a year in 2020/21 and 2021/22).
- £5 million on cutting road congestion, that is on top of the £5 million allocated in 2019/20.

***Public Transport, Flood Mitigation and Street Lighting***

8.18. The County Council with its partners has invested heavily in recent years in flood defences and mitigation for the County. To progress further improvements and avoid deterioration, it is proposed to spend a further £1 million capital investment per annum for 2020/21 and 2021/22 of capital on smaller flood mitigation and to improve surface water drainage.

8.19. A £0.2 million revenue investment will be made to support the Worcestershire Public Transport Strategy.

8.20. This report also recommends £1 million capital investment on street lighting with a further £1 million in 2021/22 for continuation of the LED replacement programme.

***Woodland Planting Scheme***

8.21. In addition, £0.1 million revenue investment of the Strategic Initiative funding will be used to increase the countryside service revenue budget to support the planting and maintenance of 150,000 new trees across the County area.

## General inflation

### *Waste disposal*

8.22. As the number of households in the County increase it is estimated that there will be an inflationary increase in the cost of disposal of waste of £0.4 million and a further £0.4 million increase in the volume of waste disposal which will be funded from the Waste PFI reserve. The non-inflationary demand increase relates to growth in households of approximately 1% equating to 3,000 tonnes of extra waste.

8.23. The contract for the Waste disposal plants is due for break or extension in January 2024 and as per the December 2018 Cabinet Report, work is ongoing to consider the proposals regarding possible contract extension.

### *Other pressures*

8.24. Increased demand has an impact on 'back office' services through increased costs, for example IT support for new services. In addition, we are starting to see increases in inflation projections. At this stage whilst these pressures have been recognised no provision has been made for the majority of these items to fund these, and as such these areas will have to meet these pressures as well as the overall efficiencies target. Budget monitoring in 2020/21 will maintain a review of this position and any in-year action needed.

### Pay and related costs at £3 million cost pressure on the 2020/21 base budget

8.25. It has been assumed that a number of factors will place significant pressures on the Council's pay and pension costs in 2020/21, as follows:

**Table 12: Pay inflation 2019/19 and 2020/21**

| Description | 2019/20 Pressure £m | 2020/21 Pressure £m |
|---|---|---|
| Pay inflation at 2% - Any pay awards are determined nationally between employer representatives and Trade Unions. Current suggestions indicate, whilst not settled, a likely outcome could be an average increase of 2%, with more for lower paid staff. In addition, there are pressures from both the National Living Wage and incremental increases in pay. An allowance has been made for incremental awards. | 4.050 | 3.132 |

8.26. At this stage it is proposed that the pay award as well as increment and pension increases will be funded in the main as part of the budget. However, there is an acceptance that the two-tier approach currently in place around hours paid must be addressed based on fairness. Discussions on this and other terms and conditions are taking place with staff and Trade Unions and the outcomes will be reported back to Cabinet. Therefore, at this

stage no account has been taken in the budget assumptions.

**Looking forward**

8.27. Looking forward the current economic climate makes the prediction of inflation and demand harder given the wider variation of professional views. Projections around adult and child care service demand have been strengthened to reflect better analysis of care data and trends, and higher levels of inflation have been assumed to be prudent. Thus, the investments are considered justified and reasonable.

## 8. Capital Investment

9.1 The following paragraphs summarise the changes to the capital programme.

9.2 Cabinet's proposed capital programme for 2020/21 is attached at Appendix 1D, along with the indicative sources of funding available. The programme for 2020/21 proposes a total value of £139.9 million of works. This maintains a long-term capital programme in the region of £338.6 million.

9.3 The December 2019 Cabinet budget report included a financial update concerning finalising the delivery of Worcestershire Parkway. Since then, the Council has updated its forecast for capital receipts income and that funding of up to £6 million will be added to this capital project to enable payment for works by contractors and for third parties, including Network Rail, etc. This means the project will be delivered within the overall business model for the scheme.

9.4 Although it is noted that a large number of externally funded grants have yet to be identified beyond 2020, in part due to the General Election and the fact that Government funding reviews are expected to be announced well after Council considers the 2020/21 budget. As such the figure is likely to significantly increase in later years. The programme is largely built up from Government and other grants received or due to be received. This amount is forecast to be £64.9 million in 2020/21 (including carried forward from 2018/19). In some cases, grant allocations for 2020/21 are also still to be announced or finalised, particularly for education, so estimates have been used which will need to be adjusted once grant levels are announced. Additionally, other sums may become available during the year from a variety of sources which can be added to the programme during the quarterly reporting of the capital programme in 2020/21.

9.5 In addition to Government grants, additional sums in the form of capital receipts from sales of assets and borrowing are able to be added to the programme. Capital receipts assume a total of £3.7 million in 2020/21 received to fund part of the planned expenditure. This has assumed that all known receipts are achieved and applied to the current capital programme.

9.6 The total programme for 2020/21 requires £139.9 million funding which includes £62.9 million from borrowing. This borrowing assumption in 2020/21 has been assessed as affordable within the current provision for financing.

9.7 The other major driver of borrowing increases is the investment in economy and

infrastructure through the Growth Deal support and schemes designed to boost the local economy.

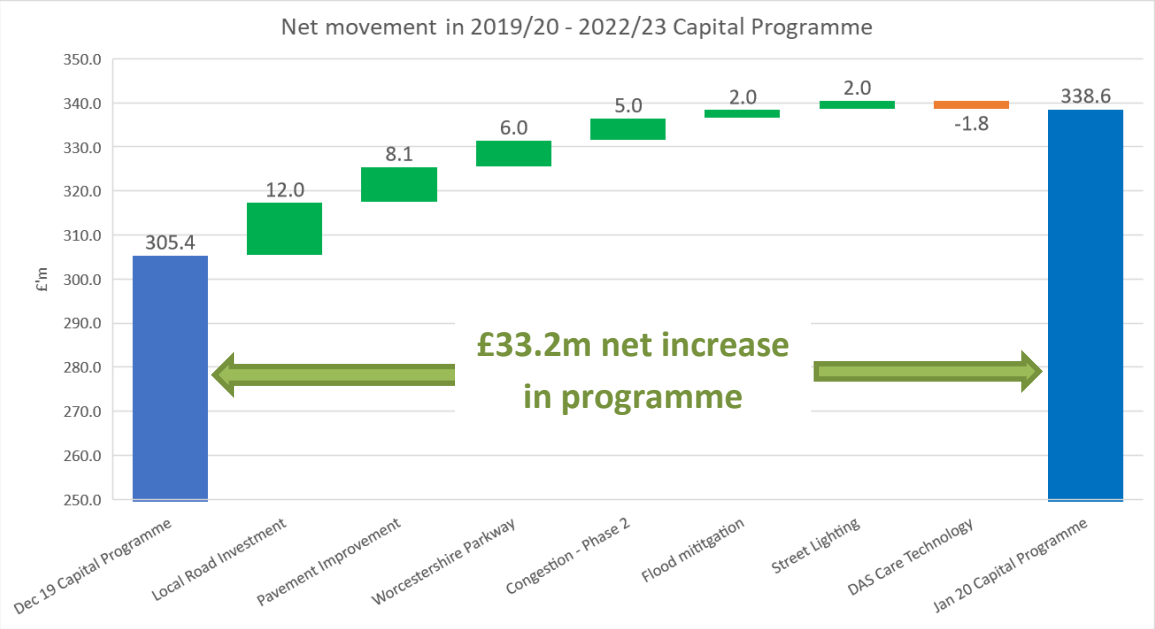
9.8 By maintaining a prudent and low borrowing forecast for 2020/21 it has a positive knock on impact to the general fund expenditure as regards the cost of repaying borrowing.

9.9 At the same time as continually challenging the programme, Finance officers have been carrying out treasury management reviews to take opportunities to reprioritise, re-profile and better manage cash over borrowing to fund schemes. The focus is to ensure capital financing costs are squeezed downwards wherever possible. The effect of reprogramming of the capital programme has the impact of pushing the costs into later years, and an estimate of this has been made within the budgeting. This will prevent the Council from borrowing money too early and having to pay unnecessary interest repayments. Work was undertaken to assess the ability to apply more capital receipts from disposal of assets. In addition, officers continue to explore proposals to manage its minimum revenue provision. As a result of all of this work the Council anticipates that this will mean the capital programme can be funded within the current budget for our cost of borrowing.

9.10 Updates to Capital Programme since December Cabinet

The latest view of the capital programme totals £338.6 million. This has increased by £33.2 million since the previous view detailed in the December 2019 report to Cabinet. The key changes are identified below.

**Chart 5 – Summary of net movement in Capital Programme since December 2019 Cabinet**




The increase of £33.2 million of capital investment can be funded by a further £29 million of borrowing from strategic initiatives over 20/21 and 21/22, £6 million of additional capital receipts and a reduction of £1.8 million worth of schemes that were funded from Council internal sources.

## 9. School funding – Dedicated Schools Grant

9.11 The Department for Education issued the provisional Schools Funding Settlement on 20 December 2019. The total provisional allocation is shown in table 11 below:

**Table 13: Gross DSG Blocks (prior to Academy Recoupment)**

| Blocks | £m (Provisional allocations) |
|---|---|
| Schools Block – currently based on provisional settlement released 19 December 2019. | 341.985 |
| Central Schools Services Block | 3.515 |
| High Needs Block – provisional allocation based on the national funding formula for High Needs | 60.403 |
| **Sub Total** | **405.903** |
| Early Years Block | 35.887 |
| **Total, prior to Academy Recoupment** | **441.791** |

9.12 The Schools Block DSG is comprised of the Primary and Secondary Sector National Funding Formula (NFF) units of funding for Worcestershire set by the DfE as confirmed in October 2019, applied to the October 2019 pupil census plus a historic allocation for the funding of premises costs. This is then delegated to all mainstream schools both maintained and academies through Worcestershire's Local Schools Funding Formula (LSFF). The Schools Block also includes an allocation from the national Pupil Growth Fund, based upon the new national DfE formula, for designated and approved pupil growth to support basic need revenue cost requirements.

9.13 The Central Schools Services Block comprises a NFF formulaic element for ongoing responsibilities for statutory services provided by the County Council on behalf of all maintained schools and academies and a sum for continuing historic commitments. However, current DfE policy has reduced the historic commitments element of the allocation by 20% for all LAs.

9.14 The High Needs Block is based on the DfE NFF and 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 LAs. 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.

9.15 The Early Years Block providing funding for 2-year olds targeted support, 3- & 4-year olds for the universal and extended entitlement and other early years funding is provisionally allocated at £35.887 million being based upon the January 2019 census. Subsequently it will be updated for the effect of the January 2020 census.

10.5 Following an extensive consultation with all schools in the Autumn Term 2019, Cabinet in December 2019 approved the LSFF for Worcestershire mainstream schools, both maintained and academies, for 2020-21 to continue, as in 2018-19 and 2019-20, to be based as far as is practicable and affordable on the DfE NFF parameters. The DfE's parameters include a Minimum Funding Guarantee (MFG) of +1.84% per pupil, no gains cap and mandatory national Minimum Funding Levels (MFLs) for the primary and secondary sectors.

9.16 The Worcestershire Schools Forum (WSF) met on 28 November 2019. The WSF endorsed the proposals for the LSFF for 2020-21 and approved as required for 2020-21, under their responsibilities in the School Forum (England) Regulations 2012, the service de-delegations for maintained mainstream schools and centrally retained services for all schools. The WSF met again on 14 January 2020 to consider the School Funding Settlement 2020-21, the LSFF for mainstream schools and the required submission of the LSFF to the Education and Skills Funding Agency (ESFA) during January 2020.

## 10 Efficiencies, reform and income proposals

10.1 The Council's proposed budget for 2020/21 includes the need for £9.6 million of proposals to balance the budget.

10.2 As part of the process of setting the budget, managers have been assessing their expenditure and income forecasts. The efficiencies have then been split between those where officers have authority to take actions within the existing Council Policy Framework and processes termed service decisions (this includes consultation where appropriate with the public and / or Trade Unions and staff); and those where decisions require a change in policy and approval by elected members. At this stage, the decisions for Cabinet or Council have been taken, as set out below.

10.3 All the proposals are set out within Appendix 1C to this report. There are two corporate targets totalling £2.1 million to be allocated to services for contract and procurement (£1.445 million); and a continuation of the redesign around executive support and centralising financial transactions (£0.650 million).

10.4 In summary, the efficiencies are broken down by directorate as follows:

**Table 14: Breakdown of Proposed efficiencies 2020/21**

| Service Area | £ million |
|---|---|
| Worcestershire Children First | 0.437 |
| Economy & Infrastructure | 1.360 |
| Commercial and Change | 0.310 |
| Human Resources | 0.815 |
| People | 4.407 |
| Finance | 0.150 |
| Corporate | 2.095 |
| **Total** | **9.574** |

10.5 The efficiencies proposals have been classified to align to the Corporate Plan and Medium-Term Financial Strategy:

**Table 15: Analysis of efficiencies by type 2020-22**

| MTFS 3 Year Financial Efficiencies Plan | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | Total £000 |
|---|---|---|---|---|
| **Efficiencies**, including digital and working differently | 3,595 | 910 | 350 | 4,855 |
| **Reforms**, redesign including prevention to avoid costs | 4,911 | 0 | 0 | 5,083 |
| **Income**, including commercial and trading opportunities | 1,068 | 0 | 0 | 896 |
| **Total** | **9,574** | **910** | **350** | **10,834** |

10.6 These efficiencies have been assessed and considered realisable, although there may be some further movement in some as work progresses which means a small element could need to be found from other areas or reserves.

10.7 The proposals are coming from two main sources; pay and non-pay. Of the pay efficiencies, every effort will be made to first remove vacant posts and assess the ability to redeploy staff. This both supports employment and reduces any costs of redundancies.

10.8 The Council remains prudent and an element of provision for non-delivery of efficiencies has been provided for in the General Fund Reserves discussed in more detail at Section 12 of this report.

## 11 Council Tax calculation

11.1 The overall position for 2020/21 reflected in this report is therefore:

**Table 16: 2020/21 Council tax provision required**

| | £m | £m |
|---|---|---|
| **2019/20 Revised Base Budget**<br><br>***Plus***<br><br>Net demand and inflation (Section 6) | 32.006 | **332.637** |
| Spending requirements | | 364.643 |
| ***Less***<br><br>*Net efficiencies, reforms &* Income *(as set out at Section 11):* | | (9.574) |
| Net movement in other grants - Social Care Grant | | (9.929) |
| Transfer to Earmarked Reserves | | 1.107 |
| **Net budget requirement** | | **346.246** |
| Financed by | | |
| - Settlement Funding Allocation (paragraphs 7.3 to 7.7) plus adjustments for local share of business rates | | (64.301) |
| - Social Care Levy at 2% (paragraphs 7.10 to 7.13) | | (5.367) |
| - Council Tax Collection Surplus (paragraph 7.15) | | (2.815) |
| **Amount to be found from the Collection fund through Council Tax** | | **(273.763)** |
| **Total** | | **(346.246)** |

11.2 The Local Government Finance Act 1992 (as amended by the 2003 Act) sets out the powers and duties of the Council in setting the annual Council Tax. The key requirements under Part IV of the 1972 Act are that:

- Council Tax is set at Full Council – Section 33.

- Council Tax is set at a sufficient level to meet its proposed budget requirements for the ensuing year – Sections 32 and 33.

- The level of Council Tax is set before 11 March to enable circulation of Council Tax bills to enable people to pay on and after 1 April- Section 30(6).

- The Chief Finance Officer must report on the robustness of estimates and the proposed adequacy of reserves – Section 25.

11.3 The Government has yet to confirm what the level of Council Tax could be before it triggers a referendum. This is expected at 2% at this stage.

11.4 The original assumptions employed in setting the Medium-Term Financial Plan in 2019 were that Council Tax for Worcestershire County Council would be set as follows:

- 2020/21 - 2.99%

- 2021/22 - 2.99%

11.5 At this stage following the changes to the expected referendum thresholds the Financial Plan has been updated and reflects a reduction in Council Tax to 1.99% to reflect the referendum cap, and a similar increase in 2021/22 of 1.99% for the general council tax rise.

11.6 Overall this still means that Worcestershire is likely to remain in the lowest quartile for Council Tax for comparative county councils without fire responsibility.

11.7 The Council is required to set a Council Tax sufficient to balance the Collection Fund account. Based on the projections at December Worcestershire County Council's Collection Fund is forecast to be balanced. That results in a funding requirement in 2020/21 from Council Tax of £279.130 million.

11.8 The latest estimates from District Councils of the average Band D tax base are 212,905 for 2020/21. The County Council's Council Tax Requirement has been identified as £279.130 million (this is inclusive of the social care precept); The Band D Council Tax proposed for 2020/21 is estimated at £1,311.05.

11.9 Across the bandings that equates to the following:

**Table 17: Banding analysis for 2020/21 County Council precept**

| Band A | Band B | Band C | Band D | Band E | Band F | Band G | Band H |
|---|---|---|---|---|---|---|---|
| £ | £ | £ | £ | £ | £ | £ | £ |
| 874.03 | 1,019.71 | 1,165.38 | 1,311.05 | 1,602.39 | 1,893.74 | 2,185.08 | 2,622.10 |

## 12 Assessment of reserves

12.1 The Council has had for many years a Strategic Risk Register and developed a Risk Framework to identify and monitor risks going forward. This register has continued to be updated during 2019/20 and has formed the platform in preparing the Section 151 Officer's assessment of risk. Appendix 3 of this report summarises the significant financial risks arising from this assessment.

12.2 The total potential reserves required from this assessment is as follows:

**Table 18: General fund risk assessment summary**

| Year ended 31st March | 2019 £ million | 2020 £ million | 2021 £ million | 2022 £ million |
|---|---|---|---|---|
| **General Fund Reserve risk assessment – Appendix 3** | 12.217 | 12.217 | 12.217 | 12.217 |
| **Current Projections (see Para 12.6)** | 12.217 | 12.217 | 12.217 | 12.217 |
| **Reserves sufficient?** | ✓ | ✓ | ✓ | ✓ |

12.3 The Council's General Fund estimated reserve at 31 March 2020 based on the forecast outturn, at Section 3 of this report from the current forecast outturn is circa £12.2 million. This means the General Fund Reserve is in line with the revised recommended level, and future use of these funds is a matter of last recourse given the levels. The reserves are for use where other actions cannot deliver efficiencies or urgent one-off needs arise unexpectedly. The Council will seek to manage within resources by proposing alternative efficiencies first rather than drawing on reserves which are only available as a one off and do not address recurring saving needs. The following key assumptions have been made in considering the level of reserves:

- Service efficiencies – the risk assessment continues to provide for non-delivery of efficiencies. The risk remains around corporate target risks and this has in part been covered in this allocation against the General Fund as a last resort, but principally would be sought from other efficiencies or earmarked reserves.
- The lack of certainty over funding beyond 2020/21, and the significant level of grants that relate specifically to social care has increased the funding risk. As such an element of risk has been included to provide for a shortfall in Government funding in the coming and future years, and the additional income from the provisional settlement moved to help further mitigate this risk.
- Provision has also been made for unexpected demand due to unforeseen events around care or weather.

12.4 Based on the assessment at Appendix 3 there is no opportunity for a further call on general fund reserves in 2020/21 or earmarked reserves.

12.5 The key risk identified this time as noted above are related to transformation programmes, inflation, the uncertainties over future funding streams and the increasing volatility in both demand beyond 2020/21.

12.6 As such the reserves for the following years are estimated / proposed as: 31st March.

**Table 19: Forecast General fund reserves requirement 2019-22**

| | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Opening General Fund Reserve | 12.217 | 12.217 | 12.217 | 12.217 |
| Contribution to / (from) general fund reserves | 0.000 | 0.000 | 0.000 | 0.000 |
| Closing General Fund Reserve | 12.217 | 12.217 | 12.217 | 12.217 |

12.7 Any movements in assumptions in the General Fund Reserve position in 2020/21 will be kept under continual review as part of the budget monitoring process.

**Table 20: Analysis of earmarked reserves 2019-22**

| | Restated 31/03/2019 £ | 2019/20 Movement £ | 31/03/2020 £ | 2020/21 Movement £ | 31/03/2021 £ | 2021/22 Movement £ | 31/03/2022 £ |
|---|---|---|---|---|---|---|---|
| **Open for Business** | 13,030,962 | -3,296,055 | **9,734,907** | -2,861,790 | **6,873,117** | -2,993,422 | **3,879,695** |
| **Children & Families** | 3,989,375 | 367,715 | **4,357,090** | -1,000,000 | **3,357,090** | -1,000,000 | **2,357,090** |
| **The Environment** | 559,657 | 6,645 | **566,302** | 0 | **566,302** | 0 | **566,302** |
| **Health & Well-Being** | 6,355,472 | -283,000 | **6,072,472** | -2,799,974 | **3,272,498** | -1,000,000 | **2,272,498** |
| **Efficient Council** | 40,105,602 | 565,300 | **40,670,902** | -1,082,495 | **39,588,406** | -1,394,000 | **38,194,406** |
| **Total** | **64,041,067** | **-2,639,395** | **61,401,672** | **-7,744,259** | **53,657,412** | **-6,387,422** | **47,269,990** |

12.8 There are also a number of reserves that are not able to be redistributed. These include the Dedicated Schools Grant and the forecasts below for use of these funds take account of government funding allocated to date which at this time is less than forecast expenditure. It is anticipated that the government's intention is to review DSG allocations in light of forecast pressures with the aim of increasing funding.

