

**CABINET**  
**4 February 2021****2021/22 BUDGET AND MEDIUM-TERM FINANCIAL PLAN**  
**UPDATE 2022-24**

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**Relevant Cabinet Member**

Mr S E Geraghty

**Relevant Officer**

Chief Financial Officer

**Recommendations**

- 1 The Cabinet Member with Responsibility for Finance (who is also the Leader of the Council) recommends that Cabinet recommends to Council that:**
  - (a) the budget requirement for 2021/22 be approved at £355.531 million as set out at Appendix 1B, having regard to the proposed Transformation and Reforms programme set out in section 9;**
  - (b) the Council Tax Band D equivalent for 2021/22 be set at £1,343.83 which includes £129.15 relating to the ring-fenced Adult Social Care precept, and the Council Tax Requirement be set at £285.219 million, which will increase the Council Tax Precept by 2.50% in relation to two parts:**
    - 1.50% 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**
    - 1.00% 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 2021-24 and Capital Programme of £391.645 million be approved as set out at Appendix 1C and 1D and section 8;**
  - (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.**

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

- (a) 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 2021/22; and**
- (b) 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 2021/22.**

**1. Executive Summary**

- 1.1. This Budget Report provides the 2021/22 precept need, an update on the Medium-Term Financial Plan (MTFP) and the Council's budget for 2021/22 to be considered at Full Council on 18 February 2021. The assessment takes into account 2020/21 Period 8 financial monitoring, the impact on Council Tax, 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 2021 to the end of the current Corporate Plan in 2022, as well as beyond, although noting this is heavily caveated due to the high level of uncertainty over the future funding of local government and recovery post COVID.
- 1.2. The main updates to the budget proposals are:
  - District Councils have confirmed their tax-base and Council tax surplus/deficits, and these have been included within the Medium-Term Financial Plan. This has decreased the Council Tax income forecast by £1.5 million however this can be covered from the additional Council Tax grant and collection fund related reserves
  - Government have announced that of the £670 million national Council Tax Support grant Worcestershire County Council will receive £4.6 million. Work has been ongoing with district councils to assess the impact on the collection fund for 2020/21. Whilst this work will not report and be audited until circa September 2021 it is estimated that a further £0.3 million one off is available to support further Council Tax Hardship award to districts to support those residents experiencing financial hardship due to COVID. This will mean in total the County is providing £0.8 million of hardship funding for 2021/22.
  - Central Government are due to issue their final Local Government Finance Settlement early February, as such an update will be given at Cabinet of any impact of the final settlement if known. The following table summarises the updates made since the January 2020 Cabinet Report to funding and expenditure for 2021/22.

**Table 1: Summary of changes since 7 January 2020 Cabinet**

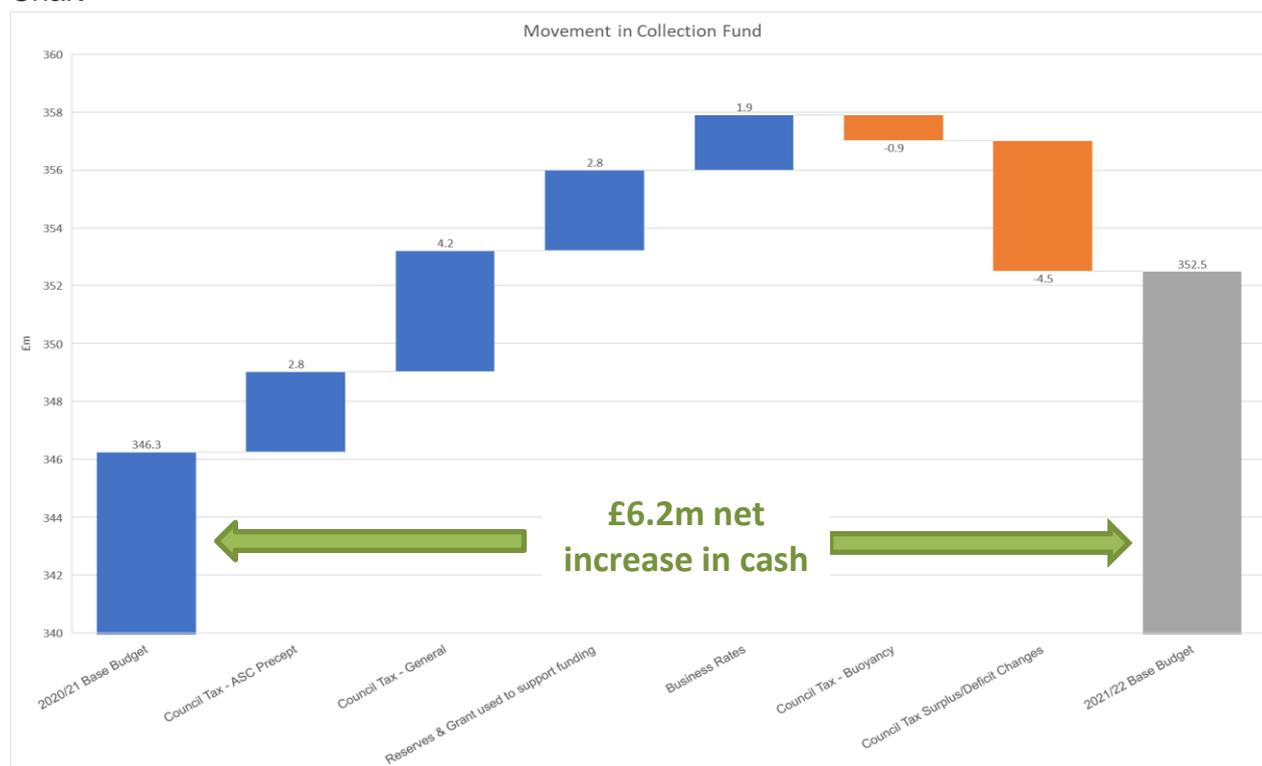
	January £m	February £m	Change £m
Council Tax base	286.3	285.2	-1.1
Collection Fund deficit	-1.0	-1.7	-0.7
Business Rates Retention	66.2	66.2	0.0
Council Tax Reserves & Grants	1.0	2.8	1.8
<b>Total Funding Available</b>	<b>352.5</b>	<b>352.5</b>	<b>0.0</b>
<b>Total Net Expenditure</b>	<b>355.5</b>	<b>355.5</b>	<b>0.0</b>
Transfer (from)/to Earmarked Reserves	-3.0	-3.0	0.0
Funding Shortfall	0.0	0.0	0.0

- Commentary from the Overview and Scrutiny Performance Board will be tabled on the day.
  - The Capital Strategy, Treasury Management Strategy and Pay Policy Statement have now been included (Appendices 1D, 4 and 5 respectively)
  - An analysis of the planned spend from the Public Health Ring-Fenced Grant has been included at Appendix 6.
  - The Administration have reviewed the balance on Strategic Initiatives and identified that further investment will be undertaken in Public Rights of Way to support the increased access to the countryside since the start of the pandemic and the positive effects walking and getting outdoors can have on our Health and Well-Being Priority. This is also recognised as a key factor in our resident's survey of what makes Worcestershire a great place to live. As such we will be investing a mixture of revenue and capital, doubling at least the capital programme in 2021/22.
- 1.3. Despite an extraordinary year dealing and responding to the COVID pandemic, the Council's strong financial management and controls have ensured that we are still forecasting a small (£0.01 million) underspend for 2020/21 by year end. This places the Council in a strong position going into 2021/22.
- 1.4. The Chancellor's one-year Spending Round announcement on 25 November 2020 indicated overall levels of funding available to Councils. Further details were published in the local government provisional finance settlement on 17 December 2020 and the final settlement is expected early February 2021. This includes a council tax referendum limit of 2% and up to 3% Adult Social Care Levy that can be spread across 2021-23.

- 1.5. Treasury and MHCLG have also announced that the Fair Funding Review has been deferred due to COVID. To partially compensate and to recognise the impact that COVID will still have on 2021/22 the Government has announced a number of one-off grants to support local authorities. As a result, our Government grant funding is estimated to increase by £9.011 million. In addition, all specific grants from 2020/21 have also been rolled forward on average at the same level as 2020/21
- 1.6. The Cabinet recognise the impact COVID has had on the economy over the last and potentially coming year, and the pressure that could place on families and individuals' finances. As such Cabinet is proposing a 1.5% increase in Council Tax to support the protection of services and in line with the average inflation for 2020 (1.4%), whilst at the same time increasing the level of financial support as noted above by £0.3 million to help those in the most financial hardship and unable to pay their council tax due to COVID. Alongside that Cabinet proposes a 1.0% Adult Social Care Levy to reflect the additional costs and demand on care arising from COVID. In total that will give rise to an additional £6.2 million income in 2021/22 to spend on Council revenue services.

**Chart 1: Movement in Collection Fund 2020/21 to 2021/22**

Chart



- 1.7. However, whilst income is growing, it is not increasing fast enough to keep pace with the complexity and demand of all our services, response to COVID and the long-term impact of the virus on our services, as well as the rising cost of inflation (1.3% RPI / 0.7% CPI as at October 2020 which a large number of our provider contracts are based on, and 1.4% average across the year). In 2021/22 we need to invest a further gross £11.5 million in Adults Social Care and £7.7 million in Children's Social Care and Home to School Transport. This reflects a continuing increase in the volume, complexity and cost of care that were already growing prior to COVID. With demand and costs forecast to continue

to increase a permanent national funding / policy solution is still needed.

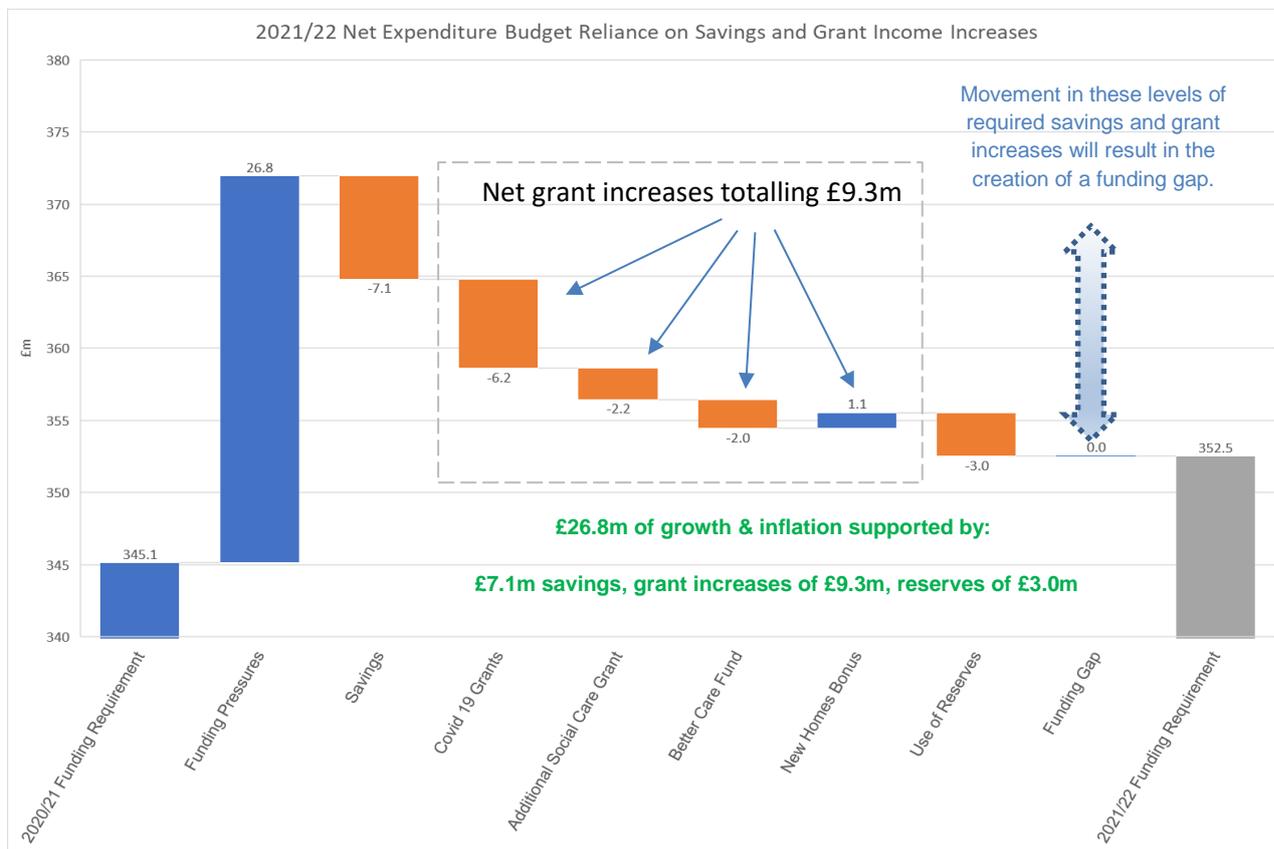
1.8. In addition to pressures in care we also need to maintain all our other services, especially to deliver our Corporate Plan targets around the economy, highways and the environment. We are also seeing significant increases in the cost of the provision in these services through inflation and other external factors, including the impact of weather on our roads, footways and other infrastructure and the transport provider market. At the same time more homes mean more waste disposal costs. Altogether we are forecasting a further £7.3 million of pressure on other services, on top of the £19.2 million from social care and related transport. This means a £26.8 million pressure.