## Table 21: Analysis of Schools / PFI reserves 2019-22

| | Restated 31/03/2019 £ | 2019/20 Movement £ | 31/03/2020 £ | 2020/21 Movement £ | 31/03/2021 £ | 2021/22 Movement £ | 31/03/2022 £ |
|---|---|---|---|---|---|---|---|
| **Other** | | | | | | | |
| Schools Balances | 5,571,696 | -5,574,471 | -2,775 | 0 | -2,775 | 0 | -2,775 |
| Schools ICT-PFI Reserve | 338,645 | -99,000 | 239,645 | -99,000 | 140,645 | -99,000 | 41,645 |
| Bromsgrove High Schoool PFI Adv | 1,643,469 | -226,908 | 1,416,561 | -226,908 | 1,189,653 | -226,908 | 962,745 |
| DSG c/fwd Balance Reserve | -632,798 | 975,000 | 342,202 | 0 | 342,202 | 0 | 342,202 |
| DSG High Needs Overspend | 0 | -8,999,000 | -8,999,000 | 0 | -13,799,000 | 0 | -13,799,000 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Waste Contract PFI Grant | 10,458,354 | -3,079,486 | 7,378,868 | 0 | 7,378,868 | 0 | 7,378,868 |
| **Total** | **17,379,366** | **-17,003,865** | **375,501** | **-325,908** | **-4,750,407** | **-325,908** | **-5,076,315** |

12.9 The level of general and earmarked reserves overall is considered to be sufficient to meet potential risks and demonstrate a prudent level.

## 13 Engagement on the proposals

13.1 The Council has clear policies to consult on issues such as specific changes of policy and restructures. At this stage, the Council is reviewing all areas and will ensure that appropriate processes are followed. All efficiencies arising from decisions taken in previous years relating to 2020/21 have followed these processes, for example changes in Libraries.

13.2 The proposals have been subject to review and scrutiny by a range of stakeholders, including elected members through the scrutiny process, Trade Unions through meetings with them; and Schools Forum consideration of the Dedicated Schools Grant changes.

13.3 The 2020/21 budget proposals were also presented to individual scrutiny panels who have received additional finance briefings in preparation for the scrutiny of the budget.

13.4 The conclusion of this work together with the individual views of the scrutiny panels will inform the Overview and Scrutiny Performance Board which meets on 29 January 2020 to consider what comments it wishes to make to Cabinet as part of the budget consultation.

13.5 A copy of the commentary will be made available alongside Cabinet papers (as Appendix 8) in time for the Cabinet meeting on 30 January 2020.

## 14 Treasury Management Strategy, including Prudential Indicators

14.1 The Council reviews its treasury management strategy on an annual basis and the proposed strategy for 2020/21 is set out in Appendix 4.

14.2 The strategy for 2020/21 has been updated since last year to include how the current forecast for interest rates will affect borrowing and lending transactions.

14.3 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.

14.4 The borrowing strategy will be to borrow to protect the 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 may be required during the second half of the 2020/21 financial year, however this will have to consider 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.

14.5 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 2.75%. The Treasury Management Strategy includes the borrowing needed to support the Energy from Waste Contract Variation approved by Full Council on 16 January 2014.

## 15 Pay Policy Statement

15.1 The Council produces an annual Pay Policy Statement to clarify the strategic stance on pay to provide direction for members and officers making detailed decisions on pay and to provide the citizens of Worcestershire with a clear statement of the principles underpinning decisions on the use of public funds. This statement for 2020/21 is included at Appendix 5.

## 16 Legal advice

16.1 The Monitoring Officer considers that the proposals fulfil the statutory requirements set out below with regard to setting the amount of Council Tax for the forthcoming year and to set a balanced budget:

- S30 (6) of the Local Government Finance Act 1992 (the 1992 Act). This section requires that Council Tax must be set before 11 March in the financial year preceding that for which it is set
- S25 (1) of the Local Government Act 2003 (the 2003 Act). The Chief Finance Officer of the Authority must report to it on the following matters: - (a) the robustness of the estimates made for the purposes of the calculations; and (b) the adequacy of the proposed financial reserves, done through this report
- S25 (2) of the 2003 Act. When the Council is considering calculations under s32, it must have regard to a report of the Chief Finance Officer concerning the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves.

<u>The Local Authorities (Functions & Responsibilities) (England) Regulations 2000 (as amended)</u>

14.1. These Regulations set out what are to be the respective functions of Council and of the

Cabinet. With regard to the setting of the budget and Council Tax for the forthcoming year, the executive formulates proposals for the Council's budget, borrowing, capital expenditure or calculation of precept, but the decision rests with full Council.

14.2. This report meets those requirements.

14.3. The legislation that governs local government is changing significantly and the business plan will be kept under review to see if changes are needed as changes in legislation occur.

## 18. HR advice

18.1. The Head of Human Resources & Organisational Development has been involved in the process surrounding efficiencies in the service areas and with human resource implications arising from the proposals. This has included / will include consultations with the recognised trade unions and relevant employees in relation to the restructuring of services to deliver efficiencies and in accordance with the Council's relevant policies. Where restructuring of services proposes more than 20 redundancies at an establishment a HR1 form for each relevant review has been / will be completed and sent to both the recognised trade unions and the Department for Business, Energy and Industrial Strategy (BEIS) formerly the Department for Business, Innovation and Skills (BIS). In addition, a section 188 is issued to the recognised Trade Unions. Efficiencies from service reviews are realised once consultation on each review is completed. There are processes in place to carry out further consistent consultations arising from other service saving proposals over the next 12 months where there are human resource implications.

18.2. The Council has had good negotiation and consultation relationships with the trade unions and has continually negotiated revised terms and conditions, including in 2019. The pay increment was lifted as part of those negotiated terms and has been built into the base budget, and this as well as the pay inflation of c.2% and other associated costs have been included within the base budget assumptions, in line with the national pay negotiations and agreement.

## 19. Equalities assessment

19.1. The Corporate Plan sets out Worcestershire's approach to strengthening the county and how it will interact with its customers and improve access to services and information. It contains specific investment to support vulnerable adults and children in Worcestershire. The equalities implications of the long-term strategies already approved were considered as part of the development of those strategies.

19.2. 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.

19.3. An overarching strategic equality relevance assessment has been undertaken in respect of budget proposals for key transformational change programmes which are detailed at Appendix 6. 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.

19.4. 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.

## 20. Risk assessment

20.1. The financial risk assessment that supports the 2020/21 budget is discussed at Appendix 3. Services have considered risk in developing the proposals for investment and efficiencies shown in the financial plan and these will be reflected in their usual risk management arrangements.

20.2. The changes that have been made by the Government since May 2010 are significant, and further changes to the public sector are expected over the next few years. During 2020/21, we will need to consider whether further changes are needed to our structures and arrangements once the full details of legislative changes have been disclosed by the Government.

20.3. There is a risk that budget proposals will impact on delivery of the Council's Corporate Plan, but this will be monitored, and appropriate action taken.

## 21. Privacy and Public Health Assessments

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

21.2. This report concerns a number of budget proposals for 2020/21 and associated updates to the Medium-Term Financial Plan in advance of approval by Full Council in February 2020. 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.

21.3. 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.

## 22. Financial Implications

22.1. In accordance with Section 25 of the Local Government Act 2003 and CIPFA Code of Practice, this section of the report sets out the Section 151 Officer's assessment of the major areas of risk in the 2020/21 base budgets / Medium Term Financial Plan, and recommended budget options. It is presented in order to provide elected members with assurances about the robustness of assumptions made, and to assist them in discharging their governance and monitoring roles during the forthcoming year.

22.2. Members are required under the 2003 Act to have regard to the Chief Financial Officer's report when making decisions about the budget calculations.

22.3. Section 25 of the Act also covers budget monitoring, and this is a procedure which also helps to confirm the robustness of budgets. Current financial performance is taken into account in assessing the possible impact of existing pressures on the new year budgets. It also provides early indications of potential problems in managing the current year budget so that appropriate action may be taken. Members are asked to note therefore that the budget forecast, has been included in our risk-based assessment for balances. Budget monitoring is reinforced through close financial support to managers and services. These processes and controls will continue to be built upon for 2020/21, to maintain tight financial control.

22.4. In addition, I have considered the Council's position regarding reserves, including reference to CIPFA's Financial Resilience Index assessment. Whilst the Council's levels of reserves are comparably low this does not impact on my judgement as the Council is taking a prudent view in relation to balancing its retention of surplus, pursuit of delivering savings and levels of council tax. A full risk assessment of reserves has been undertaken and is set out at Section 12 and Appendix 3 in more detail.

22.5. In assessing the assumptions in the setting of the 2020/21 Council Tax, chief officers have provided details of their service responsibilities and aims, together with explanations of current pressures and other issues. These narratives were set alongside each Director and Assistant Director's base budget calculations to put the figures in context and to help inform the formulation of this budget and the Council Corporate Plan.

22.6. My assessment of all this information, following the risk assessment set out, is that the budget calculations are fair and robust, and reserves are adequate to reflect known circumstances.

**Assumptions around the base budget**

22.7. The financial assumptions are set out in detail in Section 8. These take account of key factors such as demographic and inflation rates of change.

**Alternative Budget Proposals and Amendments**

22.8. 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.

22.9. 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.

22.10. In the circumstances the Constitution requires all alternative budget and council tax proposals and amendments to be lodged with the Chief Executive by noon 5 working days prior to the Full Council meeting – in this instance this means noon 6 February 2020, to ensure the obligations of Section 25 are met.

## 23. Conclusions

23.1. The Council's Corporate Plan, supported by its Financial Plan 2019-23 and the budget for 2020/21 sets a clear direction for the coming years, and the budget proposals within that are robust. The council is assessed as financially viable with sound and strong financial standing.

## Supporting Information

**Appendices:**

**Appendix 1A – Financial Plan Update 2020/21 to 2022/23**

**Appendix 1B – Service Budget summary**

**Appendix 1C – Summary of efficiencies, reforms and income proposals**

**Appendix 1D – Capital Strategy**

**Appendix 1E – Capital Programme**

**Appendix 2 - Earmarked Reserves**

**Appendix 3 - General Fund Reserve's assessment**

**Appendix 4 – Treasury Management Strategy including Prudence Indicators**

**Appendix 5 – Pay Policy Statement**

**Appendix 6 – Equalities Duty Assessment**

**Appendix 7 – Public Health Ring Fenced Grant proposed spending**

**Appendix 8 - Commentary from Overview and Scrutiny Performance Board and other groups**

**Appendix 9 - Glossary of terms**

## Contact Points

County Council Contact Points

County Council: 01905 763763

Specific Contact Points for this Report

Michael Hudson, Chief Financial Officer, 01905 84**5560**, mhudson@worcestershire.gov.uk

Stephanie Simcox, Head of Finance, 01905 84**6342** ssimcox@worcestershire.gov.uk

Mark Sanders, Chief Accountant, 01905 84**6519**, mssanders@worcestershire.gov.uk

## 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

**Appendix 1A**

## Financial Plan Update 2020/21 to 2022/23

**MTFP - Subjective Summary**

| | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 |
|---|---|---|---|
| **Funding** | | | |
| Council Tax | 279,130 | 289,095 | 299,286 |
| Collection Fund Surplus | 2,815 | 1,610 | 1,616 |
| Business Rates Reserve Release | 500 | 0 | 0 |
| Business Rates Retention Scheme | 63,801 | 65,077 | 66,379 |
| | **346,246** | **355,782** | **367,281** |
| **Expenditure** | | | |
| Base budget | 332,637 | 344,032 | 364,029 |
| Change in Specific Grants | -9,929 | 0 | 0 |
| Rebase Budgets | 9,820 | 1,107 | 0 |
| Pay inflation | 3,130 | 3,300 | 3,400 |
| Contract inflation | 5,997 | 6,000 | 6,000 |
| Growth - Demand | 7,707 | 8,500 | 8,000 |
| Growth - Investment | 4,000 | 2,000 | 2,000 |
| Growth - Pressures | 1,351 | 0 | 0 |
| | 354,713 | 364,939 | 383,429 |
| Efficiencies | -9,574 | -910 | -350 |
| **Net Expenditure Budgets** | **345,139** | **364,029** | **383,079** |
| Funding Gap | 0 | 8,247 | 15,798 |
| Transfer (from)/ to Earmarked Reserves | 1,107 | 0 | 0 |
| **Funding requirement** | **346,246** | **355,782** | **367,281** |

## Service Budget summary (page 1 of 4)

**Appendix 1B**

| Service | 2019/20 Revised Budget | Change In Specific Grants | Rebase / Virement | Change in recharges 2019/20 to 2020/21 | 2020/21 Pay Inflation | 2020/21 Contract Inflation | 2020/21 Growth (Demand) | 2020/21 Growth (Investment) | 2020/21 Growth (Pressure) | 2020/21 New Efficiencies | 2020/21 Existing Efficiencies | 2020/21 Virement | 2020/21 Net Budget |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **WORCESTERSHIRE CHILDREN FIRST** | | | | | | | | | | | | | |
| Safeguarding Locality Teams | 12,886 | 0 | (2,358) | (800) | 0 | 0 | 0 | 0 | 0 | (206) | 0 | 0 | **9,522** |
| Through Care Locality based Hubs | 4,580 | 0 | 0 | (306) | 127 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **4,401** |
| Family Front Door | 5,047 | 0 | 0 | (357) | 198 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **4,888** |
| Targeted Family Support | 1,663 | 0 | 0 | (142) | 57 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **1,578** |
| Safeguarding and Quality Assurance | 1,928 | 0 | 0 | (77) | 605 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **2,456** |
| Placements & Provision | 46,376 | (3,600) | 500 | 1,650 | 331 | 127 | 3,677 | 0 | 0 | 0 | (56) | 0 | **49,005** |
| Worcestershire Safeguarding Children Board | 168 | 0 | 0 | (33) | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **136** |
| Education & Skills | 5,687 | 0 | 0 | 21 | 25 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **5,733** |
| Home to School & College Transport | 14,419 | 0 | 1,000 | 476 | 0 | 400 | 580 | 0 | 0 | (100) | 0 | 0 | **16,775** |
| Early Help & Partnerships | 5,288 | 0 | (1,717) | (33) | 79 | 0 | 0 | 0 | 0 | 0 | (75) | 0 | **3,542** |
| WCC Contribution to West Mercia Youth Offending Service | 514 | 0 | 0 | 32 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **546** |
| Finance and Resources | 1,108 | 0 | 248 | (371) | 84 | 17 | 0 | 235 | 0 | 0 | 0 | 0 | **1,321** |
| Alternative Delivery Model | 0 | 0 | 66 | 16 | 0 | 0 | 0 | 0 | 230 | 0 | 0 | 0 | **312** |
| Project Staff Time Capitalisation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-Assigned Items | 0 | 0 | 1 | (1) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **Worcestershire Children First** | **99,664** | **(3,600)** | **(2,260)** | **74** | **1,507** | **544** | **4,257** | **235** | **230** | **(306)** | **(131)** | **0** | **100,214** |

| Service | 2019/20 Revised Budget | Change In Specific Grants | Rebase / Virement | Change in recharges 2019/20 to 2020/21 | 2020/21 Pay Inflation | 2020/21 Contract Inflation | 2020/21 Growth (Demand) | 2020/21 Growth (Investment) | 2020/21 Growth (Pressure) | 2020/21 New Efficiencies | 2020/21 Existing Efficiencies | 2020/21 Virement | 2020/21 Net Budget |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **E&I** | | | | | | | | | | | | | |
| Strategic Infrastructure & Economy | 2,734 | 0 | (0) | 103 | 220 | (42) | 0 | 0 | 0 | (395) | (30) | 0 | **2,589** |
| Highways Contracts, Winter Service and Projects | 7,293 | 0 | 250 | 117 | 78 | 232 | 0 | 0 | 0 | (54) | 0 | 0 | **7,916** |
| Waste Services | 27,587 | 0 | 0 | 19 | 18 | 323 | 0 | 0 | 0 | 0 | 0 | 0 | **27,947** |
| Operations, Highways and PROW | 7,148 | 0 | 1 | 43 | 145 | 112 | 0 | 0 | 0 | (305) | 0 | 0 | **7,144** |
| Transport Operations | 11,481 | 0 | 0 | 2 | 157 | 213 | 0 | 200 | 0 | (23) | 0 | 0 | **12,030** |
| Transport recharges to CFC and DAS | (885) | 0 | 0 | (31) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **(916)** |
| Business Administration & Systems | 181 | 0 | 0 | (30) | 30 | (3) | 0 | 0 | 0 | (553) | 0 | 0 | **(375)** |
| **Total E&I** | **55,539** | **0** | **251** | **224** | **648** | **834** | **0** | **200** | **0** | **(1,330)** | **(30)** | **0** | **56,336** |

## Service Budget summary (page 2 of 4)

**Appendix 1B**

| Service | 2019/20 Revised Budget | Change In Specific Grants | Rebase / Virement | Change in recharges 2019/20 to 2020/21 | 2020/21 Pay Inflation | 2020/21 Contract Inflation | 2020/21 Growth (Demand) | 2020/21 Growth (Investment) | 2020/21 Growth (Pressure) | 2020/21 New Efficiencies | 2020/21 Existing Efficiencies | 2020/21 Virement | 2020/21 Net Budget |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **COACH** | | | | | | | | | | | | | |
| COaCH Management | 1,223 | 0 | 0 | (622) | 12 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **613** |
| Legal and Democratic Services | 5,305 | 0 | 0 | 2,072 | 104 | 46 | 0 | 20 | 0 | 0 | (70) | 0 | **7,477** |
| Commercial Team | 2,882 | 0 | (234) | 7 | 91 | 22 | 0 | 0 | 0 | 0 | (180) | 0 | **2,588** |
| Property Services | 7,995 | 0 | 0 | (665) | 4 | 290 | 0 | 0 | 0 | 0 | 0 | 0 | **7,624** |
| Service Transformation (Custome Servs, IT) | 8,629 | 0 | (156) | (406) | 203 | 108 | 0 | 0 | 0 | 0 | (60) | 0 | **8,318** |
| Directorate Recharges | (19,473) | 0 | 0 | (243) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **(19,716)** |
| Alternative Delivery Model | 0 | 0 | (19) | 0 | 38 | 0 | 0 | 0 | 0 | 0 | 0 | (9) | **10** |
| Non-Assigned Items | 0 | 0 | 0 | 33 | 22 | (22) | 0 | 0 | 0 | 0 | 0 | 0 | **33** |
| **Total Commercial & Change** | **6,561** | **0** | **(409)** | **176** | **474** | **444** | **0** | **20** | **0** | **0** | **(310)** | **(9)** | **6,947** |

| Service | 2019/20 Revised Budget | Change In Specific Grants | Rebase / Virement | Change in recharges 2019/20 to 2020/21 | 2020/21 Pay Inflation | 2020/21 Contract Inflation | 2020/21 Growth (Demand) | 2020/21 Growth (Investment) | 2020/21 Growth (Pressure) | 2020/21 New Efficiencies | 2020/21 Existing Efficiencies | 2020/21 Virement | 2020/21 Net Budget |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Chief Executive** | | | | | | | | | | | | | |
| Recharges to other directorates | (4,522) | 0 | 0 | 33 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **(4,489)** |
| HR, OD & Engagement | 5,391 | 0 | 38 | 151 | 207 | (4) | 0 | 0 | 0 | (160) | (655) | 0 | **4,968** |
| Chief Executive | 730 | 0 | 0 | (282) | 18 | 4 | 0 | 0 | 0 | 0 | 0 | 0 | **470** |
| **Total Chief Executive** | **1,599** | **0** | **38** | **(98)** | **225** | **0** | **0** | **0** | **0** | **(160)** | **(655)** | **0** | **949** |

## Service Budget summary (page 3 of 4)

## Appendix 1B

| Service | 2019/20 Revised Budget | Change In Specific Grants | Rebase / Virement | Change in recharges 2019/20 to 2020/21 | 2020/21 Pay Inflation | 2020/21 Contract Inflation | 2020/21 Growth (Demand) | 2020/21 Growth (Investment) | 2020/21 Growth (Pressure) | 2020/21 New Efficiencies | 2020/21 Existing Efficiencies | 2020/21 Virement | 2020/21 Net Budget |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **People** | | | | | | | | | | | | | |
| Older People | 60,906 | 0 | 3,091 | 298 | 600 | 1,813 | 1,675 | 1,595 | 1,583 | (359) | (5) | 0 | **71,197** |
| Physical Disabilities | 13,517 | 0 | 80 | 56 | 12 | 279 | 160 | 0 | 46 | (118) | (1) | 0 | **14,031** |
| Learning Disabilities | 59,358 | 0 | (25) | 214 | 408 | 1,636 | 761 | 0 | (294) | (11) | (786) | 0 | **61,261** |
| Mental Health | 10,812 | 0 | 437 | 48 | 115 | 339 | 572 | 0 | (453) | 0 | (8) | 0 | **11,862** |
| Support Services | (4,544) | 0 | (188) | 0 | 15 | 0 | 472 | 0 | (495) | (1,146) | 0 | 9 | **(5,877)** |
| Integrated Commissioning Unit | 625 | 0 | 10 | 0 | 63 | (3) | 0 | 0 | 263 | (361) | 0 | 0 | **597** |
| BCF (excluding Health) | 99 | 0 | (624) | 0 | (391) | 12 | (190) | 0 | 228 | 0 | 0 | 0 | **(866)** |
| IBCF | (15,045) | 0 | (36) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **(15,081)** |
| Social Care Support Grant | 0 | (6,329) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **(6,329)** |
| Communities | 20,355 | 0 | 234 | 754 | 805 | 8 | 0 | 250 | 0 | (1,211) | 0 | 0 | **21,195** |
| Historic ChS | 0 | 0 | 1,747 | 806 | 5 | (1) | 0 | 0 | 0 | (87) | 0 | 0 | **2,470** |
| Public Health | 609 | 0 | 1,498 | (286) | 70 | 34 | 0 | 0 | 243 | (172) | (142) | 0 | **1,854** |
| Directorate Recharges | (1,849) | 0 | 0 | (1,422) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **(3,271)** |
| Non-Assigned Items | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **Total People** | **144,843** | **(6,329)** | **6,224** | **468** | **1,702** | **4,117** | **3,450** | **1,845** | **1,121** | **(3,465)** | **(942)** | **9** | **153,043** |

| Service | 2019/20 Revised Budget | Change In Specific Grants | Rebase / Virement | Change in recharges 2019/20 to 2020/21 | 2020/21 Pay Inflation | 2020/21 Contract Inflation | 2020/21 Growth (Demand) | 2020/21 Growth (Investment) | 2020/21 Growth (Pressure) | 2020/21 New Efficiencies | 2020/21 Existing Efficiencies | 2020/21 Virement | 2020/21 Net Budget |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Finance & Corporate** | | | | | | | | | | | | | |
| Financial Services | 1,020 | 0 | 46 | 0 | 169 | 42 | 0 | 0 | 0 | 0 | (150) | 0 | **1,127** |
| Financing Transactions (Borrowing and Investments) | 13,893 | 0 | 0 | 0 | 0 | 0 | 0 | 1,700 | 0 | 0 | 0 | 0 | **15,593** |
| Minimum Revenue Provision | 10,782 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **10,782** |
| Contributions and Precepts | 251 | 0 | 0 | 0 | 0 | 8 | 0 | 0 | 0 | 0 | 0 | 0 | **259** |
| Pension Fund Backfunding Liabilities | 5,981 | 0 | 18 | 0 | (1,598) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **4,401** |
| Miscellaneous Whole Organisation Services | 133 | 0 | 457 | (84) | 4 | 8 | 0 | 0 | 0 | 0 | 0 | 0 | **518** |
| New Homes Bonus | (2,614) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **(2,614)** |
| Whole Organisation - Contingency | 1,850 | 0 | (1,410) | (760) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **(320)** |
| **Total Finance & Corporate** | **31,296** | **0** | **(889)** | **(844)** | **(1,425)** | **58** | **0** | **1,700** | **0** | **0** | **(150)** | **0** | **29,746** |

## Service Budget summary (page 4 of 4)

## Appendix 1B

| Service | 2019/20 Revised Budget | Change In Specific Grants | Rebase / Virement | Change in recharges 2019/20 to 2020/21 | 2020/21 Pay Inflation | 2020/21 Contract Inflation | 2020/21 Growth (Demand) | 2020/21 Growth (Investment) | 2020/21 Growth (Pressure) | 2020/21 New Efficiencies | 2020/21 Existing Efficiencies | 2020/21 Virement | 2020/21 Net Budget |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Non Assigned** | | | | | | | | | | | | | |
| Organisational Redesign - Exec Support | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (500) | 0 | **(500)** |
| Organisational Redesign - AP/AR | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (150) | 0 | **(150)** |
| Commercial Savings | (2,965) | 0 | 2,965 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (1,445) | 0 | **(1,445)** |
| **Total Non Assigned** | **(6,065)** | **0** | **6,065** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **(2,095)** | **0** | **(2,095)** |

| Service | 2019/20 Revised Budget | Change In Specific Grants | Rebase / Virement | Change in recharges 2019/20 to 2020/21 | 2020/21 Pay Inflation | 2020/21 Contract Inflation | 2020/21 Growth (Demand) | 2020/21 Growth (Investment) | 2020/21 Growth (Pressure) | 2020/21 New Efficiencies | 2020/21 Existing Efficiencies | 2020/21 Virement | 2020/21 Net Budget |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Summary** | | | | | | | | | | | | | |
| Worcestershire Children First | **99,664** | **(3,600)** | **(2,260)** | **74** | **1,507** | **544** | **4,257** | **235** | **230** | **(306)** | **(131)** | | **100,214** |
| E&I | **55,539** | | **251** | **224** | **648** | **834** | | **200** | | **(1,330)** | **(30)** | | **56,336** |
| Commercial & Change | 6,561 | | (409) | 176 | 474 | 444 | | 20 | | | (310) | (9) | 6,947 |
| Chief Executive | 1,599 | | 38 | (98) | 225 | | | | | (160) | (655) | | 949 |
| People | 144,843 | (6,329) | 6,224 | 468 | 1,702 | 4,117 | 3,450 | 1,845 | 1,121 | (3,465) | (942) | 9 | 153,043 |
| Financce & Corproate | 31,296 | | (889) | (844) | (1,425) | 58 | | 1,700 | | | (150) | | 29,746 |
| Non-Assigned | (6,065) | | 6,065 | | | | | | | | (2,095) | | (2,095) |
| **Total** | **333,437** | **(9,929)** | **9,020** | **(0)** | **3,131** | **5,997** | **7,707** | **4,000** | **1,351** | **(5,261)** | **(4,313)** | **0** | **345,139** |
| | | | | | | | | | | | | Transfer to Earmarked Reserves | 1,107 |
| | | | | | | | | | | | | Total | **346,246** |

**Summary of efficiencies, reforms and Income proposals** **Appendix 1C**

| Ref | Description | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | Type of proposal | Responsible Officer post |
|---|---|---|---|---|---|---|
| | **WCF** | | | | | |
| WCF 1 | Housing Support contract review | **(56)** | | | Efficiency | CEO WCF |
| WCF 2 | Commissioning Service Review | **(75)** | | | Reform | CEO WCF |
| WCF 3 | Adoption Group Manager post and Overnight Short Breaks service | **(206)** | | | Reform | CEO WCF |
| WCF 4 | Post 16 education transport inflationary increase | **(100)** | | | Income | CEO WCF |
| | **Economy & Infrastructure** | | | | | |
| E&I 1 | County Enterprises efficiencies | **(30)** | | | Efficiency | Director of E&I |
| E&I 2 | Delayering of management and removal of posts. This will be carried out through consultation with the recognised Trade Unions and staff as per the Council's HR policies and practices. | **(830)** | | | Reform | Director of E&I |
| E&I 3 | Further Lean systems review following the re-organisation to review end-to end processes and practices | **(500)** | | | Reform | Director of E&I |
| | **Commercial & Change** | | | | | |

| Ref | Description | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | Type of proposal | Responsible Officer post |
|---|---|---|---|---|---|---|
| CoaCh 1 | Review of processes, income generation and structure within Legal services. Where required consultation will take place with staff and the recognised trade unions using the Councils HR policies and practices. | **(70)** | | | Reform | Director Commercial & Change |
| CoaCh 2 | A redesign of the provision, collation and use of data across the organisation. The Council currently has several teams that manage, collect and report on data. This proposal looks to redesign the way that works and to pull together under one team to better manage information and improve the intelligence of decision making and use of information. This will require a restructure and will involve consultation with staff following the Trade Unions Councils HR policies and practices. | **(180)** | | | Reform | Director Commercial & Change |
| CoaCh 3 | Review of processes, income generation and structure within IT services. Where required consultation will take place with staff and the recognised trade unions using the Councils HR policies and practices. | **(60)** | | | Reform | Director Commercial & Change |
| CoaCh 4 | Rationalise property maintenance costs | | **(300)** | | Efficiency | Director Commercial & Change |
| | **HUMAN RESOURCES** | | | | | |

| Ref | Description | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | Type of proposal | Responsible Officer post |
|---|---|---|---|---|---|---|
| HR 1 | Review of processes, income generation and structure within HR and OD. Where required consultation will take place with staff and the recognised trade unions using the Councils HR policies and practices. | **(405)** | | | Reform | Assistant Director (HR-OD) |
| HR 2 | Review of processes, income generation and structure within Engagement and Communications services. Where required consultation will take place with staff and the recognised trade unions using the Councils HR policies and practices. | **(250)** | | | Reform | Assistant Director (HR-OD) |
| HR 3 | Support for Occupational Health from Public Health Ring-fenced Grant (PHRG). This will not constitute a reduction in service delivery as it is merely a change in funding for the operations. It has been identified that these areas should demonstrate a direct positive impact on the health and well-being of staff and the public and therefore meets the criteria for use of PHRG. | **(160)** | | | Income - Public Health Grant | Assistant Director (HR-OD) |
| | **PEOPLE SERVICES** | | | | | |
| PEOPLE 1 | Review of processes, income generation and structure within People Services. Where required consultation will take place with staff and the recognised trade unions using the Councils HR policies and practices. | **(830)** | | | Reform | Director of People |
| PEOPLE 2 | Provider Service Review in order to develop an optimum model for one service that will provide | **(500)** | | | Reform | Director of People |

| Ref | Description | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | Type of proposal | Responsible Officer post |
|---|---|---|---|---|---|---|
| | reablement focused care and support across the current pathway one teams and the intended community teams, | | | | | |
| PEOPLE 3 | Demand management opportunities to mitigate the growth in numbers, cost and complexity of people within the adult services by the development of the community reablement and stay at home service, use of assistive technology, more effective commissioning of external placements and improvements to access to services using digital technology. | **(855)** | **(610)** | **(350)** | Efficiency | Director of People |
| PEOPLE 4 | Reduce Budget Contingency for Direct Payments | **(250)** | | | Efficiency | Director of People |
| PEOPLE 5 | Contribution to additional commissioning staff by the use of Public Health Ring-Fenced Grant (PHRG). This will not constitute a reduction in service delivery as it is merely a change in funding for the relevant staff | **(60)** | | | Income - Public Health Grant | Director of People |
| PEOPLE 6 | Reviews of current care packages - increasing independence – full year effect of 2019/20 saving | **(130)** | | | Efficiency | Director of People |
| PEOPLE 7 | Continuing Health Care funding is available to some individuals who have a nursing rather than social care need – the project aims to ensure that individuals who are entitled to CHC receive services through health funding streams – full year effect of 2019/20 saving. | **(500)** | | | Efficiency | Director of People |

| Ref | Description | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | Type of proposal | Responsible Officer post |
|---|---|---|---|---|---|---|
| PEOPLE 8 | In partnership with DWP/Voluntary sector partners support people to maximise their entitlement to benefits; to help promote health and wellbeing whilst aiding independent living. This will increase the amount that people can contribute to their care – full year effect of 2019/20 saving. | **(170)** | | | Income | Director of People |
| PEOPLE 9 (Was CoaCh 1 in Dec Report) | Planned reduction of the one-year community solutions fund to £45,000 | **(100)** | | | Efficiency | Director of People |
| PEOPLE 10 (Was CoaCh 2 in Dec Report) | Library efficiencies identified in previous years which involves the transformation of library service delivery models which puts emphasis on engaging local communities, implementing new technologies and service delivery models. | **(205)** | | | Reform | Director of People |
| PEOPLE 11 (Was Part of CoaCh 8 in Dec Report) | Support for Adult Learning (£0.211m), Positive Activities (£0.65m), Coroners (£0.130m) from Public Health Ring-fenced Grant (PHRG). This will not constitute a reduction in service delivery as it is merely a change in funding for the operations. It has been identified that these areas should demonstrate a direct positive impact on the health and well-being of staff and | **(406)** | | | Income - Public Health Grant | Director of People |

| Ref | Description | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | Type of proposal | Responsible Officer post |
|---|---|---|---|---|---|---|
| | the public and therefore meets the criteria for use of PHRG. | | | | | |
| PEOPLE 12 (Was E&I 5 in Dec Report) | Support for Trading Standards through use of the Public Health Ring-fenced Grant (PHRG) as it has been identified that the benefits delivered by this service have a direct impact on health and well-being of the public. This is not a reduction in delivery of the service, just a change in funding. There is also a proposal to enhance the level of trading standards activities through further use of PHRG. | **(172)** | | | Income | Director of People |
| PEOPLE 13 (Was CoaCH 7 in Dec Report) | Contract Review - A review of the contract relating to provision of support for education services<br>A review of the contract relating to provision of support for education services. | **(87)** | | | Efficiency | CEO WCF / Director of People |
| PEOPLE 14 (Was E&I 2 in Dec Report) | Scientific Services full year effect | **(142)** | | | Efficiency | Director of People |
| | **Finance** | | | | | |
| Fin 1 | Following work as part of the 2019/20 redesign proposals we will be centralising financial transactions around requisitioning and income management. There are several opportunities to manage spend and improve cash collection / reduce bad debt levels. | **(150)** | | | Reform | CFO |

| Ref | Description | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | Type of proposal | Responsible Officer post |
|---|---|---|---|---|---|---|
| | | | | | | |
| | **Corporate** | | | | | |
| Corp 1 | The target for 2019/20 of £3 million is being delivered in relation to cost avoidance or capital which are being accounted for in directorate budget areas. For 2020/21 this saving will identify new areas for budget reductions across directorates. At this stage it is noteworthy that nearly £0.750 million may be a one off negotiated settlement that would need to be addressed the following year. | **(1,445)** | | | Efficiency | Director Commercial & Change |
| Corp 2 | There are currently a range of administrative functions across the Council's directorates. The aim of this review is to set up a corporate Executive Support function that will co-ordinate a more efficient administrative and assistant functionality for the business. This will cover a range of functions, including personal assistants and administrators. There will be one overall Executive Support Manager who will then lead the service. | **(500)** | | | Reform | Director Commercial & Change |
| Corp 3 | It is recognised that in centralising financial transactions there will be scope for efficiencies | **(150)** | | | Reform | CFO |

| Ref | Description | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | Type of proposal | Responsible Officer post |
|---|---|---|---|---|---|---|
| | from reduced operations across the Council. Efficiencies can be achieved from standardising practices, controlling spend and income collection that will yield further efficiencies / income. | | | | | |
| | **Total** | **(9,574)** | **(910)** | **(350)** | | |

## 1. Purpose

The Council has a key role in shaping and influencing economic growth in the local area through investment and regeneration of public realm assets, IT and transport infrastructure through working with partners and making best use of Central Government grant funding and any third-party contributions.

This Capital Strategy outlines governance arrangements for the management of the Council's assets and future capital investment.
The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with service objectives and take account of stewardship, value for money, prudence, sustainability and affordability.

The Capital Strategy is a key document for the Council and forms part of the authority's integrated revenue, capital and balance sheet planning. It provides a high-level overview of how capital expenditure; capital financing and treasury management activity contributes to the provision of services. It also provides an overview of how associated risk is managed and the implications for future financial sustainability. It includes an overview of the governance processes for approval and monitoring of capital expenditure.

## 2. Scope

This Capital Strategy includes all capital expenditure and capital investment decisions, not only as an individual local authority but also any that are entered into under group arrangements. It sets out the long-term context in which decisions are made with reference to the life of the projects/assets.

## 3. **Capital Expenditure**

The Council's capital expenditure broadly fits into two categories:

A maintenance programme that ensures our assets continue to be fit for purpose and able to support the current and future delivery of services.

An investment programme that creates, enhances and develops new assets such as transport infrastructure, school improvements, IT systems and hardware as well as investments to support wider economic development

Capital expenditure is incurred on the acquisition or creation of assets, or expenditure that enhances or adds to the life or value of an existing fixed asset that is needed to provide services. Fixed assets are tangible or intangible assets that yield benefits to the Council generally for a period of more than one year, e.g. land, buildings, roads, vehicles. This contrasts with revenue expenditure which is spending on the day to day running costs of services such as employee costs and supplies and services.

The capital programme is guided by the Capital Strategy and provides a list of capital works for future years, including details on the funding of the schemes. Included are the projects such as the purchase of land and buildings, the construction of new buildings and road improvements, design fees and the acquisition of vehicles and major items of equipment. Also included could be service and commercial investments.

## 4. **Capital vs. Treasury Management Investments**

Treasury Management investment activity covers those investments which arise from the organisation's cash flows and debt management activity, and ultimately represent balances which need to be invested until the cash is required for use in the course of business.

For Treasury Management investments the security and liquidity of funds are placed ahead of the investment return. The management of associated risk is set out in the Treasury Management Policy and the Annual Investment Strategy.

The CIPFA Treasury Management Code recognises that organisations may make investments for policy reasons outside of normal treasury management activity. These may include service and commercial investments.

## 5. Service and Commercial Investments

These are investments for policy reasons outside of normal treasury management activity. This may include:

**Service investments**

These are investments held clearly and explicitly in the course of the provision of operational services, including regeneration.

**Commercial investments**

These are investments taken for mainly financial reasons. These may include:

investments arising as part of business structures, such as shares and loans in subsidiaries, specific organisations or other outsourcing structures such as IT providers or building services providers;

investments explicitly taken with the aim of making a financial surplus for the Council

Commercial investments also include fixed assets which are held primarily for financial benefit, such as investment properties.

Due to the nature of the assets or for valid service reasons, such investments do not always give priority to security and liquidity over yield. In these cases, such a decision will be explicit, with the additional risks set out and the impact on financial sustainability identified and reported.

The Chief Financial Officer will ensure the proportionality of all investments so that the Council does not undertake a level of investing which exposes it to an excessive level of risk compared to its financial resources.

## 6. **Due Diligence**

For all capital investments, the appropriate level of due diligence will be undertaken with the extent and depth reflecting the level of additional risk being considered.

Due diligence process and procedures will include:

- effective scrutiny of proposed investments by the relevant committee;
- identification of the risk to both the capital sums invested and the returns;
- understanding the extent and nature of any external underwriting of those risks;
- the potential impact on the financial sustainability of the Council if those risks come to fruition;
- identification of the assets being held for security against debt and any prior charges on those assets;
- where necessary independent and expert advice will be sought.

The Chief Financial Officer will ensure that members are adequately informed and understand the risk exposures being taken on.

## 7. **Council Objectives / Corporate Plan**

The Council has agreed a number of corporate aims, priorities and objectives which guide its work. These are set out in the Corporate Plan ‘Shaping Worcestershire's Future’ (see attached Link -). Capital investment projects must be in line with these overall objectives as well as individual service aims and objectives. The following processes are designed to ensure this happens.

Notwithstanding these, the Council will continue to be cognisant of emerging issues and opportunities that may arise through local members or the work other organisations and will incorporate them into the capital programme as appropriate.

## 8. The Capital Budget Setting Process

### 4.2. Key Criteria Set by Members

For any particular budget setting year, the process starts in the preceding year with planning sessions held with members of the Cabinet to help identify and discuss the key criteria by which proposals will be considered. These may include:

- Maintenance of the essential infrastructure of the Council;
- Essential Health and Safety works;
- Essential rolling programmes;
- Addressing demand and need to build strong communities;
- New projects such as transport infrastructure improvements or those for wider economic development
- Investment in IT infrastructure
- Building enhancements
- Investment opportunities
- Whether wholly financed by external/internal funding;
- Match funded investment e.g. for regeneration projects;
- The outcome of feasibility studies and Gateway Reviews;
- Invest to save schemes.

4.3. **Identifying the need for Capital Expenditure/Investment**

The need for a capital scheme may be identified by a Service through one or more of the following processes.