1.9. The £26.8 million gap is proposed to be addressed in 2021/22 through the following:

**Table 2 – Addressing the £26.8 million pressures to balance the 2021/22 budget:**

	<b>£m</b>
Increase in Government grants	9.3
Council Tax / Adult Social Care Levy	5.0
Efficiencies	7.1
Earmarked Reserves	3.0
Business Rates Income	2.4
<b>Total</b>	<b>26.8</b>
Remaining gap	0.0

**Chart 2 – Overall Movement from 2020/21 to 2021/22 Budget**



1.10. Against the financial challenges the Council has continued to significantly invest in the County's infrastructure and economy. Across the three years this will have amounted to £291 million. That investment has seen the opening of:

- Worcestershire Parkway;
- Worcester Junction 6 Business Park phase 1;
- three phases of Worcester Southern Road Link;
- Kidderminster Rail Station;
- the expansion of Malvern Hills Science Park;
- increased broadband coverage;
- cross County improvements to roads, pavements, drainage and streetlighting; and
- traffic relieving measures and town centre improvements in Worcester, Kidderminster, Evesham and Redditch.

More detail can be found in Appendix 1C.

1.11. In addition, the County Council has a number of ongoing projects continuing the investment in growing the economy and infrastructure, including:

- Cutting congestion projects around Kidderminster, A38 Upton, Bromsgrove and

Evesham Town Centres;

- Worcester Shrub Hill and Redditch Stations;
  - further town centre improvements in Stourport and Evesham;
  - Pershore infrastructure improvement programme and Worcester Southern Link Road;
  - flood relief at Tenbury Wells and Bewdley;
  - A38 Bromsgrove Route Enhancement Programme; and
  - continued improvements to roads, pavements, flood mitigation, highway drainage, streetlighting and signage.
- 1.12. 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 £13.7 million in earmarked reserves and £338 million in the Capital Programme for investment in the economy, infrastructure (£308 million) and transformation (£30 million) of the County. In 2020/21 in response to COVID the Council allocated £3 million initially from the Open for Business Reserves to support our local businesses deal and respond to the pandemic. The Council also provided £0.2 million to support our businesses prepare and plan for the EU Exit.
- 1.13. The County Council will be working with district partners to plan and shape support for towns as we recover from the effects of COVID. We welcome the recent announcement from Government in relation to the Future High Street Funds (Worcester and Kidderminster) and we are working with our districts to support future Towns Fund bids. The County Council will work with districts and other partners such as the LEP to help towns be able to respond, adapt and grow. This will be considered as part of the Open for Business funds as they are assessed in the medium-term financial plan.
- 1.14. The County Council is also keen to continue to promote and support the roll out of improved broadband for the hardest to reach rural areas of the County. Including the use of the Rural Gigabit Voucher. In September 2020, the Council committed to provide up to £1 million as a 'Top Up' fund to support the Gigabit voucher scheme, doubling the potential value of the vouchers to £3,000 for residential premises and £7,000 for businesses. For those in immediate need of better connectivity, as well as the vouchers, officers provide information and share details over social media on schemes that make data more affordable for those home schooling and other technologies such as improving mobile phone signals through installing an external aerial.
- 1.15. Turning to schools and the funding of education in the County, the Government made a two-year commitment in 2018 of which 2021/22 is the second year. This included a 2% uplift in the pupil premium for schools as well as a further £730 million (£780 million in 2020/21) for Special Educational Needs and Disabilities (SEND). This commitment / funding has been confirmed by DfE for 2021/22. It is noted that despite the ongoing increase in High Needs DSG Funding there is still forecast to be significant deficits on SEND High Needs and potentially the schools block. As a result, the Council is working

with schools to look at local actions to address this spend and lobbying Government over this issue.

- 1.16. The Council has also been supporting schools and early year provision throughout the COVID response, that has included grants, PPE, funding for adaptations and also providing laptops to the most vulnerable children and families, including rural isolation, in our communities that need support to maintain educational standards.
- 1.17. Given the uncertainty impacting on years after 2021/22, in particular the long-term response and impact of COVID; the uncertainty of funding for local authorities; and the shaping of our next Corporate Plan we have only set out an iterative MTFP to 2024. Further work will need to be carried out in 2021 when more clarity is available.
- 1.18. Subject to the outcome of the Fair Funding Review going forward, 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 2021/22 budget throughout the year.