Services annually prepare plans for the improvement of their areas (ensuring that their objectives meet the overall aims and objectives of the Council) and community need; these must identify any capital investment needed to meet future service demands. This should be the main method of identifying and planning for service's capital requirements;

The Property Asset Strategy highlight deficiencies in the condition, suitability and sufficiency of the Council's existing building stock and identify future areas of need;

The Local Transport Plan is a comprehensive and rolling plan of local transport strategies for achieving an integrated transport system to tackle the problems of congestion and pollution, looking at the roads and infrastructure needs of the Council;

Reviews and external inspections may identify areas that need capital investment;

Following receipt of capital grant allocations for a specific purpose;

The need to respond to Central Government initiatives, new laws and regulations;

The need to generate a revenue income to contribute to the funding of services.

4.4. **Deciding which Schemes are to be put forward**

Once the list of key capital priorities has been identified, in preparing capital project proposals consideration should been given to the key criteria identified earlier in the year.

Additionally, consideration should be given to:

**Prudence:**

- Recognition of the ability to prioritise and refocus following transformation work;
- Recognition of the capacity in the organisation to deliver such a programme;
- Recognition of the knowledge and skills available and whether these are commensurate with the appetite for risk;
- Recognition of the future vision of the authority;
- Recognition of community need and future impact on service delivery;
- The approach to commercial activities including ensuring effective due diligence, expert advice and scrutiny, defining the risk appetite and considerations of proportionality in respect of overall resources;
- The approach to treasury management and the management of risk as set out in the Treasury Management Strategy.

**Affordability:**

- Revenue impact of the proposals on the Medium-Term Financial Plan;
- The borrowing position of the Council, projections of external debt and the use of internal borrowing to support capital expenditure;
- The authorised limit and operational boundary for the following year;
- Whether schemes are profiled to the appropriate financial year.
- How receipt of any third-party funding is ensured
- Opportunities to generate income
- How any overspends will be mitigated and funded

**Sustainability:**

- A long-term view of capital expenditure plans, where long term is defined by the financing strategy of and risks faced with reference to the life of the project/assets;
- Provision for the repayment of debt over the life of the underlying debt as set out in the Minimum Revenue Provision policy;
- An overview of asset management planning including maintenance requirements and planned disposals.
- All bids are produced in line with the appropriate timetable with consideration for the financial information contained within the bid.
- Cabinet Members with responsibility for the areas concerned will be part of the consideration which will cover clearly outlining the service need and the budget consequences, both revenue and capital, of completing the scheme.
- Possible sources of funding can then be considered for each of the proposed capital schemes. Each project will be considered in terms of revenue funding to cover the operational running costs of the asset, any borrowing repayment costs and how the asset will be funded in terms of capital expenditure. Financial and other risks will be included as part of this consideration.
- The proportionality of the proposals will be considered in respect of overall resources and longer-term sustainability and risk. The Chief Financial Officer will take an overall view on the prudence, affordability and sustainability of the overall borrowing level if all bids are accepted.
- Once the Chief Financial Officer has taken a view of the prudence of the overall borrowing level, the Senior Leadership Team will then consider the bids from a corporate priority perspective.

4.5. **Prioritisation of schemes put forward**

The Council has a formalised corporate system for prioritising capital projects and this has resulted in:

- Identifying essential capital investment;
- Utilising feasibility studies where needed drawing on techniques such as return on investment (economically and socially);
- Adopting a Gateway Review approach for larger strategic schemes to enter the programme at the required time;
- The ability to enter items into the capital programme in a managed way through firstly the annual budget round and secondly when the programme is reviewed mid-year, together with incorporating any emerging new third-party funding or new grants;
- Being mindful of the current level of the programme in relation to capacity to deliver, the relevant financing of schemes and any other running costs.

This will result in a list of capital project proposals to be considered as part of that year's budget approval process.

4.6. **Management Boards**

The Council operates a number of management boards and groups to ensure the delivery of the Capital Strategy.
These will involve each Cabinet Member with Responsibility as appropriate.

Whilst these boards provide the internal management processes, any and all key decisions are still subject to Cabinet and Full Council approval as appropriate.
The main boards / groups are as follows: -

**Property Innovation and Asset Strategy Board (PIAS)**

The PIAS board provides a structure through which there can be legitimate challenge and review of corporate property strategy, policy and practice in order to ensure that the County Council obtains maximum benefit from the use of its own property assets and those of other public sector partners.

The board is a "Corporate Landlord Model" and operates under the following principles:-

- That property is a corporate resource available to support the delivery of all Services
- That its use is based upon clear and justified need emanating from Service Plans
- That its occupation is managed through the introduction of commercial principles that clarify the expectations and responsibilities of both the Landlord and Occupier
- That challenge and review of use, provision and performance is seen as a positive approach to ensuring that assets are fit for purpose and that retention, investment and utilisation is focussed on the needs of the customer and the achievement of the council's corporate objectives
- That all reports that have an impact upon the property resource will have been prepared in a collaborative way with the Corporate Landlord's views clearly stated
- That asset management planning is an integral part of the Council's strategic, service and financial planning process

- The role of the Corporate Landlord should be seen as a positive contribution to cultural change within the organisation and a collaborative approach to our business.

**Open for Business Board**

This board works to develop and promote Worcestershire nationally and internationally to attract private sector investment and new visitor spend; invest in the skills base to support young people and local residents and secure higher value employment opportunities that are generated in Worcestershire; generate new business formation and entrepreneurship in Worcestershire; and encourage further private sector investment in regeneration and bringing forward development opportunities across our key 'Economic Game Changer' sites.

The Council's investment forms part of an overall investment plan, which includes partnerships with other public and private sector organisations, including:

- Worcestershire Local Enterprise Partnership
- District Councils
- Central Government Departments
- Universities, Colleges, Schools and Academies
- Commercial Partners – Landowners, Developers, Services/Utilities Contractors
- Chamber of Commerce / Federation of Small Businesses
- Employer organisation and trade bodies

**Transformation Board**

The Transformation Board manages the capital investment required to drive and support organisational change to deliver the Corporate Plan.

**Future Technology Transformation Board**

This board manages the implementation of the Council’s digital investment plans.

**Transport Infrastructure**

Capital investment in transport infrastructure is supported by the Economic Infrastructure Programme Board and the Delivery Programme Board

**Senior Leadership Team (SLT)**

This is the Council's leadership team and is chaired by the Chief Executive. All draft Cabinet reports, including those that are requesting the approval of new capital expenditure are approved by SLT as part of the normal process for officer and member reporting.

**Finance Leadership Team (FLT)**

FLT is chaired by the Chief Financial Officer and will support all the above boards and groups in providing financial advice and support for business cases and provide constructive challenge as appropriate.
All matters relating to capital financing are advised by FLT.

4.7. **Member Approval Process**

The Cabinet receive the Capital Programme in draft in December / January each year which is then subject to scrutiny via all the relevant scrutiny committees. Then the Cabinet receive the updated Capital Programme in February each year and in turn make their recommendations to full Council.

Members approve the overall borrowing levels arising as a consequence of the Capital Programme at the same meeting that the forthcoming budget precept is approved by Council, this way all relevant information regarding capital strategy, prudential indicators and Treasury Management Strategy are considered as a whole in context. The taking of external loans then becomes an operational decision for the Chief Financial Officer who will decide based on the level of reserves and money market position whether borrowing should be met internally from the Capital Reserve/Capital Receipts or whether to enter into external borrowing.

Once the Council has approved the capital programme, expenditure can be committed against these approved schemes subject to the normal contract procedure rules and the terms and conditions of funding.

Whether capital projects are funded from grant, contributions, capital allocations or borrowing, the revenue costs must be able to be met from existing revenue budgets or identified (and underwritten) savings or income streams.
Following approval by Council the capital programme expenditure is then monitored on a monthly basis.

## 5. Monitoring of the Capital Programme Expenditure

The responsibility for financial management of the capital programme lies with the Directors under schemes of delegation. A budget forecasting and reporting system is in place and made available for budget holders and spend managers to monitor expenditure on a daily basis.

## 6. Multi-Year Schemes

Payments for capital schemes often occur over many years, depending on the size and complexity of the project. Therefore, estimated payment patterns are calculated for each project so that the expected capital expenditure per year is known. This is called a cash flow projection or budget profiling and typically happens over a rolling 4-year timeframe.

The length of the planning period should be defined by the financing strategy and the risks faced with reference to the life of the project/assets. For example, some schemes may span two or three years (e.g. major highway improvements or building an extension to a school) whereas others may be over much longer timeframes.

The approval of a rolling multi-year capital programme assists the Council in setting out a direction for investment to build strong, connected and resilient communities, as well as enabling the Council to interact with residents, businesses and a number of ways. It assists service managers, allowing them to develop longer term capital plans for service delivery.
It allows greater flexibility in planning workloads and more certainty for preparation work for future schemes. It will also allow greater integration of the revenue budget and capital programme. It also matches the time requirement for scheme planning and implementation since capital schemes have a considerable initial development phase.

## 7. Options, appraisals, feasibility studies and the Gateway Review process

As part of the process of producing a list of potential schemes for the capital programme service managers should complete option appraisals to determine the most cost effective and best service delivery options.

By submitting the project, the service manager is agreeing to fund all operational and running costs of the scheme and to find any necessary capital resources to fund the scheme or make the Cabinet aware of the full requirement of the use of corporate resources.
Some projects may require a feasibility study. As part of any feasibility study an assessment of the maintenance costs per annum averaged over the whole life of the asset should be calculated. As a minimum this will be based on the RICS (Royal Institute of Chartered Surveyors) recommended benchmark figure prevailing at the time.

For major, complex and strategic projects, as part of setting the capital programme for new schemes and additions a Gateway Review process will operate. This will operate in the following four stages:

### Stage One – Project Initiation

the initial scheme submitted would be to enable the preparation of the initial project brief;

at the culmination of this stage a detailed Gateway Review would be undertaken to sign off the direction of travel, noting the project risks and the initial projection of investment required to realise the project;

### Stage Two – Project Development

approval would be sought to proceed to the next stage with resource allocated to enable the project to be taken forward to a fully developed design;

at the culmination of this stage a detailed Gateway Review would be undertaken to sign off the direction of travel, noting the project risks and the projection of investment required to realise the project;

### Stage Three – Project Implementation

approval would be sought to proceed to the next stage with resource allocated to take the project through the technical design stage to project tendering;

at the culmination of the tendering stage a review would be undertaken against the approved budget and the investment decision agreed for the appointment of the main contractor;

**Stage Four – Project Review**

a final Gateway Review would be undertaken considering whether the project has met its initial objectives and reviewing all lessons learned.

Further resources to progress any of these gateway schemes will need to be approved separately by Cabinet and/or as part of the annual review of the capital programme and would be subject to the relevant resources being available.

## 8. In Year Opportunities

The Council is able to add projects to the Capital Programme at any time it meets or formally authorises delegation, through the existing Cabinet/Council reporting cycle utilising the advice of the internal management boards / groups as appropriate.

Any other schemes which arise during the year will only be considered for borrowing or funding from central resources if they meet key criteria set out in section 8.1 or one or more of the following criteria:

The location of the property to be purchased will bring added value to the estate;

The requirement for the asset is an extraordinary service demand which could not be anticipated in the normal planning processes;

There is a limited time span when the opportunity is available.

Requests for approval of revisions to the profiling of scheme expenditure across financial years and the movement of budget between schemes (known as a virement) will be managed according to the delegation limits in the Council's financial regulations. Where this needs Cabinet approved this will be through formal cabinet meeting reports.

## 9. Funding Strategy and Capital Policies

This section sets out the policies of the Council in relation to funding capital expenditure and investment.

## 1.1. External Funding

Services must seek to maximise external funding wherever possible to support capital schemes. This can be in the form of grants and contributions from outside bodies including central government. However, it is expected that services will underwrite any cost overruns on externally funded schemes. If services bid for external funding for schemes and though the implementation of the scheme that costs exceed the available funding, then services must fund any shortfall from their existing resources (either revenue or capital).

Prior to submitting bids for grant funding, an assessment of the risk of a contract price increase, associated with market conditions or abnormal building plan demands attached to some grants, must be completed to estimate the likelihood of additional funding being needed.

In respect of match funding bids then the relevant service must fully identify the necessary match funding resources from within existing service budgets.

## 1.2. Capital Receipts

A capital receipt is an amount of money exceeding £10,000 which is received from the sale of an asset. They cannot be spent on revenue items (except under specific Central Government direction).

The Chief Financial Officer will work with property officers to inform the long-term management of the Council's property annually against the aims and objectives of the Property Asset Strategy. The general policy is that any capital receipts are then pooled and used to finance future capital expenditure and investment according to priorities, although they may be used to repay outstanding debt on assets financed from loans, as permitted by the regulations.

**Flexible Use of Capital Receipts Strategy**

Central Government's Spending Review in 2015 announced that to support local authorities to deliver more efficient and sustainable services that Government will allow local authorities to spend up to 100% of its fixed asset capital receipts on the revenue costs of reform projects.

The criteria is that the expenditure incurred must be designed to generate ongoing revenue savings and/or transform service delivery in a way that reduces cost or demand for services in future years for any of the public sector delivery partners.

The County Council intends to take advantage of this flexibility to support the financing of the reforms programme, change activity around the children's social care improvement plan and transformation change programmes.

It is anticipated that one-off costs may be incurred that would qualify for being funded from capital receipts. The consequential impact on the County Council's Capital Programme as a result of using additional borrowing to fund what would otherwise have be funded by these capital receipts has been accounted for within the Council's revenue budget. It is important to note that the County Council's Treasury Management Strategy optimises the use of internal cash resources before having to take external borrowing, so this impact is unlikely to be realised in the short term.

1.3. **Revenue Funding**

Services may use their revenue budgets to fund capital expenditure. This may be via the Future Capital Investment Reserve which is an internal fund set up to finance capital expenditure as an alternative to external borrowing.

The Director of the service in conjunction with the Chief Financial Officer will need to take an overview and decide the most appropriate way of funding their service areas.

1.4. **Prudential/Unsupported Borrowing**

Local Authorities can set their own borrowing levels based on their capital need and their ability to pay for the borrowing. The levels will be set by using the indicators and factors set out in the Prudential Code. The borrowing costs are not supported by Central Government so services need to ensure they can fund the repayment costs. This borrowing may also be referred to as Prudential Borrowing.

Capital projects that cannot be funded from any other source can be funded from Prudential Borrowing. Services must be able to afford the borrowing repayment and interest charges on the loan from existing revenue budgets or the Council will include this as a key priority for the budget process to be factored into the medium-term financial strategy accordingly.

The Chief Financial Officer will make an assessment of the overall prudence, affordability and sustainability of the total borrowing requested. The impact of this borrowing will be reported in the Treasury Management Strategy alongside the Prudential Indicators required by CIPFA's Prudential Code for Capital Finance.

The view of the Chief Financial Officer will be fed into the corporate bidding process so that, should the borrowing levels be unaffordable or not prudent, then the schemes will be prioritised against the available funding from borrowing using the corporate prioritisation system. The Chief Financial Officer will also determine whether the borrowing should be from internal resources such as the Capital Reserve or whether to enter into external borrowing.

### 1.5. Pump Priming and Invest to Save Schemes

Occasionally projects arise for which services require assistance with meeting the set-up costs of projects which may bring long term service delivery improvements and/or cost savings. The initial set up costs may be of a revenue or capital nature. Assistance for these schemes must be considered on an individual basis by internal management boards / Senior Leadership Team and then the Cabinet with consideration to the Council's overall priorities and resources.

For 'invest to save' schemes assistance may be given for initial set up costs, but it is expected that in the longer term these schemes will produce savings and/or additional income that will as a minimum fund any additional operational or borrowing costs. If the additional savings/income does not cover the additional costs incurred, then the service will be required to fund the gap from their existing budgets (i.e. they will underwrite the savings/income).

### 1.6. Leasing

The Chief Financial Officer may enter into finance leasing agreements to fund capital expenditure on behalf of services. However, a full option appraisal and comparison of other funding sources must be made and the Chief Financial Officer must be certain that leasing provides the best value for money method of funding the scheme.

Under the Prudential Code finance leasing agreements are counted against the overall borrowing levels when looking at the prudence of the authority's borrowing.

## 10. **Procurement and Value for Money**

Procurement is the purchase of goods and services, with a strategy being developed to assist with the definition of quality standards and securing provision of the best possible services for local people for a given price.

The Council has a Procurement team that ensures they provide value for money and to see where efficiency savings can be achieved. This also covers capital procurement.

It is essential that all procurement activities comply with EU procurement directives and adhere to the relevant requirements stipulated in directives. Guidance on this can be sought from the Procurement team. Procurement must also comply with the Councils policies and regulations such as Contract Procedural Rules and Financial Regulations.

The main aim is to hold 'value for money' as a key goal in all procurement activity to optimise the combination of cost and quality.

## 11. **Partnerships and Relationships with other Organisations**

Wherever possible and subject to the usual risk assessments services should look to expand the number of capital schemes which are completed on a partnership basis and continually look for areas where joint projects can be implemented.

## 12. **Performance Management**

Clear measurable outcomes should be developed for each capital scheme. After the scheme has been completed, services should check if outcomes have been achieved.

Post scheme evaluation reviews should be completed by Directorates for all schemes over £0.5 million and for strategic capital projects. Reviews should look at the effectiveness of the whole project in terms of service delivery outcomes, design and construction, financing etc. and identify good practice and lessons to be learnt in delivering future projects.

## 13. **Risk Management**

Risk is the threat that an event or action will adversely affect the Council's ability to achieve its objectives and to execute its strategies successfully.

Risk management is the process of identifying risks, evaluating their potential consequences and determining the most effective methods of managing them and/or responding to them. It is both a means of minimising the costs and disruption to the organisation caused by undesired events and of ensuring that staff understand and appreciate the element of risk in all their activities.

The aim is to reduce the frequency of adverse risk events occurring (where possible), minimise the severity of their consequences if they do occur, or to consider whether risk can be transferred to other parties.

To manage risk effectively, the risks associated with each capital project need to be systematically identified, analysed, influenced and monitored.

It is important to identify the appetite for risk by each scheme and for the capital programme as a whole, especially when investing in capital assets held primarily for financial returns. Under the CIPFA Prudential Code these are defined as investments and so the key principle of control of risk and optimising returns consistent with the level of risk applies.

The Chief Financial Officer will report on the affordability and risk associated with the Capital Strategy through the existing cabinet reporting process. Where appropriate he will have access to specialised advice to enable him to reach his conclusions.

An assessment of risk should therefore be built into every capital project and major risks recorded in a Risk Register.

### 5.1 Credit Risk

This is the risk that the organisation with which we have invested capital monies becomes insolvent and cannot pay us our investment returns or complete the agreed contract. Accordingly, the Council will ensure that robust due diligence procedures cover all external capital investment. Where possible contingency plans will be identified at the outset and enacted when appropriate.

### 5.2 Liquidity Risk

This is the risk that the timing of any cash inflows from a project will be delayed, for example if other organisations do not make their contributions when agreed. This is also the risk that the cash inflows will be less than expected, for example due to the effects of inflation, interest rates or exchange rates. Our exposure to this risk will be monitored via the revenue and capital budget monitoring processes. Where possible appropriate interventions will occur as early as possible.

### 5.3 Interest Rate Risk

This is the risk that interest rates will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Interest rates will be reviewed as part of the on-going monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

### 5.4 Exchange Rate Risk

This is the risk that exchange rates will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Where relevant, exchange rates will be reviewed as part of the on-going monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

### 5.5 Inflation Risk

This is the risk that rates of inflation will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Rates of inflation will be reviewed as part of the on-going monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

### 5.6 Legal and Regulatory Risk

This is the risk that changes in laws or regulation make a capital project more expensive or time consuming to complete, make it no longer cost effective or make it illegal or not advisable to complete. Before entering into capital expenditure or making capital investments, the Council will understand the powers under which the investment is made. Forthcoming changes to relevant laws and regulations will be kept under review and factored into any capital bidding and programme monitoring processes.

### 5.7 Fraud, Error and Corruption

This is the risk that financial losses will occur due to errors or fraudulent or corrupt activities. Officers involved in any of the processes around capital expenditure or funding are required to follow the Council's policies and procedures such as the Employee Code of Conduct and detailed policies such as Anti-Fraud and Corruption, Anti Money Laundering, Whistle Blowing and Declaration of Interests.

## 14. **Other Considerations**

Capital Schemes must comply with legislation, such as the Disability Discrimination Act, Council policies, Contract Procedure Rules and Financial Regulations. Reference should also be made to other strategies and plans of the Council.