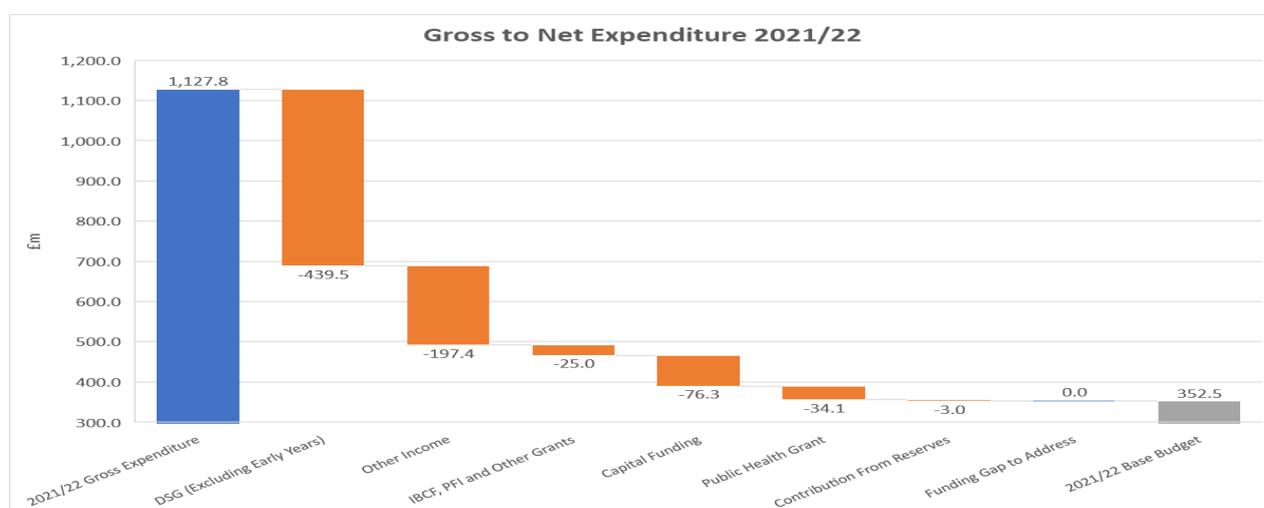
## 2. Purpose of Report

- 2.1. This is a covering report that provides an assessment to Full Council to set a budget for 2021/22, that takes into account the impact on Council Tax, 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 2021-24.
- 2.2. In previously approving the draft budget for consultation, Cabinet have 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. All of this feedback will be attached at Appendix 7 for Full Council and presented verbally at Cabinet as the 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. The Council's Corporate Plan can be found here (see attached [Link](#) - Shaping Worcestershire's Future). This report sets out a revised Medium-Term Financial Plan and draft budget for 2021/22 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 2021/22 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, including DSG, is circa £1.1 billion as shown below:

**Chart 3: 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 to those who are most vulnerable, as well as inflationary pressures and changes in Government policy and funding. In what has been a very challenging year the Council has worked hard to deliver the 2020/21 budget despite the significant pressures placed on it by responding to COVID-19. The 2020/21 Period 8 budget monitoring forecast is for a balanced budget this year. As previously reported to Cabinet this could rely on the use of £3 million from the Financial Risk Reserve as a result of balancing the cash implications of additional COVID support expenditure. Looking forward, this and other cost / demand pressures could put pressure on our level of reserves. The latest projections for ongoing expenditure have been included in the budget for next financial year. This is considered further in section 5 of this report.
- 3.5. The Corporate Plan covers a period up to 2022 and as such will need to be reviewed and revised in 2021 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 11 and at Appendix 1 of this report.
- 3.6. 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.
- 3.7. This report therefore considers:
- Delivering the Corporate Plan and funding its priorities – **Section 4**
  - The current financial position of the Council for 2020/21 – **Section 5**
  - The level of funding available for 2021/22 – **Section 6**
  - The level of investment required for delivering the Corporate Plan in 2021/22 – **Section 7**
  - The consequences of capital investment and school's proposals – **Section 8** and Appendix 1C
  - The level of savings, reforms and income required – **Section 9**
  - The resultant Council Tax precept calculation – **Section 10**
  - The Council's Medium-Term Financial Plan – **Section 11**
  - An assessment of reserves – **Section 12 and Appendix 2**
  - Engagement on the proposals – **Section 13**
  - Treasury Management Strategy, including Prudential Indicators – **Section 14 and Appendix 4**
  - Pay Policy Statement – **Section 15 and Appendix 5**
  - Consideration of other factors and professional advice – **Sections 16 to 21**

## **4 Delivering the Council's Corporate Plan and funding its priorities**

- 4.1. The current Medium-Term 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 year of the Corporate Plan. It also reflects the current Government funding announcements, including additional Adult and Children's Social Care Grant.
- 4.2. The key changes reflect
- the revised forecast for the increasing costs associated with 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 extension of the Social Care Precept at up to 3% over 2021-23; and
  - the additional pressures faced on the cost and demand for services outside of care, for example waste, highways and transport.
- 4.3. 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**

- 4.4. The Council is committing spending of over £23 million next year on supporting our local businesses. That will make it a total of £160 million over the lifetime of the Plan, that has seen significant growth and improved our connectivity. The deliverables under the Plan that have invested in the local economy include:
- Continuing investment into the capital programme for schemes including A4440 Worcester Southern Link Phase 4, A38 Bromsgrove, Pershore Infrastructure Improvements, 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 funding to support 5G initiatives which support productivity improvements in manufacturing. This will run alongside the existing broadband programme.
  - The Council is also working with the LEP under the 'Getting Building Fund'. The LEP was awarded £12 million to deliver jobs, skills and infrastructure across the County. As part of that we are seeking to fund the development of economic growth around our transport hubs, including Worcester and Redditch.
  - £0.4 million investing in the skills agenda through the Open for Business funding in order to support Inspiring Worcestershire that has focused on embedding a tailored Worcestershire careers planning programme, supporting young people

and educational establishments to understand the needs of our economy and the employment opportunities within it.