## Capital Programme

**Appendix 1E**

| TOTAL EXPENDITURE | LATEST FORECAST 2019/20 £000 | LATEST FORECAST 2020/21 £000 | LATEST FORECAST 2021/22 £000 | LATEST FORECAST 2022/23 and Beyond £000 | LATEST FORECAST TOTAL £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 |
| **TOTAL** | **160,670** | **139,994** | **30,851** | **7,079** | **338,594** |

| TOTAL FUNDING | LATEST FORECAST 2019/20 £000 | LATEST FORECAST 2020/21 £000 | LATEST FORECAST 2021/22 £000 | LATEST FORECAST 2022/23 and Beyond £000 | LATEST FORECAST TOTAL £000 |
|---|---|---|---|---|---|
| TEMPORARY AND LONG TERM BORROWING | 48,234 | 62,934 | 22,114 | 3,506 | 136,788 |
| CAPITAL RECEIPTS | 16,893 | 3,693 | 3,559 | 3,550 | 27,695 |
| GOVERNMENT GRANTS | 85,242 | 64,976 | 4,951 | 23 | 155,192 |
| CAPITAL RESERVE | 1,790 | | | | 1,790 |
| THIRD PARTY CONTRIBUTIONS | 8,511 | 8,391 | 227 | | 17,129 |
| REVENUE BUDGETS | | | | | |
| **TOTAL** | **160,670** | **139,994** | **30,851** | **7,079** | **338,594** |

| Children and Families | LATEST FORECAST 2019/20 £000 | LATEST FORECAST 2020/21 £000 | LATEST FORECAST 2021/22 £000 | LATEST FORECAST 2022/23 and Beyond £000 | LATEST FORECAST TOTAL £000 |
|---|---|---|---|---|---|
| - The Chantry High School Expansion | 131 | | | | 131 |
| - Nunnery Wood High School Expansion | 1,000 | 248 | | | 1,248 |
| - Christopher Whitehead High School Expansion | 22 | | | | 22 |
| - Rushwick Primary School Expansion | 130 | | | | 130 |
| - Bengeworth 1st | 139 | | | | 139 |
| - Social Care Projects | 254 | | | | 254 |
| - Social Care Projects 17/18 | 159 | 3,302 | | | 3,461 |
| - Redditch S.77 Projects | 12 | | | | 12 |
| - Evesham St Andrews | 130 | | | | 130 |
| - Leigh and Bransford | 134 | 88 | | | 222 |
| - Holyoaks Field 1st School | 3,000 | 2,902 | | | 5,902 |
| - Worcester Library and History Centre (Non - PFI capital costs) | 174 | | | | 174 |
| - Redditch Library | 131 | | | | 131 |
| - Kidderminster Library | 84 | | | | 84 |
| - Flexible use of Capital Receipts | | 133 | | | 133 |
| - Major Schemes - Residual | 304 | | | | 304 |
| - Capital Maintenance | 7,773 | | | | 7,773 |
| - Basic Need | 10,028 | 3,100 | | | 13,128 |
| - School Managed Schemes (Inc. Universal Infant School meals and Devolved Formula Capital) | 2,157 | | | | 2,157 |
| - EFA Extension of Provision (Early Years) | 259 | | | | 259 |
| - Libraries Minor Works | 343 | 100 | | | 443 |
| - Composite Sums - Residual | | 142 | | | 142 |
| **TOTAL** | **26,364** | **10,015** | | | **36,379** |

| Open for Business | LATEST FORECAST 2019/20 £000 | LATEST FORECAST 2020/21 £000 | LATEST FORECAST 2021/22 £000 | LATEST FORECAST 2022/23 and Beyond £000 | LATEST FORECAST TOTAL £000 |
|---|---|---|---|---|---|
| - Open For business | 1,000 | 1,250 | 750 | | 3,000 |
| - QinetiQ Land Purchase | 1,001 | 1,000 | | | 2,001 |
| - Worcester Technology Park | 10 | 10 | 9 | | 29 |
| - Malvern Hills Science Park Scheme | 339 | | | | 339 |
| - Local Broadband Plan Phase 1 | 0 | 3,310 | | | 3,310 |
| - Local Broadband Plan Phase 3 | 1,100 | 2,796 | | | 3,896 |
| - Investment Initiatives to Support Business and /or Green Technology | 998 | 175 | 151 | | 1,324 |
| - A4440 WSLR Phase 4 | 24,273 | 28,052 | 3,917 | | 56,242 |
| - A38 Bromsgrove | 5,784 | 8,946 | 269 | | 14,999 |
| - Kidderminster Churchfields | 1,596 | 2,971 | 129 | | 4,696 |
| - Pershore Northern Infrastructure (including up to £5.1m from HIIF) | 2,298 | 5,837 | 2,501 | | 10,636 |
| - HIIF Projects | | 1,271 | | | 1,271 |
| - Capital Skills Programme | 1,950 | 222 | | | 2,172 |
| - Southern Link Dualling Phase 3 | 6,200 | 1,045 | | | 7,245 |
| - Southern Link Dualling Phase 3 - Broomhall Way Footbridge | 439 | 3,110 | | | 3,549 |
| - Worcester Parkway Regional Interchange | 8,170 | | | | 8,170 |
| - Kidderminster Rail Station Enhancement | 3,269 | | | | 3,269 |
| - Kidderminster Town Centre Phase 2 | 1,199 | | | | 1,199 |
| - Redditch Town Centre | 103 | | | | 103 |
| - Worcester City Centre | 1,025 | | | | 1,025 |
| - Malvern Public Realm | 39 | | | | 39 |
| - ERDF Capital Projects | 2,356 | 1,598 | 709 | | 4,663 |
| - Warm Homes Fund | 103 | 203 | 196 | 23 | 525 |
| **TOTAL** | **63,252** | **61,796** | **8,631** | **23** | **133,702** |

| The Environment | LATEST FORECAST 2019/20 £000 | LATEST FORECAST 2020/21 £000 | LATEST FORECAST 2021/22 £000 | LATEST FORECAST 2022/23 and Beyond £000 | LATEST FORECAST TOTAL £000 |
|---|---|---|---|---|---|
| **Local Transport Plan:** | | | | | |
| - Structural Carriageway/Bridgeworks | 28,599 | 27,338 | 6,287 | | 62,224 |
| - Integrated Transport | 1,507 | 2,618 | 213 | | 4,338 |
| **Major Schemes: Infrastructure** | | | | | |
| - Regeneration £23 million total allocation:- | | | | | |
| - Cutting Congestion: | | | | | |
| - A38 / A4104 Staggered Junction Upton | 300 | 1,700 | | | 2,000 |
| - Evesham Town Centre | 200 | 800 | | | 1,000 |
| - Bromsgrove Town Centre | 200 | 800 | | | 1,000 |
| - Hoobrook Roundabout, Kidderminster | 200 | 800 | | | 1,000 |
| - Railway Stations Upgrades / Extra Parking | 1,000 | 2,900 | 1,100 | | 5,000 |
| - Next Generation Economic Game Changer Sites | 500 | 2,000 | 1,500 | | 4,000 |
| - Walking and Cycling Bridges: | | | | | |
| - River Severn - Keepax to Gheluvelt Park | 600 | 900 | | | 1,500 |
| - River Severn - Sabrina Bridge refurbishment | 150 | 2,350 | | | 2,500 |
| - Town Centre Improvements: | | | | | |
| - Evesham | | 500 | | | 500 |
| - Redditch | 50 | 450 | | | 500 |
| - Stourport | 250 | | | | 250 |
| - Worcester | 100 | 1,150 | | | 1,250 |
| - Local Members Highways Fund | 1,250 | 1,250 | | | 2,500 |
| - Worcestershire Intelligent Transport Systems | 3 | | | | 3 |
| - Walk Cycle Route to Worc Parkway | 185 | 80 | | | 265 |
| - Green Deal Communities | 44 | | | | 44 |
| - Energy Efficiency - Spend to Save | 486 | | | | 486 |
| - Eastham Bridge | 34 | | | | 34 |
| - Pavement Improvement Programme | 1,786 | 4,000 | 4,000 | | 9,786 |
| - Cutting Congestion Programme | 10,777 | 821 | | | 11,598 |
| - Cutting Congestion Programme - Phase 2 | | 5,000 | | | 5,000 |
| - Highway Flood Mitigation Measures | 341 | 1,000 | 1,000 | | 2,341 |
| - Worcester Transport Strategy | 555 | | | | 555 |
| - Hoobrook Link Road - Pinch Points | 301 | | | | 301 |
| - Public Rights of Way | 300 | | | | 300 |
| - Highways Capital Maintenance Costs | | | 1,000 | 2,000 | 3,000 |
| - Highways Strategic Investment Fund | 750 | 750 | 500 | | 2,000 |
| - Completion of Residual Schemes | 125 | | | | 125 |
| - Vehicle Replacement Programme | 1,325 | 480 | | | 1,805 |
| - Street Column Replacement Programme | 1,926 | 1,100 | 1,000 | | 4,026 |
| - Highways Minor Works | | | | | |
| **TOTAL** | **53,847** | **58,787** | **16,600** | **2,000** | **131,235** |

| Health and Well-Being | LATEST FORECAST 2019/20 £000 | LATEST FORECAST 2020/21 £000 | LATEST FORECAST 2021/22 £000 | LATEST FORECAST 2022/23 and Beyond £000 | LATEST FORECAST TOTAL £000 |
|---|---|---|---|---|---|
| **Major Schemes:** | | | | | |
| - Capital Investment in Community Capacity/ Specialised Housing | 2,000 | 1,921 | | | 3,921 |
| - Care Act Capital | 61 | | | | 61 |
| - Social Care Case Management System Replacement | 3,421 | | | | 3,421 |
| - Capital funding utilisation | 336 | | | | 336 |
| - A&CS Minor Works | 261 | 100 | | | 361 |
| - Social Care Performance IT Enhancement | 520 | | | | 520 |
| **TOTAL** | **6,599** | **2,021** | | | **8,620** |

| Efficiency and Transformation | LATEST FORECAST 2019/20 £000 | LATEST FORECAST 2020/21 £000 | LATEST FORECAST 2021/22 £000 | LATEST FORECAST 2022/23 and Beyond £000 | LATEST FORECAST TOTAL £000 |
|---|---|---|---|---|---|
| **Major Schemes:** | | | | | |
| - Digital Strategy | 3,410 | 2,720 | 2,070 | 1,506 | 9,706 |
| - Repair and Maintenance of a Longer Term Benefit (And BUoP) | 2,749 | 1,087 | | | 3,836 |
| - Stourport Library/ Coroners Relocation to Civic Centre | | 18 | | | 18 |
| - Capitalised Transformation Costs | 4,449 | 3,550 | 3,550 | 3,550 | 15,099 |
| **TOTAL** | **10,608** | **7,375** | **5,620** | **5,056** | **28,659** |

worcestershire countycouncil

# AGENDA ITEM 4

## Appendix 2

## Earmarked Reserves

| | Restated 31/03/2019 £ | 2019/20 Movement £ | 31/03/2020 £ | 2020/21 Movement £ | 31/03/2021 £ | 2021/22 Movement £ | 31/03/2022 £ |
|---|---|---|---|---|---|---|---|
| **Open for Business** | | | | | | | |
| Revolving Investment Fund | 4,471,570 | -744,412 | 3,727,158 | -1,000,000 | 2,727,158 | -1,000,000 | 1,727,158 |
| Open for Business | 3,900,000 | -585,000 | 3,315,000 | -1,500,000 | 1,815,000 | -1,500,000 | 315,000 |
| Local Authority Business Growth Initiative | 568,422 | -137,500 | 430,922 | -200,000 | 230,922 | -168,422 | 62,500 |
| Sub Regional | 588,506 | -200,000 | 388,506 | 163,210 | 551,716 | | 551,716 |
| LEP Reserve | 356,402 | -13,000 | 343,402 | -25,000 | 318,402 | -25,000 | 293,402 |
| Growing Places Reserve | 2,429,919 | -900,000 | 1,529,919 | -300,000 | 1,229,919 | -300,000 | 929,919 |
| Regional Improvement and Efficiency Reserve | 716,143 | -716,143 | 0 | | 0 | | 0 |
| | **13,030,962** | **-3,296,055** | **9,734,907** | **-2,861,790** | **6,873,117** | **-2,993,422** | **3,879,695** |
| **Children & Families** | | | | | | | |
| New Worcester Library | 44,626 | 0 | 44,626 | | 44,626 | | 44,626 |
| Rev Grants Unapplied | 3,944,749 | -732,285 | 3,212,464 | -1000000 | 2,212,464 | -1000000 | 1,212,464 |
| Safeguarding | 0 | 1,100,000 | 1,100,000 | | 1,100,000 | | 1,100,000 |
| | **3,989,375** | **367,715** | **4,357,090** | **-1,000,000** | **3,357,090** | **-1,000,000** | **2,357,090** |
| **The Environment** | | | | | | | |
| Regeneration and Infrastructure | 0 | - | 0 | | 0 | | 0 |
| Wildmoor Landfill Deposit | 35,356 | - | 35,356 | | 35,356 | | 35,356 |
| Env Serv Rev Grants | 38,304 | - | 38,304 | | 38,304 | | 38,304 |
| Concessionary Fares | 60,507 | - | 60,507 | | 60,507 | | 60,507 |
| Rev Grants Unapplied | 425,490 | 6,645 | 432,135 | | 432,135 | | 432,135 |
| | **559,657** | **6,645** | **566,302** | **0** | **566,302** | **0** | **566,302** |
| **Health & Well-Being** | | | | | | | |
| Public Health | 6,355,472 | -283,000 | 6,072,472 | -2,799,974 | 3,272,498 | -1,000,000 | 2,272,498 |
| | **6,355,472** | **-283,000** | **6,072,472** | **-2,799,974** | **3,272,498** | **-1,000,000** | **2,272,498** |
| **Efficient Council** | | | | | | | |
| Transformation/Change Reserve | 3,852,700 - | 3,311,700 | 541,000 | -250,000 | 291,000 | -250,000 | 41,000 |
| Digital | 3,000,000 | -140,000 | 2,860,000 | -140,000 | 2,720,000 | -140,000 | 2,580,000 |
| Elections | 365,000 | 0 | 365,000 | 109,000 | 474,000 | -474,000 | 0 |
| Property Management | 521,606 | 40,000 | 561,606 | 40,000 | 601,606 | 40,000 | 641,606 |
| Insurance | 8,410,815 | 0 | 8,410,815 | | 8,410,815 | | 8,410,815 |
| Business Rates Pool | 9,843,533 | 2,253,000 | 12,096,533 | | 12,096,533 | | 12,096,533 |
| Coroners Major Inquests | 187,784 | 0 | 187,784 | | 187,784 | | 187,784 |
| Councillors Divisional Fund* | 1,710,000 | -570,000 | 1,140,000 | -570,000 | 570,000 | -570,000 | 0 |
| Fleet Surplus Reserve | 361,495 | -290,000 | 71,495 | -71,495 | 0 | | 0 |
| Capital Funding | 1,769,654 | -1,606,000 | 163,654 | | 163,654 | | 163,654 |
| Financial Services Reserve | 1,551,161 | 0 | 1,551,161 | | 1,551,161 | | 1,551,161 |
| Financial Risk Reserve | 8,531,855 | 4,190,000 | 12,721,855 | -200,000 | 12,521,855 | | 12,521,855 |
| | **40,105,602** | **565,300** | **40,670,902** | **-1,082,495** | **39,588,406** | **-1,394,000** | **38,194,406** |
| **Total** | **64,041,067** | **-2,639,395** | **61,401,672** | **-7,744,259** | **53,657,412** | **-6,387,422** | **47,269,990** |

## Earmarked Reserves (continued)

| | Restated 31/03/2019 £ | 2019/20 Movement £ | 31/03/2020 £ | 2020/21 Movement £ | 31/03/2021 £ | 2021/22 Movement £ | 31/03/2022 £ |
|---|---|---|---|---|---|---|---|
| **Other** | | | | | | | |
| Schools Balances | 5,571,696 | -5,574,471 | -2,775 | 0 | -2,775 | 0 | -2,775 |
| Schools ICT-PFI Reserve | 338,645 | -99,000 | 239,645 | -99,000 | 140,645 | -99,000 | 41,645 |
| Bromsgrove High Schoool PFI Adv | 1,643,469 | -226,908 | 1,416,561 | -226,908 | 1,189,653 | -226,908 | 962,745 |
| DSG c/fwd Balance Reserve | -632,798 | 975,000 | 342,202 | 0 | 342,202 | 0 | 342,202 |
| DSG High Needs Overspend | 0 | -8,999,000 | -8,999,000 | 0 | -13,799,000 | 0 | -13,799,000 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Waste Contract PFI Grant | 10,458,354 | -3,079,486 | 7,378,868 | 0 | 7,378,868 | 0 | 7,378,868 |
| **Total** | **17,379,366** | **-17,003,865** | **375,501** | **-325,908** | **-4,750,407** | **-325,908** | **-5,076,315** |

**Appendix 3**

**General Fund Reserves Assessment**

**Chief Financial Officer's Statement on the Robustness of the Budget and the Adequacy of General Balances and Reserves**

| Risk | Likelihood | Impact | Risk Mitigation | Residual Risk Provision | | |
|---|---|---|---|---|---|---|
| | | | | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 |
| 1. Future available funding less than assumed. | Possible | High | The Government has committed to review the method used to allocate local councils funding from 2021. Discussions have been ongoing for a number of years and there is a likelihood that County Councils may gain. At this stage though there is too much uncertainty over both the main grant (SFA) and grants such as New Homes Bonus and the ring-fenced Better Care Fund. If the grants were removed that could make the Council's funding worse off by more than £30m, although that is not expected. As such a change of +/-£3m is estimated at this stage. This can only be mitigated in part through lobbying, so the residual risk remains high in 2021/22. | 0 | 3,000 | 0 |
| 2. Volatility of Business | Possible | Low | The volatility of this funding stream is outside of Council control however the impact is mitigated | 0 | 500 | 500 |

| Risk | Likelihood | Impact | Risk Mitigation | Residual Risk Provision | | |
|---|---|---|---|---|---|---|
| | | | | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 |
| Rates funding given uncertainty around impact of appeals | | | by the establishment of specific earmarked reserve and financial monitoring framework. Modelling of potential impacts is used to inform internal financial planning. As such the impact is mitigated to low in later years. | | | |
| 3. Pay Awards, fee increases and price inflation higher than assumed | Possible | Low | The awards are negotiated nationally, and there is a potential risk of increases being greater than the current provision of c.2%. However, the last few years have shown that the agreed level is similar to the December position between the national employers and Trade Unions. Future year increases remain at similar levels which remain in line with inflation forecasts. As such the risk is viewed as low impact. | 500 | 500 | 500 |
| 4. Anticipated efficiencies/ efficiencies not achieved | Possible | High to Medium | Regular monitoring and reporting take place but the size of the proposals increases or decreases the likelihood of this risk. Due diligence of proposals and scrutiny focuses on early assessment to mitigate this risk, but there can always be slippage in the timing of delivery. Therefore, non-achievement of efficiencies | 3,000 | 1,000 | 1,000 |

| Risk | Likelihood | Impact | Risk Mitigation | Residual Risk Provision | | |
|---|---|---|---|---|---|---|
| | | | | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 |
| | | | would require compensating reductions in planned spending within services each year. A provision has also been set aside in Earmarked reserves. As such any call on the general fund reserves will be last resort and the efficiencies programme governance provides some assurance that this risk can be managed but this remains a medium risk. | | | |
| 5. Revenue implications of capital programmes not fully anticipated | Unlikely | Low | Any overrun or additionality to the Capital Programme without grant, capital receipts or third-party contributions, will lead to pressure on the council's revenue borrowing costs in the following year. This risk is mitigated by a capital bid approval framework that identifies revenue implications and links to Council priorities. Full analysis of revenue implications assessed and considered in scenario planning means this risk can be identified early and mitigated. The increasingly commercial nature of investment opportunities means that the Council engages the appropriate advisors to assist with undertaking the required due diligence to fully understand the potential financial implications and risks. | 0 | 0 | 500 |

| Risk | Likelihood | Impact | Risk Mitigation | Residual Risk Provision | | |
|---|---|---|---|---|---|---|
| | | | | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 |
| | | | | | | |
| 6. Income targets not achieved, including council tax | Possible | low | The current economic climate is likely to impact on resident and businesses income however the key sources and types of charging are council tax, business rates and contributions towards the cost of adult social care. Regular monitoring and reporting take place at district and county levels. A full review of adult fees and charges is undertaken on a regular basis and a bad debt provision is in place. Monitoring of Collection Fund is formally incorporated into the revenue monitoring process. | 500 | 500 | 500 |
| 7. Budget monitoring not effective | Unlikely | High | Regular monitoring and reporting is in line with the corporate timetable and framework. Action plans are developed to address areas of overspend with regular reports to Scrutiny and Cabinet. The council has had a recent track record of delivering budget with use of earmarked reserves. The use of earmarked reserves has been commented on by external audit and is reducing with greater confidence in budget delivery. As such this risk is being | 0 | 0 | 0 |

| Risk | Likelihood | Impact | Risk Mitigation | Residual Risk Provision | | |
|---|---|---|---|---|---|---|
| | | | | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 |
| | | | mitigated and any call on the general fund should be from unforeseen events identified in budget monitoring. | | | |
| 8. Loss of principal deposit | Unlikely | Low | The Council places significant sums on deposit to secure investment income and manage risk. The risk of loss of investments due to market failures is managed by the controls in the Treasury Management Strategy which prioritise security of deposit over returns. Impact limited due to the strategy of a diverse portfolio with top rated institutions. | 0 | 0 | 0 |
| 9. Interest rates lower than expected | Unlikely | Low | The Council's income earnt from interest has been significantly reduced in later years and prudent projections based on continued lower levels of rates. The risk is thus low and is regularly reviewed, monitored and reported on interest rates. As such the risk of unforeseen impacts is considered managed at this stage. | 0 | 0 | 0 |
| 10. Unforeseen demand in Children's care | Possible | Medium | The level of demand can never be accurately predicted due to the nature of the services provided. The Council through its budget setting has sought to redirect resources to meet trend and forecast data. In addition, the Council has set aside £1.1 million in earmarked reserves to | 750 | 750 | 750 |

| Risk | Likelihood | Impact | Risk Mitigation | Residual Risk Provision | | |
|---|---|---|---|---|---|---|
| | | | | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 |
| | | | fund any increase above projections. As such the use of general fund would be for urgent placements that cannot be foreseen. | | | |
| 11. Unforeseen demand in Adult care | Possible | Medium | The level of demand can never be accurately predicted due to the nature of the services provided. The Council through its budget setting has sought to redirect resources to meet trend and forecast data. However, trend data is based on historic external factors such as weather. With changes in these external factors there is a need for urgent placements and care packages to be funded in in unforeseen / unusual periods. | 1,500 | 1,500 | 1,500 |
| 12. Poor winter weather conditions leading to unforeseen costs in highways and other services that are not covered by | Possible | Medium | The Council has significantly invested in flooding and other emergency events. The Government also provides emergency funding through its Bellwin scheme; however, events could always happen, and the Council needs a provision that it knows it can call upon in an emergency that will not constrain immediate response reaction due to financial constraints | 800 | 800 | 800 |

| Risk | Likelihood | Impact | Risk Mitigation | Residual Risk Provision | | |
|---|---|---|---|---|---|---|
| | | | | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 |
| the national Bellwin scheme | | | | | | |
| 13. Other costs rise by more than inflationary assumptions | Unlikely | Low to Medium | There is always a risk that inflation could vary. At this stage treasury management advice suggests inflation remaining broadly stable at 2% over the next two years, although there is some risk regarding the impact of leaving the European Union. For this reason, there is a greater provision in 2021-23. | 0 | 1,000 | 2,000 |
| 14. Insufficient insurance liability cover | Unlikely | Low | The Council has insurance cover up to set levels, as well as elements of self-insurance. Risks of events are proactively managed through safety checks for example. This provision is a contingency if an unexpected event arises outside of weather-related that does give rise to any higher provision than is already set aside. However, it is expected the Council will work to mitigate claims and liability and this amount is thus felt to be a lower level of risk and value. | 500 | 500 | 500 |

| Risk | Likelihood | Impact | Risk Mitigation | Residual Risk Provision | | |
|---|---|---|---|---|---|---|
| | | | | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 |
| 15. Breaches of legislation around health and safety or data protection. | Possible | Low | Changes to legislation around Health & Safety and data protection have led to high value penalties set against organisations. Worcestershire County Council has dedicated teams and roles set to monitor and manage this risk, however there could always be cases and as such a provision has been made equally across all future years. | 500 | 500 | 500 |
| 16. Commercial venture risk | Unlikely | Low | The Council has several commercial ventures such as Place Partnership Ltd and has created a new company Worcestershire Children First. As such there is a risk that in future years there could be risks of loss or additional costs, and whilst there will always be best endeavours to manage this risk within the company there is a need to make provision in future years for this to ensure the financial sustainability. | 500 | 500 | 500 |
| 17. Contingency for other unforeseen events and any | Possible | High to Medium | Whilst specific risks have been identified the list is not exhaustive and there may always be other factors giving rise to financial pressures. The Council will through budget monitoring and management look to manage these effectively | 3,000 | 1,000 | 500 |

| Risk | Likelihood | Impact | Risk Mitigation | Residual Risk Provision | | |
|---|---|---|---|---|---|---|
| | | | | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 |
| unplanned year end overspend | | | as has been the case previous years, however if it cannot and the matter is unforeseen then the reserves will be used as a matter of last recourse. The sum provided for is greater in earlier years due to the fact that events could materialise in these years not foreseen, whereas the risks in later years are at this stage more specific. As more specific risks such as business rates are known, they may reduce the general contingency accordingly. | | | |
| | | | **TOTAL** | **11,550** | **12,050** | **10,050** |

**Appendix 4**

## Treasury Management Strategy 2020/21

### Background

In accordance with the County Council's Treasury Management Practices (TMPs) and The Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services: Code of Practice the Council is required to approve the Treasury Management Strategy and Annual Investment Strategy for 2020/21. The Treasury Management Strategy is reflected in the Personal Assurance Statement given by the Chief Financial Officer concerning the 2020/21 budget calculations.

Treasury management is undertaken by a small team of professionally qualified staff within financial services.

In addition, the County Council employs Treasury Management advisors, Link Asset Services (formally Capita Asset Services), who provide information and advice on interest rate movements which is used to inform borrowing and investment decisions. The advisors have been engaged on a fixed term basis after a tendering procedure completed in August 2016.

Relevant information is also obtained from other financial commentators, the press and seminars arranged by other organisations, for example CIPFA and the Local Government Association.

Information received from these different sources is compared in order to ensure all views are considered and there are no significant differences or omissions from information given by the County Council's advisors.

All Treasury Management employees take part in the County Council's Staff Review and Development scheme, where specific individual development needs are highlighted training in Treasury Management activities and networking opportunities provided by both professional and commercial organisations are taken up where appropriate.

During 2019/20 the County Council has invested its surplus cash with selected Banks, AAA-rated Money market and cash-plus funds, the UK Debt Management Office and with other local authorities.

### Economic Commentary

While GDP growth is likely to be subdued in 2020 due to continuing uncertainties around Brexit, this time concerning the UK's future relationship with the EU after 31 December 2020, depressing consumer and business confidence, an agreement on the detailed terms of a trade deal is likely to lead to a boost to the rate of growth in subsequent years. This could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

The forecasts given in the table below are predicated on an agreement being reached on the UK's future relationship with the EU by the end of 2020, however there are downside scenarios:

- In the event of an orderly non-agreement exit in December 2020, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.
- If there were a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably even, but dependent on a successful outcome of negotiations on a trade deal.

- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.

- In the event that a Brexit deal is agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

| Link Asset Services Interest Rate View | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 |
| Bank Rate View | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.25 | 1.25 | 1.25 | 1.25 |
| 3 Month LIBID | 0.70 | 0.70 | 0.70 | 0.80 | 0.90 | 1.00 | 1.00 | 1.00 | 1.10 | 1.20 | 1.30 | 1.30 | 1.30 | 1.30 |
| 6 Month LIBID | 0.80 | 0.80 | 0.80 | 0.90 | 1.00 | 1.10 | 1.10 | 1.20 | 1.30 | 1.40 | 1.50 | 1.50 | 1.50 | 1.50 |
| 12 Month LIBID | 1.00 | 1.00 | 1.00 | 1.10 | 1.20 | 1.30 | 1.30 | 1.40 | 1.50 | 1.60 | 1.70 | 1.70 | 1.70 | 1.70 |
| 5yr PWLB Rate | 2.30 | 2.40 | 2.40 | 2.50 | 2.50 | 2.60 | 2.70 | 2.80 | 2.90 | 2.90 | 3.00 | 3.10 | 3.20 | 3.20 |
| 10yr PWLB Rate | 2.60 | 2.70 | 2.70 | 2.70 | 2.80 | 2.90 | 3.00 | 3.10 | 3.20 | 3.20 | 3.30 | 3.30 | 3.40 | 3.50 |
| 25yr PWLB Rate | 3.20 | 3.30 | 3.40 | 3.40 | 3.50 | 3.60 | 3.70 | 3.70 | 3.80 | 3.90 | 4.00 | 4.00 | 4.10 | 4.10 |
| 50yr PWLB Rate | 3.10 | 3.20 | 3.30 | 3.30 | 3.40 | 3.50 | 3.60 | 3.60 | 3.70 | 3.80 | 3.90 | 3.90 | 4.00 | 4.00 |

**Treasury Management Strategy**

The Prudential Code for Capital Finance requires the Council to set several Prudential Indicators. The Treasury Management Strategy has been developed in accordance with these indicators.

**Borrowing Strategy**

There has been much speculation during 2019 that the bond market has gone into a bubble, as evidenced by high bond prices and remarkably low yields. However, given the context that there have been heightened expectations that the US was heading for a recession in 2020, and a general background of a downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions are ripe for low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last thirty years. We have therefore seen over the last year, many bond yields up to ten years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby ten-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated, as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities. However, stock markets are also currently at high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.

During the first half of 2019-20 to 30 September, gilt yields plunged and caused a near halving of longer term PWLB rates to completely unprecedented historic low levels. (See paragraph 3.7 for comments on the increase in the PWLB rates margin over gilt yields of 100bps introduced on 9.10.19.) There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but also in the UK due to a correlation between US treasuries and UK gilts; at various times this correlation has been strong but at other times weak. However, forecasting the timing of this, and how strong the correlation is likely to be, is very difficult to forecast with any degree of confidence. Changes in UK Bank Rate will also impact on gilt yields.

One danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt-fuelled boom that now makes it harder for central banks to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of their government's bonds and so create a potential doom loop. (A doom loop would occur where the credit rating of the debt of a nation was downgraded

which would cause bond prices to fall, causing losses on debt portfolios held by banks and insurers, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc.). In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.

The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility and such volatility could occur at any time during the forecast period.

In addition, PWLB rates are subject to ad hoc decisions by H.M. Treasury to change the margin over gilt yields charged in PWLB rates: such changes could be up or down. It is not clear that if gilt yields were to rise back up again by over 100bps within the next year or so, whether H M Treasury would remove the extra 100 bps margin implemented in October 2019.

The County Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with external debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This will continue, especially given the 100-basis point rise imposed by the PWLB.

Other sources of borrowing will be considered; however, some sections of the market have already responded to this rise in a predatory manner, with reheated versions of the controversial LOBOs and other debt products with opaque structures and features recently coming into the market, the Council will tread carefully in considering other sources of borrowing, however the following will be considered:

- Borrowing from other local authorities -an active and easily accessible market with terms of up to 5 years available
- Plain vanilla, fixed-rate borrowing from other financial institutions, for fixed terms of up to 30 years, requiring some credit assessment by the lender and longer lead-times than PWLB.
- Forward rate agreements with lenders for fixed rate loans above, to secure funding for drawdown at a future date, for a certain rate.

The strategy will be to borrow to replenish a proportion of the reserves and cash balances used to support capital expenditure since October 2008. This will mitigate any interest rate risk in that borrowing and will be taken before borrowing rates increase significantly. The timing of the borrowing will depend on cashflow requirements and forecast future developments and on interest rate movements and the forecast for those future movements. A mixture of shorter and longer-term loans will be taken to fit with the County Council's debt maturity profile.

Interest rates will be monitored but as forecasts stand it is likely that borrowing will be undertaken half-way through the financial year; however, flexibility in the budget exists to bring forward the borrowing need for 2020/21 and possibly future years, should market conditions expedite.

The gross capital borrowing requirement for 2020/21 is estimated to be £62.9 million. After the use of the minimum revenue provision to repay debt of £10.9 million, the net capital borrowing requirement is estimated to be £52.0 million.

The management of the County Council's debt will be exercised in the most efficient manner considering maturing debt. The opportunity may be taken to reschedule any outstanding debt if rates become favourable to delivering savings in the revenue budget. The cost of external interest of maintaining the council debt is estimated to be £14.6 million in 2020/21.

**Annual Investments Strategy**

The County Council's Investment Strategy has been drawn up having regard to both the Communities and Local Government's Guidance on Local Authorities Investments and the CIPFA Treasury Management in Public Services Code of Practice and CIPFA Cross-Sectoral Guidance Notes. This strategy will be revised and presented to Council if changes occur outside those envisaged within this strategy.

The policy objective for the County Council is the prudent investment of its cash balances. The investment priorities are 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, of achieving the optimum return on investments, be taken into account.

The County Council will not borrow money purely to invest. The County Council will only borrow up to 2 years in advance of cash being required to fund its capital expenditure and the amount borrowed will not exceed the annual borrowing requirement.

The investments, which the County Council can use for the prudent management of cash balances are categorised as 'Specified Investments' and 'Non-Specified Investments'.

A Specified Investment offers high security and high liquidity, must be in sterling and have a maturity date of less than a year. Any Specified Investment must be with the United Kingdom Government, a local authority in England or Wales or a similar body in Scotland or Northern Ireland, a parish or community council, a AAA-rated Money Market Fund, a bank which is part-owned by the UK Government, or with a body of high credit quality. The County Council defines a body of high credit quality as counterparties who satisfy the criteria as described below:

- For overnight investments, or money placed in instant access accounts, the council defines a body of high credit quality as firstly having the below Short-Term ratings:

| **Agency:** | **Short-Term rating:** |
|---|---|
| Fitch | F1 |
| Moodys | P-1 |
| Standard and Poors | A-1 |

- For **unsecured** term deposits between 2 and 364 days, the council will firstly define a body of high credit quality as having the below Long-term ratings:

| **Agency:** | **Long-Term rating:** |
|---|---|
| Fitch | A+ |
| Moodys | A1 |
| Standard and Poors | A+ |

- The County Council will undertake continued due diligence and will not automatically lend to Counterparties that merely satisfy the above criteria. As additional consideration, the County Council will assess for each:

    - Input from Treasury Advisors
    - Other market data from a reputable source
    - Press coverage
    - Market presence by the Counterparty
    - Availability of suitable products from the Counterparty
    - Ease of execution with the Counterparty
    - Level of Customer service from the Counterparty

- The above list is not exhaustive, the County Council may at any time exclude a Counterparty should it perceive any reasonable doubt concerning its Creditworthiness; the 2011 Code and subsequent revisions advise that subjective criteria may be used, in line with the Council's risk appetite.

- For **secured** term deposits, the council defines high credit quality as an **instrument** that has the above ratings with every agency that rates it.

- Enhanced Money Market funds or Cash Plus funds, which carry a AAA-rating from at least one rating agency.

Non-Specified Investments have a range of vehicles not covered by the definition of Specified Investments, which are set out in the Treasury Management Practices (TMPs) and generally carry more risk.

The only types of non-specified investments the County Council will enter into or hold during the coming financial year are as below:

- A routine term deposit with a counterparty as described above for Specified Investments, for a period of more than 1 year. This type of investment will be considered when rates are favourable and cash balances allow. The Council’s prudential indicators allow no more than £10 million to be invested in this category.

- Investments in Pooled Property Funds, these will be considered as having a 5 to 10-year term.

The credit ratings of Fitch, Moodys and Standard and Poors are monitored at least weekly, ratings-watches and downgrades are acted upon immediately. Any other information that is deemed relevant to the creditworthiness of any Counterparty will be acted upon, in line with the 2009 code revision.

The County Council may hold cash within its current account overnight as a transactional control to mitigate the risk of going overdrawn and incurring penalty and interest charges. On limited occasions the County Council may also leave funds in this account when it is impractical and/or not economically feasible to invest elsewhere. These balances are considered as cash or cash equivalents and not investments.

The County Council will aim to have not less than 50% of its investments returnable within 28 days with at least 20% within 7 days.

**Pension Fund**

Cash is held in the Pension Fund account at the bank. This is a transactional sum to ensure that contributions are received, and benefits are paid efficiently. The vast majority of Pension Fund assets are invested elsewhere under separate Governance Arrangements to the County Council's Annual Investments Strategy above. The cash held at the bank may be either held in this account or be invested in a manner deemed appropriate by the Pension Committee.

**Non-Treasury Investments**

The County Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

The County Council will ensure that all the organisation’s investments are covered in the capital strategy, investment strategy or equivalent, and will set out, where relevant, the Council's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management. For instance, liquidity shall ordinarily not be a consideration for such investments, since the monies invested are pursuant to a service outcome and yield may comprise intangible elements such as Economic and Social Development and expansion of the tax base.

The County Council will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation’s risk exposure.

Below is a schedule for current approved non-treasury investments, other than Energy from waste, which is discussed later in this document:

| Borrower | Amount | Date Lent | Terms |
|---|---|---|---|
| Malvern Hills Science Park | £4.4m at cost. Carried at £3.0m Fair Value. | Various tranches 29/10/1998 to 15/10/2014 | Preference Shares, with a semi-annual coupon based on cost, as follows:<br>£944k at 3%<br>£3,500k at 6.37%<br>Note: As these shares carry no voting rights, this holding does not constitute a joint venture or subsidiary. |

In managing these Investments, the Chief Financial Officer shall be responsible for:

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above

**MIFID II**

The County Council has elected to opt-up to Professional Client status for most of its Counterparties, on the grounds of the typical size of its Investment portfolio and the volume of Transactions on the relevant market. This was primarily concerned with maintaining access to the financial instruments used. A few selected Counterparties indicated that the County Council would not need to opt-up to Professional Client status to continue service.

A schedule of the County Council's status with its Counterparties (Retail or Professional) is maintained as part of the Treasury Management Practices and will be reviewed annually and/or when a counterparty is added or removed.

**West Mercia Energy**

With regard to the joint ownership of West Mercia Energy, the County Council may, if deemed in the best interest of prudent management of the West Mercia business, undertake transactions pertaining to foreign currencies, such as foreign exchange deals and investments. Such dealings must have relevance to the course of business of West Mercia Energy. These dealings will be classified as Non-specified Investments as they are not sterling denominated.

**Energy from Waste**

In partnership with Herefordshire Council, the County Council provided finance to Mercia Waste for the building of an Energy from Waste Plant, which they are operating for a period determined by the existing PFI contract. At the end of the contract, the ownership of the plant will revert to the Councils. The construction phase commenced on the 21st May 2014, Mercia took control of the plant from the contractor at the beginning of March 2017.

Worcestershire County and Herefordshire Councils provided the finance on a 758:252 split, by granting loans on a commercial basis, in accordance with the agreed timetable. Loans granted to Mercia Waste for this purpose will be considered separately to normal Treasury Management investment activity. All costs and income related to this scheme shall be ringfenced for budget monitoring purposes and the loans granted are being considered as Capital Expenditure under the 2003 Regulations and is carried at Amortised cost.

For the remainder of the waste PFI contract, Mercia Waste is repaying the Council Capital and Interest on the amortising senior term loan. At the expiration of the PFI contract during 2023/24, the Council shall assume ownership of the plant, which will represent repayment of the bullet loan.

As at the 31st March 2019, the carrying value of the loan to Mercia Waste was £114.8m, repayments of Principal and Interest to date have proceeded to schedule.

## Statement of Prudential Indicators

### 1. Introduction

1.1. The Prudential Code for Capital Finance in Local Authorities (Prudential Code) has been developed by the Chartered Institute of Public Finance and Accountancy to underpin the system of capital finance embodied in Part 1 of the Local Government Act 2003. Local Authorities are no longer subject to government controlled borrowing approvals and are free to determine their own level of capital investment controlled by self-regulation. Central Government does however, for national economic reasons retain a reserve power to set a national limit on the increase in borrowing.

1.2. The key objectives of the Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable.

1.3. The Prudential Code supports a system of self-regulation that is achieved by the setting and monitoring of a suite of Prudential Indicators that directly relate to each other. The indicators establish parameters within which the County Council should operate to ensure the objectives of the Prudential Code are met.

1.4. The Prudential Indicators have been prepared with regard to the Council's Capital Strategy; they will provide a monitoring framework against which to assess the **Affordability** and **Prudence** of the Council's Capital investment plans therein.

## 2. AFFORDABILITY (CAPITAL AND BORROWING INDICATORS)

2.1. The Prudential Indicators for which the County Council is required to set limits are as follows:

2.2. The Chief Financial Officer reports that the County Council had no difficulty meeting this requirement for 2018/19, nor are any difficulties envisaged for the current or future years. This view takes into account all plans, and commitments included in the 2020/21 budget policy.

Capital Expenditure

2.3. The actual amount of capital expenditure that was incurred during 2018/19, and the estimates of capital expenditure to be incurred for the current and future years that are proposed in the 2020/21 budget policy are as follows:

| | **2018/19 Actual £m** | **2019/20 Estimate £m** | **2020/21 Estimate £m** | **2021/22 Estimate £m** | **2022/23 & Beyond Estimate £m** |
|---|---|---|---|---|---|
| **Total Capital Expenditure** | **105.5** | **160.7** | **140.0** | **30.9** | **7.1** |

2.4. Financing Costs include the amount of interest payable in respect of borrowing or other long-term liabilities and the amount the County Council is required to set aside to repay debt, less interest and investments income.