- £0.5 million on promoting and enabling One Worcestershire and Visit Worcestershire, aimed at promoting the business and cultural opportunities of the County in order to attract greater businesses and visitors.
- £7.4 million through the Open for Business and Revolving Investment Fund Reserves on progressing development opportunities around key town centre and railway sites.
- £0.3 million one-off revenue expenditure to further progress the North Cotswold Line rail development proposals

- 4.5. Going forward the Council recognises the significant impact COVID has had globally, nationally and locally. As part of the immediate response the Council invested £3 million of its reserves into supporting businesses to respond and survive and has spent £1 million to date. Since the commitment Government has identified funding from the Containment Outbreak Management Fund and it is intended that this will now be utilised to fund this pledge. That will enable the reversion of the fund to the Open for Business Reserve and thus enable the ongoing use of the £3 million to invest in the County's economy. At the same time £0.2 million was made available to prepare for the EU Exit.
- 4.6. The County Council will be working with district partners to plan and shape support for towns as we recover from the effects of COVID. We welcome the recent announcement from Government in relation to the Future High Street Funds (Worcester and Kidderminster) and we are working with our districts to support future Towns Fund bids. The County Council will work with districts and other partners such as the LEP to help towns be able to respond, adapt and grow. This will be considered as part of the Open for Business funds as they are assessed in the medium-term financial plan.
- 4.7. COVID has also thrown up challenges with broadband. Worcestershire has for some time now been focused on addressing issues in the hardest to reach communities and has been part of Central Government's Rural Gigabit Voucher scheme. Since the launch in 2019 c£2.7m of Voucher funding has been secured with over 3000 premises contracted. Putting Worcestershire in the top 5 of 100 local authority areas in terms of value secured. In September 2020, the Council committed to provide up to £1m as a 'Top Up' fund to support the Gigabit voucher scheme, doubling the potential value of the vouchers to £3,000 for residential premises and £7,000 for businesses. For those in immediate need of better connectivity, as well as the vouchers, officers provide information and share details over social media on schemes that make data more affordable for those home schooling and other technologies such as improving mobile phone signals through installing an external aerial.

## **Health and Wellbeing**

4.8 The budget proposes a substantial increase in the resources available for Adult Social Care. There is a commitment to invest £11.5 million to meet the demand led Adult Social Care pressures. Section 7 Table 6 provides further detail. In 2021/22, there are plans set out to invest:

- £11.5 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.
- £30 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, that will include responding and dealing with the ongoing COVID situation. 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 to help support our ongoing work in areas such as preventative mental health or physical health through services such as libraries and countryside.
- £2 million will be funded from the Transformation programme to change the way we work with our communities and voluntary partners to reshape our services to improve efficiency and digital access. At the same time, we are revising the way we engage with our partners through more innovative and effective contracts to secure savings and improve quality.
- £3.4 million in capital, as well as transformational funding, to ensure technology can improve care.
- We have an agreed ambition to bring pathways, structures and processes together around 0-25 services.

4.9 The Administration has also identified that further investment will be undertaken in Public Rights of Way to support the increased access to the countryside since the start of the pandemic and the positive effects walking and getting outdoors can have on our Health and Well-Being Priority. This is also recognised as a key factor in our resident's survey of what makes Worcestershire a great place to live. As such we will be investing a mixture of revenue and capital, doubling at least the capital programme in 2021/22.

## **Children and Families**

4.10 There is a continued commitment to invest £7.7 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 and reinforced again in 2021/22 to mitigate any potential financial risk on placements for looked after children which reflect the ongoing demographic and cost pressures in the service. This has not been required in the last two financial years due to the strong leadership, good practice in the service and careful financial management. However, following the Covid-19 pandemic demand for services has risen which is consistent with all other local authorities, therefore the financial risk has increased. The budget in 2021/22 includes new investment for:

- Continuing the Council's journey of improvement in children's safeguarding with further full year investment of £4.2 million to reflect an increase in overall demographic pressures and costs.
- Funding increase of £2.6 million on the placements budget to reflect demand and COVID pressures.
- A further investment £0.6 million into Special Educational Needs Transport.
- A further £0.3 million towards general inflation across Children and Families.
- Providing £27.3 million in capital to improve schools across the County.

4.11 Alongside this 2020/21 has needed additional resources for our County's schools to respond to COVID and children's education. As part of that we have passported COVID grant to ensure early years provision have been kept open and make adaptations to schools to create more space. In addition, we have issued over 1,000 laptops to children from the DfE's national scheme, and now to support schools to provide online learning we are now allocating monies to support and extend this scheme locally and to ensure children have access to education via remote learning.

## **The Environment**

4.12 There is a commitment to stay on track to deliver over £131 million of investment to improve the local environment and highway network. These plans include:

### **Highways:**

- £2.4 million spent on the Highways Infrastructure Investment Fund (HIIF) in 2021/22, as part of £37.5 million over four years 2018-22 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.
- Extending the local members capital highways fund for a further year (2021/22), giving a further £1.25 million commitment to addressing local members' highway priorities.

- £10 million on the Cutting Congestion programme to deliver the schemes planned at A38 Upton, Bromsgrove, Evesham and Kidderminster.
- £6 million on highways, that is on top of the £6 million extra invested in 2020/21
- £4 million on footways, again on top of the £4 million extra invested in 2020/21
- £25,000 revenue funding to enhance highway safety markings & signage

**Environment:**

- £2.5 million on street lighting, including LED and concrete column replacement. That is £1.5 million more than announced last year and on top of the £1 million extra invested in 2020/21 to accelerate the conversion to LED streetlighting across the County.
- £2.5 million on flood mitigation, £1.5 million more than we announced last year and on top of the £1 million extra invested in 2020/21.
- £0.5 million (2020/21) commitment to support flood defences in Bewdley in aid of securing Environment Agency funding to seek long term solutions for the town.

4.13 The Council is also committed to improving the environment through the delivery of its Corporate Plan. As such in 2021/22 the Cabinet is committing the following:

- We will maintain the public transport revenue budget £0.2 million uplift to support the Worcestershire Public Transport Strategy.
- Support for the successful bid that secured £4.9 million for flood defences at Tenbury Wells. Construction of the scheme is due to start in March 2022 and aims to reduce the risk of flood to Tenbury Wells, Worcestershire, benefitting approximately 120 residential and 145 commercial properties
- Delivering on the commitment to plant 150,000 new trees on land owned by the Council to contribute to our environment initiatives. The Council spending £0.1 million and foregoing over £1.5 million of capital land receipts to make this happen.
- We are purchasing green energy for all our electricity supplies.

**Efficient and effective organisation**

4.14 Delivering on our plans to spend £29 million over the lifetime of our Corporate Plan, 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, includes:

- £10.8 million investment in digital and technological improvements
- £15.1 million in the way we work across the organisation and with our residents
- £3.4 million in our buildings and working environment to ensure we work smarter.

4.15 The Council will continue to secure efficiencies from challenging the way it works, including standardising our processes and using technology to avoid delays and speed up access to our varied services. 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 2020/21 Forecast Outturn

5.1. The Council has received regular updates on its financial performance throughout 2020. In addition to the c.£345 million budget the Council has managed around £77 million of one-off funding to support our response to COVID. 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 2020) still forecasts a small underspend (£0.1 million) on its budget by the end of 2020/21, assuming the use of £2 to £3 million of Financial Risk Reserve to cover any shortfall in COVID funding, if that is not covered at year end. The following table summarises the variances as at Period 8.

**Table 3: Summary Outturn forecast for Services as at Period 8 2020/21**

Service	2020/21 Gross Budget	2020/21 Net Budget	2020/21 Forecast Excluding Covid-19 & Exc One-off Adjustments	20/21 Draft Variance Before Adj's	Transfer to Capital	Proposed Additional Use of Reserves / Cfwd Grants	Proposed C/Fwds	2020/21 Forecast Excluding Covid-19 Incl one off adj	Variance After Adj's
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Total Dedicated Schools Grant (DSG)	234,861	0	2,368	2,368	0	0	(2,368)	(0)	0
Total WCF (Excl DSG)	119,828	101,633	101,453	(180)	0	0	0	101,453	(180)
Economy & Infrastructure	92,986	55,924	59,957	4,014	186	(4,218)	0	55,906	(18)
Total Commercial and Change	30,991	6,954	6,861	(92)	153	(640)	0	6,374	(579)
Total Chief Executive	7,145	986	698	(287)	159	(57)	0	801	(185)
Total People - Adult Services	221,173	130,175	130,413	160	0	(171)	0	130,165	(11)
Total People - Communities	48,920	19,695	17,110	(224)	0	0	0	19,471	(224)
People - Public Health	51,510	1,670	3,472	1,568	0	(1,592)	0	1,645	(25)
Total : Services (Excl DSG)	572,554	317,037	319,964	4,958	499	(6,678)	0	315,815	(1,222)
Finance / Corporate Items	36,514	29,794	22,603	(7,191)	0	0	7,298	29,901	107
Non-Assigned Items	(1,692)	(1,692)	(706)	986	0	0	0	(706)	986
Funding - Transfer To/(From) Reserves	1,112	1,112	0	0	0			1,112	0
Total (Excl DSG)	608,488	346,251	341,862	(1,247)	499	(6,678)	7,298	346,122	(129)
Total - Funding	(346,251)	(346,251)	(346,251)	0	0	0	0	(346,251)	0
Grand Total - Services and Funding (Excl DSG)	262,236	(0)	(4,390)	(1,247)	499	(6,678)	7,298	(129)	(129)
Total Dedicated Schools Grant (DSG)	234,861	0	2,368	2,368	0	0	(2,368)	(0)	0
<b>Total</b>	<b>497,097</b>	<b>(0)</b>	<b>(2,022)</b>	<b>1,121</b>	<b>499</b>	<b>(6,678)</b>	<b>4,930</b>	<b>(129)</b>	<b>(128)</b>

5.2 Overall, the Council is forecasting to broadly balance its budget at Period 8 (£0.1 million underspend). There is no significant change to the Period 7 forecast presented in the January Cabinet Budget Report. In total the Council has received / allocated over £80 million of income from Government to respond to the pandemic, however we are forecasting we may need to fund slightly more. This shortfall will be offset as a matter of last resort by £2 to £3 million withdrawal from the Financial Risk Reserve. However, we continue to seek additional funding and use of further grants, including Public Health Ringfenced Grant. This is predicated on the achievement of remaining £4.6 million of amber rated savings targets being delivered and any potential risk / further impact of the ongoing pandemic and lockdown situation.

- 5.3 The main variances at P8 are as follows:
- -£0.6 million underspend in Commercial & Commissioning Directorate as a result of reduced contract expenditure.
  - -£6.2 million net underspend on Finance / Corporate Items of which £2.6 million is from reduced borrowing costs, £4.1 million underspend of MRP budget and £0.4 million general service underspends, offset by £0.9 million of unallocated corporate savings target not being achieved due to capacity following COVID-19 responses. Without COVID-19, it would have been proposed that this underspend is transferred to the Financial Risk earmarked reserve however it is proposed to offset the following overspend.
  - £3.7 million (out of a total £13.7 million) of savings are not forecast to be achieved this year (thus offset by drawdown of MRP).
- 5.4 The current Dedicated Schools Grant forecast, due in the main to shortfall in high needs funding, is an overspend of £4.6 million and rising which is consistent with other County Council's. This remains an ongoing area of both lobbying and work with schools to consider next actions.
- 5.5 The Schools balances forecast position for 2020/21 reported at period 8, is a net deficit position of £5.0 million. The Schools balances position brought forward at 1 April 2020 was a net £1.4 million surplus. This change is reflective of the pressure placed on schools from high needs funding shortfalls, the cost of responding to COVID and clearly demonstrates the need for changes to schools funding. We continue to lobby for all of these areas to be addressed and are working with our schools for a national funding solution.
- 5.6 There are £19.5 million of longer term (>30 days) debts outstanding. Nearly all of this is with public sector partners or construction firms. A decision has been taken to centralise income management and action has started to address this position and further reporting is being taken to the Audit and Governance Committee and Cabinet on a regular basis to address this.
- 5.7 Monitoring of the capital budgets shows schemes are broadly on target to be within the re-programmed spend profile at year end. It is expected that planned expenditure will be carried forward to next financial year.