2.5. The actual Net Revenue Stream is the total of revenue support grant, business rate and council tax income.

2.6. The prediction of the Net Revenue Stream in this Prudential Indicator for future years assumes changes in the County Council’s funding from government and the local taxpayer consistent with expectations in the Medium-Term Financial Plan. This is indicative only and in no way meant to influence the actual future years funding or in particular the funding from Council Tax.

2.7. The authority shall ensure that the revenue implications of capital finance, including financing costs, are properly considered within option appraisal processes, the capital programme and the medium-term forecast.

2.8. The estimates of the ratio of financing costs to net revenue stream are as follows:

**Ratio of Financing Costs to Net Revenue Stream**

| | 2018/19 Actual £m | 2019/20 Estimate £m | 2020/21 Estimate £m | 2021/22 Estimate £m | 2022/23 Estimate £m |
|---|---|---|---|---|---|
| **Financing Costs** | **29.0** | **26.8** | **27.9** | **28.8** | **28.2** |
| **Net Revenue Stream** | **324.6** | **330.4** | **346.1** | **354.4** | **365.5** |
| **Ratio** | **8.93%** | **8.13%** | **8.05%** | **8.13%** | **7.70%** |

Capital Financing Requirement

2.9. The capital financing requirement is a measure of the extent to which the County Council needs to borrow to support capital expenditure. It does not necessarily relate to the actual amount of borrowing at any one point in time. The County Council has an integrated treasury management strategy where there is no distinction between revenue and capital cash flows and the day-to-day position of external borrowing and investments can change constantly.

2.10. The capital financing requirement concerns only those transactions arising from capital spending, whereas the amount of external borrowing is a consequence of all revenue and capital cash transactions combined together following recommended treasury management practice.

2.11. The estimates of the end of year capital financing requirement are as follows:

| | 2018/19 Actual £m | 2019/20 Estimate £m | 2020/21 Estimate £m | 2021/22 Estimate £m | 2022/23 Estimate £m |
|---|---|---|---|---|---|
| **Capital financing requirement at 31 March** | **578.5** | **617.8** | **669.9** | **678.8** | **667.9** |

Authorised Limit

2.12. The Authorised Limit represents an upper limit of borrowing that could be afforded in the short term but may not be sustainable. This limit includes a risk assessment of exceptional events considering the demands of revenue and capital cash flows. The Authorised Limit gauges events that may occur over and above those transactions which have been included in the Operational Boundary.

2.13. The Cabinet should note that the Authorised Limit represents the limit specified in section 3 (1) of the Local Government Act 2003 (Duty to determine affordable borrowing limit).

2.14. The Chief Financial Officer has delegated authority, within the total Authorised Limit, to effect movement between the separately identified and agreed figures for External

Borrowing and Other Long-Term Liabilities. Any such changes will be reported to the next Cabinet meeting following the change.

2.15. The following Authorised Limits for gross external debt are recommended:

**Authorised Limit for External Debt**

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| External Borrowing | 660.0 | 710.0 | 720.0 | 720.0 |
| Other Long-Term Liabilities | 13.0 | 13.0 | 13.0 | 13.0 |
| **Total Authorised limit** | **673.0** | **723.0** | **733.0** | **733.0** |

Operational Boundary

2.16. The Operational Boundary represents an estimate of the most likely, prudent, but not worst-case scenario and provides a parameter against which day-to-day treasury management activity can be monitored.

2.17. The Chief Financial Officer reports that procedures are in place to monitor the Operational Boundary on a daily basis, and that sufficient authorisation is in place to take whatever action is necessary to ensure that, in line with the Treasury Management Strategy, the cash flows of the County Council are managed prudently.

2.18. Occasionally, the Operational Boundary may be exceeded (but still not breach the Authorised Limit) following variations in cash flow. Such an occurrence would follow controlled treasury management action and may not have a significant impact on the prudential indicators when viewed all together.

2.19. Consistent with the Authorised Limit, the Chief Financial Officer has delegated authority, within the Total Operational Boundary, to effect movement between the separately identified and agreed figures for External Borrowing and Other Long-Term Liabilities. Any such changes will be reported to the next Cabinet meeting following the change.

2.20. Both the Authorised Limit and the Operational Boundary include an element relating to debt restructuring where, for the short term only, external borrowing may be made in advance of the repayment of loans. In this circumstance External Borrowing is increased temporarily until the replaced loans are repaid. The converse can also apply where loans are repaid in advance of borrowings.

2.21. The following limits for each year's Operational Boundary for gross external debt are recommended:

**Operational Boundary for External Debt**

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| External Borrowing | 640.0 | 690.0 | 700.0 | 700.0 |
| Other Long-Term Liabilities | 10.0 | 10.0 | 10.0 | 10.0 |
| **Total Operational Boundary** | **650.0** | **700.0** | **710.0** | **710.0** |

Actual External Debt

2.22. The County Council's actual external debt as at 31/03/19 was £460.3 million; comprising £460.3 million External Borrowing and £0 (zero) Other Long-Term Liabilities.

## 3. PRUDENCE (TREASURY MANAGEMENT AND TM CODE INDICATORS)

Gross Debt and the Capital Financing Requirement

3.1. This Prudential Indicator provides an overarching requirement that Debt does not exceed the Capital Financing Requirement for current, coming and subsequent 2 financial years. Where Gross Debt is or projected to be greater than the Capital Financing Requirement, the reasons for this would be clearly stated in the Treasury Management Strategy Statement.

The table below analyses the actual and projected Gross Debt against the Capital Financing requirement as at the 31st of March over the previous, current and coming Financial Years. It is not anticipated that there shall be any difficulty in complying with this Indicator over the medium term.

| | 2018/19 Actual £m | 2019/20 Estimate £m | 2020/21 Estimate £m | 2021/22 Estimate £m | 2022/23 Estimate £m |
|---|---|---|---|---|---|
| Gross Debt | 460.3 | 482.5 | 531.4 | 537.0 | 537.0 |
| Capital Financing Requirement | 578.5 | 617.8 | 669.9 | 678.8 | 667.9 |
| Ratio of Gross Debt to the Capital Financing Requirement | 79.6% | 78.1% | 79.3% | 79.1% | 80.4% |

3.2. The following prudential indicators have been considered in the 2020/21 Treasury Management Strategy.

Fixed and Variable Interest Rate Exposures

3.3. The Prudential code no longer requires the County Council to monitor its Fixed and variable rate interest exposure. However, the Council shall aim to ensure that sums borrowed at Fixed and variable rates shall not exceed the following:

**Upper limits for net principal sums outstanding at fixed and variable rates**

| | 2019/20 £m | 2020/21 | 2021/22 £m | 2022/23 £m |
|---|---|---|---|---|
| Net Principal sums Outstanding at Fixed Rates | 673.0 | 723.0 | 733.0 | 733.0 |
| Net Principal sums Outstanding at Variable Rates | 201.9 | 216.9 | 219.9 | 219.9 |

3.4. This represents the position that all the County Council's authorised external borrowing could be at a fixed rate at any one time and up to 30% of its borrowing could be at a variable rate.

Maturity Structure of Borrowing

3.5. It is recommended that the County Council sets upper and lower limits for the maturity structure of its borrowings as follows:

**Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate.**

| Period of Maturity | Upper Limit % | Lower Limit % |
|---|---|---|
| Under 12 months | **25** | **0** |
| 12 months and within 24 months | **25** | **0** |
| 24 months and within 5 years | **50** | **0** |
| 5 years and within 10 years | **75** | **0** |
| 10 years and above | **100** | **25** |

Investments for longer than 364 days

3.6. It is recommended that the County Council sets an upper limit of total principal sums invested for periods longer than 364 days of £25 million for 2020/21, 2021/22 and 2022/23.

3.7. The Council may hold non-treasury investments for periods longer than 364 days, in assets other than financial instruments. The sums invested in this manner shall not exceed £25m at any one time for 2020/21, 2021/22 and 2022/23.

## 4. ANNUAL MINIMUM REVENUE PROVISION (MRP) STATEMENT

Introduction

4.1. On the 28 February 2008 the Department for Communities and Local Government issued statutory guidance under the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 that came into force on 31 March 2008.

4.2. The statutory guidance recommends that before the start of each financial year a local authority prepares a statement of its policy on making MRP in respect of that financial year and submits it to full council. The statement should indicate how it is proposed to discharge the duty to make prudent MRP in the financial year.

4.3. The MRP is an amount of revenue money set aside each year for the repayment of external borrowing required to finance capital expenditure.

4.4. MRP should normally commence in the financial year following the one in which the expenditure, to be financed from borrowing, was incurred.

4.5. The regulations include a change to the way MRP is calculated by replacing the detailed formulae for calculating MRP with a duty to make an amount of MRP which the authority considers “prudent”.

Meaning of “Prudent Provision”

4.6. The broad aim of prudent provision is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits or, in the case of borrowing supported by Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

4.7. The guidance specifies four options as methods of making prudent provision as follows:

**Option 1**: Regulatory Method - where debt is supported by Revenue Support Grant, authorities will be able to continue using the current methodology. As a transitional measure this option is also available for all capital expenditure incurred prior to 1 April 2008.

**Option 2**: CFR Method - multiplying the Capital Financing Requirement at the end of the preceding year by 4%

**Option 3**: Asset life Method - amortising expenditure over an estimated useful life for the relevant assets created.

**Option 4**: Depreciation Method – making charges to revenue based on proper accounting practices for depreciation as they apply to the relevant assets.

4.7.1. Options 1 and 2 may only be used in relation to capital expenditure incurred before 1 April 2008 and capital expenditure incurred on or after that date which forms part of supported capital expenditure.

4.7.2. For unsupported capital expenditure incurred on or after 1 April 2008 Options 3 and 4 apply and can be applied to all capital expenditure, whether supported and whenever incurred.

MRP Policy relating to capital expenditure financed from borrowing

4.8. Considering the need to make prudent provision the Chief Financial Officer recommends that Option 3 is used for all capital expenditure financed by borrowing for the calculation of MRP commencing from 1 April 2017. The calculation is to be made using the annuity method.

**Appendix 5**

# Pay Policy Statement

## Introduction and Purpose

The purpose of this policy is to clarify the County Council's strategic stance on pay in order to provide direction for members and officers making detailed decisions on pay and to provide the citizens of Worcestershire with a clear statement of the principles underpinning decisions on the use of public funds.

Under section 112 of the Local Government Act 1972, the Council has the power to appoint officers on such reasonable terms and conditions, including remuneration, as the authority thinks fit. This Pay Policy Statement (the 'statement') sets out the Council's approach to pay policy in accordance with the requirements of Section 38 of the Localism Act 2011. The purpose of the statement is to provide transparency with regard to the Council's approach to setting the pay of its employees (excluding those working in local authority schools) by identifying;

- the methods by which salaries of all employees are determined;
- the detail and level of remuneration of its most senior staff i.e. 'chief officers', as defined by the relevant legislation;
- the Panel responsible for ensuring the provisions set out in this statement are applied consistently throughout the Council and for recommending any amendments to the statement to the full Council.

Once approved by the full Council, the statement will come into immediate effect and will be published by no later than 1 April each year, subject to review on a minimum of an annual basis in accordance with the relevant legislation prevailing at that time.

## Legislative Framework

In determining the pay and remuneration of all of its employees, the Council will comply with all relevant employment legislation. This includes, but is not an exhaustive list, the Equality Act 2010, Part Time Employment (Prevention of Less Favourable Treatment) Regulations 2000, The Agency Workers Regulations 2010 and where relevant, the Transfer of Undertakings (Protection of Earnings) Regulations. With regard to the Equal Pay requirements contained within the Equality Act, the Council ensures there is no pay discrimination within its pay structures and that all pay differentials can be objectively justified through the use of equality-proofed job evaluation mechanisms which directly relate salaries to the requirements, demands and responsibilities of the role.

## Pay Structure

The purpose of pay is to encourage staff with the appropriate skills to seek to work for the County Council and then to reward them appropriately for the tasks they undertake in order to maintain their motivation and retain their services.

Based on the application of job evaluation processes, the Council uses the nationally negotiated pay spine as the basis for its local grading structure (known as the main salary scale). This determines the salaries of the majority of the workforce, together with the use of other nationally defined rates where relevant. In common with the majority of authorities, the Council is committed to the Local Government Employers national pay bargaining framework

in respect of the national pay spine and any annual associated cost of living increases negotiated with the trade unions.

Any other pay rates are the subject of either nationally or locally negotiated rates, having been determined from time to time in accordance with collective bargaining machinery and/or as determined by Council policy. In determining its grading structure and setting remuneration levels for all posts, the Council takes account of the need to ensure value for money in respect of the use of public expenditure, balanced against the need to recruit and retain employees who are able to meet the requirements of providing high quality services to the community, delivered effectively and efficiently and at times at which those services are required.

New appointments will normally be made at the minimum of the relevant grade, although this can be varied where necessary to secure the best candidate. From time to time it may be necessary to take account of the external pay market in order to attract and retain employees with particular experience, skills and capacity. Where necessary, the Council will ensure the requirement for such is objectively justified by reference to clear and transparent evidence of relevant market comparators, using appropriate data sources.

## Senior Management Remuneration

For the purposes of this statement, senior management means 'chief officers' as defined within S43 of the Localism Act. The posts falling within the statutory definition are set out below, with details of their basic salary as at 1st April 2020. Salaries quoted are based on the full time equivalent (FTE) of 37 hours per week. The Council since April 2011 has adopted a maximum of 35 hours per week for new appointments and corresponding salaries are shown in brackets. Currently 18 of the chief officers are employed on a 35 hour per week contract. Table 1 lists the 25 chief officer posts that make up 0.91% of the 2740[1] people employed by the County Council (excluding schools).

**Table 1: Chief Officer posts**

| Title | Grade | Pay range minimum | Pay range maximum | Incremental points |
|---|---|---|---|---|
| Chief Executive (35 hours per week) | Chief Executive | (£160,261) | (£180,429) | 4 |
| Director for Children's Services (Functional)[2] | WCF Chief Executive | £119,931 (£113,448) | £131,919 (£124,788) | 6 |
| Strategic Director for People;<br>Strategic Director for Economy & Infrastructure;<br>Strategic Director for Commercial and Change. | Director (3 posts) | £119,931 (£113,448) | £131,919 (£124,788) | 6 |
| Chief Financial Officer<br><br>*Includes a Pay Supplement of 15% & a Market Forces Supplement | Head of Service 1 + MFS (1 post) | £104,862 (£99,414) | £115,084 (£109,084) | 6 |

[1] *Refers to the staffing count as at 1st December 2019 which includes all permanent, temporary and relief/casual/sessional employees (as/when required) excluding Schools. The 2020 NJC award is currently being negotiated. The rates above are those effective from 1st April 2019*

[2] *The Director of Children's Services is an employee of Worcestershire Children First. They are not included in any of the calculations.*

| Title | Grade | Pay range minimum | Pay range maximum | Incremental points |
|---|---|---|---|---|
| Director of Public Health<br><br>18% responsibility allowance | Head of Service 1<br>(1 post) | £103,392<br>(£97,803) | £113,881<br>(£107,725) | 6 |
| Assistant Director for Legal & Governance;<br>Assistant Director for Economy, Major Projects & Waste;<br>Assistant Director for Communities;<br>Assistant Director for Social Care;<br>Assistant Director for Highways, Transport & Operations;<br>Assistant Director for Human Resources, Organisational Development & Engagement. | Head of Service 1<br>(6 posts) | £87,621<br>(£82,884) | £96,510<br>(£91,293) | 6 |
| Head of Finance;<br>Assistant Director for IT & Digital;<br>Assistant Director for Transformation & Commercial. | Head of Service 2<br>(3 posts) | £82,293<br>(£77,844) | £91,173<br>(£86,244) | 6 |
| Senior Content & Communications Manager<br><br>*Includes a Market Forces Supplement | PO7 + MFS<br>(1 post) | £70,736<br>(£67,430) | £ 74,478<br>(£70,970) | n/a |
| Programme Manager;<br>Chief Accountant;<br>HR/OD Service & Commissioning Manager. | PO7<br>(3 posts) | £61,154<br>(£57,848) | £64,896<br>(£61,388) | 4 |
| Finance Manager - Pensions Treasury & Capital;<br>Chief Auditor | PO6<br>(2 posts) | £55,065<br>(£52,087) | £58,342<br>(£55,188) | 4 |
| HR Operations Delivery Manager.<br><br>*Includes an Honorarium | PO4 +<br>(1 post) | £54,295<br>(51,895) | £57,776<br>(£55,188) | n/a |
| Strategic HR Business Partner<br><br>*Includes a Market Forces Supplement | PO4 +MFS<br>(2 posts) | £49,995<br>(£47,595) | £53,476<br>(£50,888) | n/a |

For information the main salary scale, covering the majority of the workforce, is shown in Table 2 in the Appendix. The number of posts in each grade is also shown in Chart 1 in the Appendix.

## Recruitment of Chief Officer Related Posts

The Council's policy and procedures with regard to recruitment of chief officer related posts is set out within the Constitution which can be accessed at:

*http://www.worcestershire.gov.uk/info/20088/about_your_council/83/the_councils_constitution.*

When recruiting to all posts the Council will take full and proper account of its own policies and procedures. The determination of the remuneration to be offered to any newly appointed chief officer related position will be in accordance with the pay structure and relevant policies in place at the time of recruitment. Where the Council is unable to recruit to a post at the designated grade, it will consider the use of temporary market forces supplements in

accordance with its relevant policies. Currently we have three posts (four post holders) receiving a market forces supplement.

Where the Council remains unable to recruit to chief officer related posts under a contract of employment, or there is a need for interim support to provide cover for a vacant substantive chief officer related post, the Council will, where necessary, consider engaging individuals under 'contracts for service'. These will be sourced through a relevant procurement process ensuring the Council is able to demonstrate the maximum value for money benefits from competition in securing the relevant service. Currently the Council has one interim chief officer related positions under such arrangements.

## Additions to Salary of Chief Officer Related Posts

The Council does not normally apply any bonuses or performance related pay to its chief officer related posts. However, progression through the incremental scale of the relevant grade is subject to satisfactory performance, which is assessed on an annual basis.

In addition to basic salary, the Council may pay other elements of 'additional pay' which are chargeable to UK Income Tax and do not solely constitute reimbursement of expenses incurred in the fulfilment of duties, which could include returning officer fees or responsibility allowances. This list is not exhaustive. The Council currently pays two additional responsibility allowances, one of which is paid to the Chief Financial Officer and one to the Director of Public Health. The Council currently pay one honorarium to the HR Operations Delivery Manager.

## Payments on Termination

The Council's approach to discretionary payments on termination of employment of chief officers, prior to reaching normal retirement age, is set out within its policy statement in accordance with Regulations 5 and 6 of the Local Government (Early Termination of Employment) (Discretionary Compensation) Regulations 2006 and the Local Government Pension Scheme (LGPS) Regulations 2013 (as amended).

Any other payments falling outside the provisions, or the relevant periods of contractual notice shall be subject to a formal decision made by the full Council or relevant elected members, committee or panel of elected members with delegated authority to approve such payments.

In 2011 the Council introduced a ceiling of £50,000 on redundancy payments for all employees.

## Publication

Upon approval by the full Council, this statement will be published on the Council's Website. In addition, the Council's Annual Statement of Accounts will include a note setting out the number of staff whose total remuneration is at least £50,000 and for chief officer posts it will show the amount of

- salary, fees or allowances paid to or receivable by the person in the current and previous year;
- employers' contribution to the person's pension
- any bonuses so paid or receivable by the person in the current and previous year;
- any sums payable by way of expenses allowance that are chargeable to UK income tax;

- any compensation for loss of employment and any other payments connected with termination;
- any benefits received that do not fall within the above

## Lowest Paid Employees

The Council since April 2011 has adopted a maximum of 35 hours per week for new appointments. The lowest paid persons employed under a contract of employment with the Council are employed on 35 hour per week in accordance with the minimum spinal column point currently in use within the Council's grading structure. As at 1 April 2020[1] this is £16,425 per annum. The Council employs Apprentices who are not included within the definition of 'lowest paid employees' as the terms and conditions are determined by the National Apprenticeship Service.

The relationship between the rate of pay for the lowest paid and chief officers is determined by the processes used for determining pay and grading structures as set out earlier in this policy statement.

*1 Refers to pay structure at 1st December 2019. The 2020 NJC award is currently being negotiated. The 2020 NJC award is currently being negotiated. The rates above are those effective from 1st April 2019*

The statutory guidance under the Localism Act recommends the use of pay multiples as a means of measuring the relationship between pay rates across the workforce and that of senior managers, as included within the Hutton 'Review of Fair Pay in the Public Sector' (2010). The Hutton report was asked by Government to explore the case for a fixed limit on dispersion of pay through a requirement that no public sector manager can earn more than 20 times the lowest paid person in the organisation. The report concluded that "it would not be fair or wise for the Government to impose a single maximum pay multiple across the public sector". The Council accepts the view that the relationship to median earnings is a more relevant measure and the Government's Code of Recommended Practice on Data Transparency recommends the publication of the ratio between highest paid salary and the median average salary of the whole of the authority's workforce.