## 6. 2021/22 Level of Funding

- 6.1 The Council draws its funding from two main sources – Council Tax and Business Rates. The Council’s Government funding allocated for 2021/22 comprises of three elements; the first two make up what is referred to as Worcestershire’s Settlement Funding Allocation (SFA), which is the MHCLG 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).
- 6.2 A third element of Government funding is from additional ring-fenced grants, such as Public Health.
- 6.3 This funding and the impact for Worcestershire are set out in more detail in the following paragraphs. Section 10 of this report sets out the calculation of the proposed Council Tax precept, and Section 8 assesses assumptions on the funding for capital programmes including schools.

### **Government Grant - Settlement Funding Allocation (SFA)**

- 6.4 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 effect from 2013/14. In 2016 the Government offered, and the County Council accepted, a four-year funding offer that ended in 2020/21. 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.
- 6.5 The announcement of Worcestershire’s latest allocation of the Settlement has been included in this budget report. The Council’s budget set against these assumptions is reported in the following table.

**Table 4: Business Rates movement 2020/21 to 2021/22**

	2020/21 £m	2021/22 £m	2020/21 to 2021/22 Change £m	2020/21 to 2021/22 Change %
Revenue Support Grant	0.000	0.000	0	0%
Baseline Funding	63.801	66.206	+2.405	+3.76%
Total	63.801	66.206	+2.405	+3.76%

- 6.6 Going forward there are plans to radically overhaul this grant funding, this has however been deferred due to COVID and is now not likely until 2022/23 at the earliest.

### **Government Ring fenced grants**

- 6.7 In addition to this the Government is issuing a smaller number of specific grants for Public Health, Dedicated Schools Grant, Extended Rights for Free Travel, Social Care including Winter Pressures and NHS Care Act. The Dedicated Schools Grant and, Better Care Fund have both been increased in line with Government commitments above inflation. The Public Health Grant has been maintained at the same level as 2020/21.
- 6.8 Government has announced an extension to the Social Care Grant of £300 million nationally, which after adjustments for equalisation of council tax raising abilities means Worcestershire will receive £2.177 million. In addition, the Government has recognised the need to continue a number of one-off grants to support local authorities in the first few months of 2021/22 to enable response and actions related to the ongoing COVID position. This includes a £1.55 billion un-ringfenced Tranche 5 grant, and £790 million to support collection fund losses. To date only the COVID Quarter 1 grant has been announced and Worcestershire expects to receive £11.4 million from this grant. This will be noted as additional one-off income, for which an element will require one off expenditure and part has been added at this stage to the Public Health income for the Director of Public Health to co-ordinate via the governance framework the Council has put in place with its partners for 2021/22.

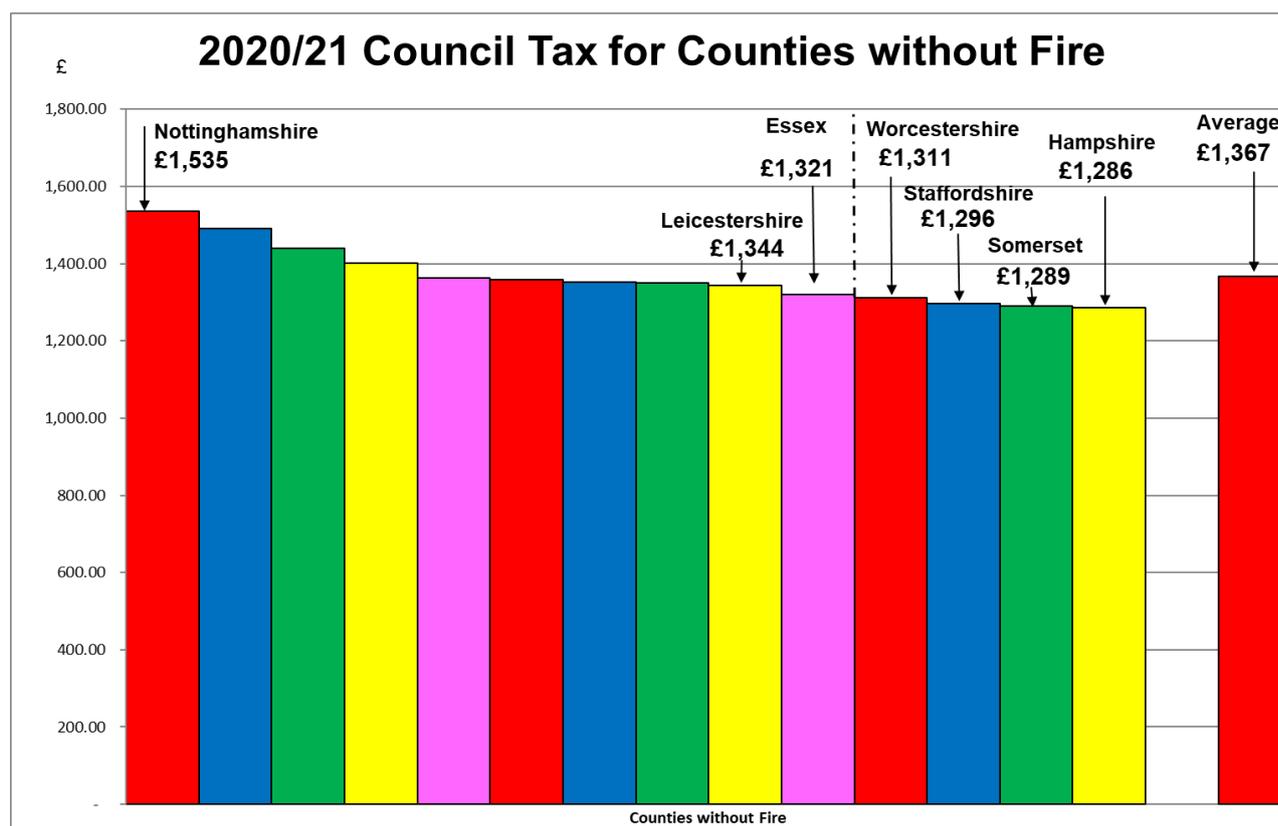
### **Adult Social Care Precept / Levy**