The current pay levels within the Council define the multiple between the lowest paid (35 hours per week) employee and the Chief Executive (35 hour per week) as 1:10.77 and; between the lowest paid employee (35 hours per week) and average chief officer as 1:5.03. The multiple between the median (average) full time equivalent earnings and the Chief Executive (35 hours per week) is 1:7.83 and; between the median (average) full time equivalent earnings and average chief officer is 1:3.66.

As part of its overall and ongoing monitoring of alignment with external pay markets, both within and outside the sector, the Council will use available benchmark information as appropriate.

## Re-engagement and Re-employment of former Chief Officer Related Posts

Other than in exceptional circumstances the Council would not normally re-employ or re-engage chief officers who were previously employed by the Council and who on ceasing to be employed, received severance or redundancy payment.

## Accountability and Decision Making

In accordance with the Constitution of the Council, the Appointments Etc Panel is responsible for decision making in relation to the recruitment, pay, terms and conditions and severance arrangements in relation to chief officer positions within the Council. Overall the Council aims to maintain a mid-market position on chief officer pay in comparison to similar authorities.

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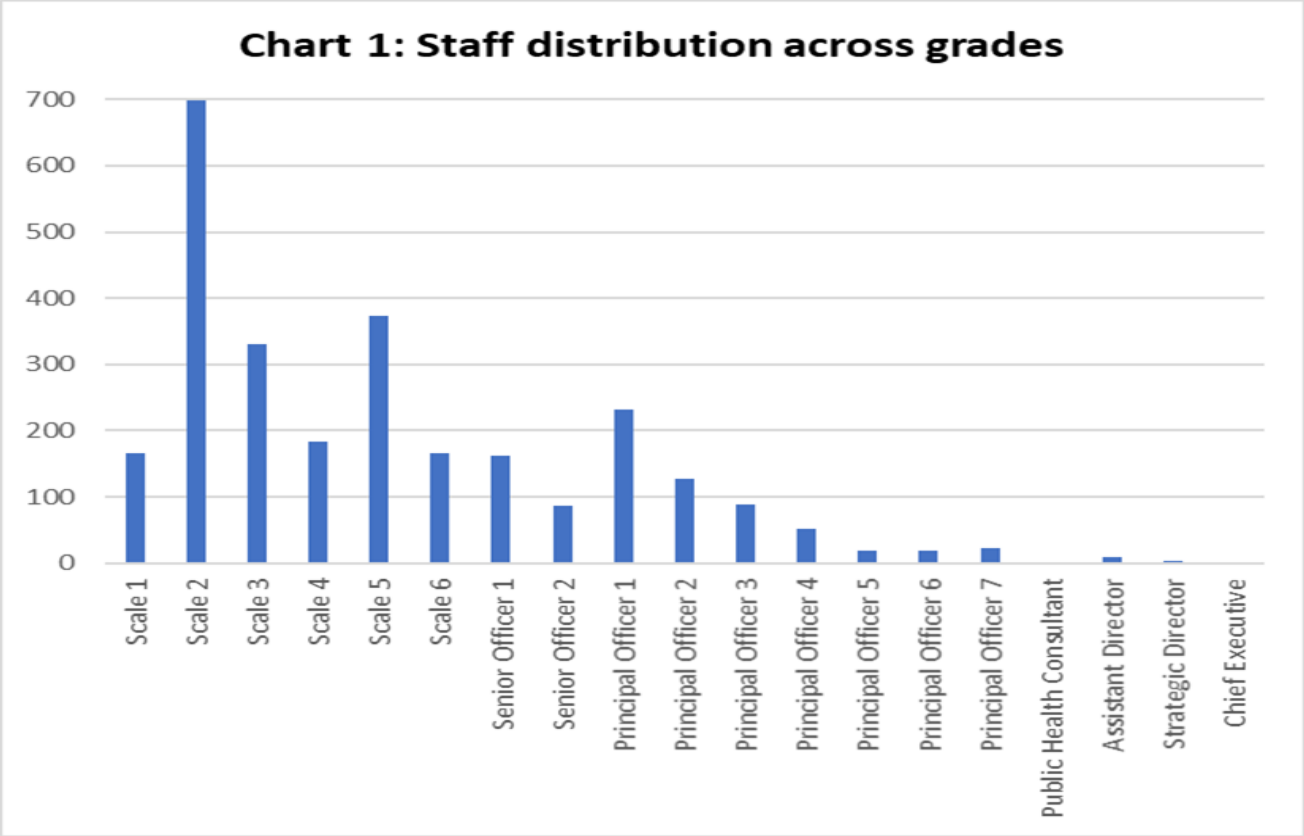
***FOR OFFICE USE ONLY***

*Res/HR/BAC: Prepared 25 January 2012*
*Approved by Council 16 February 2012*
*Res/HR/BAC: Updated 17 January 2013*
*Approved by Council 14 February 2013*
*Res/HR/BAC: Updated 29 January 2014*
*Approved by Council 13 February 2014*
*COaCH/HR/BAC: Updated 20 January 2015*
*Approved by Council 12 February 2015*
*COaCH/HR/BAC: Updated 13 January 2016*
*Approved by Council 11 February 2016*
*COaCH/HR/BAC: Updated 13 January 2017*
*Approved by Council 9 February 2017*
*COaCH/HR/BAC: Updated 25th January 2018*
*Approved by Council 15 February 2018*
*COaCH/HR/BAC: Updated 14 January 2019*
*Approved by Council 14 February 2019*
*CEU/HR/BAC: Updated 16 January 2020*
*Approved by Council tbc*

## Table 2: Other main salary grades from April 2019* based on 37-hour full time equivalent (35-hour full time equivalent shown in brackets)

| Grade | Pay range minimum | Pay range maximum | National Pay spine Points |
|---|---|---|---|
| Scale 1 | £17,364 (£16,425) | £17,711 (£16,754) | 1 – 2 (6 – 9) |
| Scale 2 | £18,065 (£17,089) | £ 18,426 (£17,430) | 3 – 4 (10 – 13) |
| Scale 3 | £18,795 (£17,779) | £19,171 (£18,135) | 5 – 6 (14 – 17) |
| Scale 4 | £19,554 (£18,497) | £21,166 (£20,022) | 7 – 11 (18 – 21) |
| Scale 5 | £21,589 (£20,422) | £23,836 (£22,548) | 12 – 17 (22 – 25) |
| Scale 6 | £24,313 (£22,999) | £26,317 (£24,894) | 18 – 22 (26 – 28) |
| SO1 | £26,999 (£25,540) | £28,785 (£27,229) | 23 – 25 (29 – 31) |
| SO2 | £29,636 (£28,034) | £31,371 (£29,675) | 26 – 28 (32 – 34) |
| PO1 | £31,371 (£29,675) | £33,799 (£31,972) | 28 – 31 (34 – 37) |
| PO2 | £34,788 (£32,908) | £37,849 (£35,803) | 32 – 35 (38 – 41) |
| PO3 | £38,813 (£36,715) | £41,675 (£39,422) | 36 – 39 (42 – 45) |
| PO4 | £44,389 (£41,989) | £47,870 (£45,282) | 40 – 43 (46 – 49) |
| PO5 | £49,359 (£46,691) | £52,483 (£49,645) | 44 – 47 (50 – 53) |
| PO6 | £55,065 (£52,087) | £58,342 (£55,188) | 48 – 51 (54 – 57) |
| PO7 | £61,154 (£57,848) | £64,896 (£61,388) | 52 – 55 (58 – 61) |




Notes:

Chart 1 above refers to the staffing count as at 1st December 2019 which includes all permanent, temporary and relief/casual/sessional (as/when required) employees excluding maintained Schools. Table 3 overleaf shows a breakdown of the staffing numbers with percentages per grade.

## Table 3: Staff distribution across grades[2]

| Grade | No. of Employees (Headcount) | Percentage (%) |
|---|---|---|
| Scale 1 | 166 | 6.06% |
| Scale 2 | 698 | 25.47% |
| Scale 3 | 330 | 12.04% |
| Scale 4 | 184 | 6.72% |
| Scale 5 | 374 | 13.65% |
| Scale 6 | 166 | 6.06% |
| Senior Officer 1 | 162 | 5.91% |
| Senior Officer 2 | 86 | 3.14% |
| Principal Officer 1 | 232 | 8.47% |
| Principal Officer 2 | 127 | 4.64% |
| Principal Officer 3 | 88 | 3.21% |
| Principal Officer 4 | 52 | 1.90% |
| Principal Officer 5 | 19 | 0.69% |
| Principal Officer 6 | 19 | 0.69% |
| Principal Officer 7 | 23 | 0.84% |
| Public Health Consultant | 1 | 0.04% |
| Assistant Director | 9 | 0.33% |
| Strategic Director | 3 | 0.11% |
| Chief Executive | 1 | 0.04% |
| **Grand Total** | **2740** | **100%** |

[2] *Refers to the staffing count as at 1st December 2019 which includes all permanent, temporary and relief/casual/sessional (as/when required) employees excluding Schools*

**Appendix 6**

## Equalities Duty Assessment

### Assessment of the County Council's Equalities Duty in relation to setting of the 2020/21 budget

### Background

The Equality Act, 2010, requires the Council to have "Due Regard" to the three aims of the Equality Duty in designing policies and planning/delivering services. These aims are to:

- Eliminate unlawful discrimination, harassment and victimisation
- Advance equality of opportunity
- Foster good relations between people who share any of the defined Protected Characteristics and those who do not.

The Act lists nine Protected Characteristics, but, clearly, it is highly unlikely that they will all be of relevance in all circumstances. Two Characteristics which are of particular relevance in our Transformational Change Programmes are age (both older people and those aged under 25) and people who have a disability.

The level of regard which is "due" in respect of the Duty aims should always be proportionate and is dependent on the potential of the proposed policy/action to contribute to or detract from the aims of the Duty. Those areas which merit the greatest regard are also the areas where there is the greatest potential for service users to experience disproportionate negative impact.

The purpose of the below matrix is to quantify the level of "Due Regard" required and the potential for disproportionate negative impact.

The overall score is derived by multiplying the potential level of impact which Protected Groups are likely to experience by a value representing the number of people with a relevant Protected Characteristic who could be affected. These figures are estimates only but do provide an indication of those areas of Council decision-making where minimal Equality consideration is required, where moderate regard should be exercised and those where particular diligence and understanding are essential.

Where efficiencies are approved as part of the overall budget, officers will continue to exercise a proportionate level of Due Regard as Transformational Change Programmes are implemented. While a high score does not indicate inevitable inequality of outcome it does highlight those areas where our decisions have the potential to make a profound difference in the lives of already disadvantaged groups and also those areas where there is most scope for potential legal challenge.

Allocating a single score to a varied programme does not recognise that some projects within that programme are more relevant in terms of equality than others. A comments box has therefore been included to explain and highlight key points.

Many of the programmes will already be part-way through implementation and will have been assessed for equality relevance as part of the 2019-2020 budget report. Equality scores and comments have been updated to reflect developments during the past year.

worcestershire countycouncil

# AGENDA ITEM 4

**Efficiencies Due Regard Matrix**

| Directorate | Programme | 2020/21 £m Savings proposals | 2019/20 £m Net Budget | Degree of potential impact 1=Low, 5=High | Numbers potentially affected 1=Low, 5=High | Total | Comments |
|---|---|---|---|---|---|---|---|
| **Economy & Infrastructure** | Economy & Infrastructure Service Redesign | 1.330 | 15.027 | 2 | 2 | 4 | Where redundancies are proposed it is possible that staff who are older or who have a disability may find it more difficult than others to secure alternative employment. Reduced staffing may result in a poorer service. Many protected Groups are particularly impacted by environmental defects and obstructions. |
| **Economy & Infrastructure** | Other Economy & Infrastructure | 0.344 | 0.714 | 3 | 1 | 3 | Savings targets for County Enterprises could increase the likelihood of redundancies in a workplace where most staff have a significant disability and would find it difficult to secure alternative employment. |
| **Worcestershire Children First** | Transport Income | 0.100 | 14.420 | 1 | 2 | 2 | Increase in fees for travel cards may have a financial impact but this won't impact service delivery. |
| **Worcestershire Children First** | Other Worcestershire Children First | 0.337 | 2.730 | 4 | 2 | 8 | The review of housing support for young people may include efficiencies but does not constitute a reduction in the level or quality of the support provided to them. |

| Directorate | Programme | 2020/21 £m<br>Savings proposals | 2019/20 £m<br>Net Budget | Degree of potential impact 1=Low, 5=High | Numbers potentially affected 1=Low, 5=High | Total | Comments |
|---|---|---|---|---|---|---|---|
| **People Services** | People Services Service Redesign | 0.830 | 27.456 | 3 | 1 | 3 | Where redundancies are proposed it is possible that staff who are older or who have a disability may find it more difficult than others to secure alternative employment. |
| **People Services** | Provider Service Review | 0.500 | 10.551 | 3 | 2 | 6 | A healthy and robust network of providers is essential to older and disabled clients who require support. |
| **People Services** | Demand Management | 0.855 | 158.813 | 4 | 3 | 12 | Proactive use of assistive technology |
| **People Services** | People Services Review of Care Packages | 0.630 | 158.813 | 4 | 2 | 8 | This review is already under way. Individual reviews are carried out by appropriately qualified reviewers. Available data indicates that in some circumstances a reduced package will continue to support independence and varied life choices for the recipient. As the programme continues further analysis may be required to determine the impact for individual recipients. |

| Directorate | Programme | 2020/21 £m<br>Savings proposals | 2019/20 £m<br>Net Budget | Degree of potential impact 1=Low, 5=High | Numbers potentially affected 1=Low, 5=High | Total | Comments |
|---|---|---|---|---|---|---|---|
| **People Services** | People Services Income Maximisation | 0.170 | 158.813 | 3 | 2 | 6 | Where the Council takes steps to improve efficiency and consistency in the collection of client/family financial contributions towards care and support it is clear that many of those affected will have relevant Protected Characteristics. Proposals to collect and recover client contributions will be screened and, where necessary, more detailed Equality Impact analysis will be carried out. The initiative ensures that recipients receive all state benefits to which they are entitled. This benefits both the individuals and, in some instances, the Council's Adult Services budget. It should be noted that the impact for individuals and the Council is likely to be positive. |

**Appendix 7**

## Public Health ring fenced grant proposed spending

### Strategic Functions

| Strategic Functions | BUDGET 20/21 |
|---|---|
| Public Health Team | 1,822 |
| Medicines Management | 32 |
| PH Recharges | 318 |
| Emergency Planning | 141 |
| PH ICU/Finance Staff | 335 |
| **Total** | **2,649** |

### Adults Prevention Services

| Adults Prevention Services | BUDGET 20/21 |
|---|---|
| Lifestyle Services | 350 |
| Community Lifestyle | 80 |
| Smoking in Pregnancy | 164 |
| Health Checks | 1,000 |
| Walking for Health | 25 |
| Worcestershire Works Well | 35 |
| Obesity, Diet, Exercise | 20 |
| Carers Support | 617 |
| Stroke Contract | 92 |
| Info & Advice Contracts | 250 |
| 3 Conversation Model | 291 |
| Connect Services | 312 |
| Fluoridation | 200 |
| Healthwatch | 50 |
| Digital Inclusion | 10 |
| Prevention Initiatives | 40 |
| MECC (Health Chats) | 2 |
| Time to Change | 25 |
| Substance Misuse Contract | 3,836 |
| Domestic Abuse Contract | 417 |
| Social Prescribing | 100 |
| Loneliness Service | 150 |
| Strength and Balance | 90 |
| Warmer Worcestershire | 19 |
| Oral Health | 50 |
| Sexual Health (WHCT) | 3,950 |
| Sex.Health - GUM OoA | 300 |
| **Total** | **12,475** |

## Childrens Prevention Services

| Childrens Prevention Services | BUDGET 20/21 |
|---|---|
| Childrens: | |
| Children's Targeted Family Support | 850 |
| Positive Activites | 465 |
| Children's Development Centres | 442 |
| CDOP | 15 |
| Young Adult Carers | 35 |
| | |
| Adults: | |
| 0-19 Health Servs (WHCT) | 7,775 |
| 0-19 prevention /early intervention service | 1,500 |
| Social Mobility Project | 91 |
| LAC 16+ Nurse | 27 |
| **Total** | **11,200** |

## Other Services

| Other Services | BUDGET 20/21 |
|---|---|
| Adults Housing Support | 100 |
| LD Reablement | 60 |
| Promoting Independent Living Service | 273 |
| Support at Home | 49 |
| Extra Care Housing | 759 |
| Libraries Service | 300 |
| Countryside Service | 100 |
| Trading Standards | 649 |
| Planning Service | 70 |
| Adult Learning | 211 |
| Coroners & Registrars | 130 |
| Employee Wellbeing | 160 |
| **Total** | **2,861** |

| | **£'000** |
|---|---|
| Total PH ring fenced spend | £29,185 |
| Expected PH ring fenced grant (assumes 3% RPI increase) | £29,211 |
| Transfer (to)/from PH reserve | -£26 |

**Appendix 8**

**Commentary from Overview and Scrutiny Performance Board and other groups**

**Will be added here**

**Appendix 9**

## Glossary of terms

| | | |
|---|---|---|
| **SFA** | **Settlement Funding Assessment** | The Settlement Funding Assessment consists of the local share of business rates, and Revenue Support Grant and is part of the Council's funding. |
| **RSG** | **Revenue Support Grant** | Revenue Support Grant is a central government grant given to local authorities which can be used to finance revenue expenditure on any service. For Worcestershire County Council this grant was reduced to zero from 2020/21. |
| **DSG** | **Dedicated Schools Grant** | The grant is paid in support of the local authority's schools' budget. It is the main source of income for the school's budget.<br>Local authorities are responsible for determining the split of the grant between central expenditure and the individual schools' budget (ISB) in conjunction with local schools' forums. Local authorities are responsible for allocating the ISB to individual schools in accordance with the local schools' funding formula. |
| **NNDR** | **National Non-Domestic Rates** | Also referred to as business rates. In Worcestershire, NNDR is collected by District Councils and 50% of this money is retained by the County Council, District Councils and the Hereford and Worcester Fire and Rescue Authority as part of their funding. The remaining 50% is returned to Central Government for redistribution elsewhere across local government. |
| **MTFS** | **Medium Term Financial Strategy** | The Strategy that sets out the future ways in which the Council will manage its finances, considering pressures, funding and available resources. |
| **MTFP** | **Medium Term Financial Plan** | The Financial Model covering the next three years based on assumptions within the MTFS |

**Glossary of terms, continued**

| | | |
|---|---|---|
| **GFR** | **General Fund Reserve** | Reserves held for non-specific purposes, to manage risks as / if they arise during the year. |
| **EMR** | **Earmarked Reserve** | Reserves held for specific purposes. |
| **CPI** | **Consumer Price Index** | Measures changes in the price level of market basket of consumer goods and services purchased by households. |
| **RPI** | **Retail Price Index** | A measure of inflation published monthly by the Office for National Statistics. It measures the changes in the cost of a representative sample of retail goods and services. |
| **SEND** | **Special Educational Needs & Disabilities** | A focused service on helping a child or young person in learning where that individual has a disability or special educational needs, for example dyslexia or physical ability, that requires additional support. |
| **People** | **Directorate of People** | Directorate of the Council providing services such as care for the elderly, adults with disabilities, mental health and integration with health partners |
| **CFC** | **Children, Families and Communities Directorate** | Directorate of the Council providing services such as care placements, education, SEND, libraries and arts. |
| **E&I** | **Economy and Infrastructure Directorate** | Directorate of the Council providing services such as highways, waste and transport. |
| **COACH** | **Commercial and Change Directorate** | Directorate of the Council providing services such as human resources, legal and procurement. |
| **LEP** | **Local Enterprise Partnership** | Partnership between local authorities and businesses set up by the then Department for Business, Innovation and Skills in 2011 to help determine local economic priorities and lead economic growth and job creation in the County. |
| **LGF** | **Local Growth Fund** | Growth deals provide funds to LEPs for projects that benefit the local area and economy. |
| **BCF and iBCF** | **Better Care Fund and Improved Better Care Fund** | A programme spanning both the NHS and local government which seeks to join up health and care services, so that people can manage their own health and well-being and live independently in their communities for as long as possible and avoid delayed transfers of care (DTOCs). |
| **PFI** | **Private Finance Initiative** | A way of creating 'public – private partnerships where private firms are contracted to fund, complete and manage public projects, predominantly building related. |