- 6.9 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 (25th 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.
- 6.10 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 2020/21). Across these three years Worcestershire applied 6%. It was assumed 2020/21 was the final year, however a further two years of up to 3% spread across 2021/22 and 2022/23 for the precept was announced by the Chancellor in November 2020.
- 6.11 The total forecast pressures facing Adult Social Care (ASC) in 2021/22 is set out in more detail at section 7; the gross demand and inflation facing these services is £11.5 million.
- 6.12 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 2021/22 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**

- 6.13 The Council has seen an increase in the number of properties in the County subject to Council Tax. The February 2020 Council meeting approved an MTFP with assumed Council Tax base levels being increased in 2021/22 by an estimated 1.5%. However, following COVID that forecast has been scaled back to around 0%.
- 6.14 The spending review confirmed that we are able to increase the rate of Council Tax by 2% without having to hold a referendum, with an additional 3% allowed for Adult Social Care precept (with an option to spread over 2021/22 and 2022/23).
- 6.15 The level of Council Tax collected in 2020/21 and forecast for 2021/22 has been impacted by COVID, and there is no scope to increase assumptions around collection, in fact we are now projecting a £6 million loss on the collection fund. Although changes in regulations to reflect the impact of COVID will allow this to be recovered now over three years not one. The County Council is working with District Councils to update the impact on the tax base of COVID. To help offset some of the losses the Government has announced two grants
- For 2020/21 impact a one-off grant of £670 million nationally. As per the provisional settlement for Worcestershire County Council that will be £4.6 million. Further work since the announcement against the estimates applied in preparing the January 2021 Cabinet report has identified the potential for a £0.3 million improvement in the 2020/21 deficit position. As such this could be available for further hardship relief support. Precise figures will not be known until after the final audit of the 2020/21 collection by external audit, and this is expected around September 2021.
  - Secondly there is a one-off Irrecoverable Council Tax Grant of £790 million grant. The details of how this grant will be allocated were set out in the provisional settlement of 17 December 2020, but the precise amounts will not be known until well into 2021 (estimated September 2021) however on information available to date it is estimated that will mean the overall net loss on our collection fund is reduced to £1.4 million. It is not yet known if the £790 million national collection fund grant will be recurring for the three years of recovery or a one off for just 2021/22.
- 6.16 After applying the overall forecast change in the tax base after adjustments arising from COVID, the impact of COVID on collection and the Government Grant when the Council applies a 2.5% increase (1.5% Council Tax plus 1% Social Care Levy) this gives rise to additional net £3.4 million more Council Tax expected to be collected in 2021/22, as shown in Section 10 of this report.
- 6.17 Overall, as Chart 4 shows, the County Council's level of Council Tax remains low when compared to comparative councils, and remains in the bottom quartile:

**Chart 4: 2020/21 Council Tax Band D County Council comparator**



### **Government Funding – Fair Funding**

- 6.18 The Government was due in 2020 to open consultation on revisions to local government funding and the localisation of NNDR (Business Rates). This review and consultation was delayed due to the effect and capacity following the COVID outbreak, however it is anticipated that the Government will roll out a new formula distribution method for 2022/23 or 2023/24 to replace the current one-year deal.
- 6.19 The refreshed MTFP therefore is based on assumptions that the current limited growth in our NNDR allocation will increase slightly (£0.3 million per annum) from 2021/22 onwards, but no further benefit has been included in the calculations at this stage due to the unprecedented level of uncertainty.

### **Overall funding levels**

- 6.20 After adjusting for movements in grant, the proposed levels of Council Tax and business rates income, the net impact is that the Council projects it will have £361.5 million of funds available (£346.3 million in 2020/21), that is a net increase from 2020/21 of £15.2 million. It is noted that within the £9 million of Government Grants £3.1 million is from one-off grants to deal and respond to COVID in 2021/22.

**Chart 5: Change in WCC's Government & Council Tax funding 2020/21 to 2021/22**



6.21 However, as the next section identifies the level of demand exceeds this amount and thus efficiencies as set out in section 8 are also required.

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

7.1 Changes to assumptions on both income and spend have occurred largely due to COVID since the MTFP was reported to Council in February 2020. The gross level of pressures has also changed from the forecast financial plan reported to Council in February 2020 (£9 million to £26.8 million).

7.2 Overall, the gross pressures and change in spend is £26.8 million as follows:

**Table 5: Total gross pressures faced in 2021/22**

Investment / Growth / Pressures	£,000
Adult care	11.5
Children's Care, safeguarding, Home to School Transport	7.7
Pay and contract general inflation (Excl. Adults & Children's Care services)	2.6
Strategic Initiatives	2.0
2021/22 pressures	3.0
<b>Total</b>	<b>26.8</b>

The investment in each area is discussed in the following paragraphs:

**Adult Social Care - £11.5 million gross pressure from 2020/21 to 2021/22, with net increase of £4.7 million after grants and other income**

7.3 Overall, there is a gross forecast pressure of £11.5 million. The main reasons for the pressure relate to the increased cost of care services for all client groups which is already being seen due to the overall increase in costs of service provision in particular the cost of more complex care needs (£7.5m), alongside pay inflation, including provider uplifts out for consultation, and general inflation across People Services, as follows:

**Table 6: 2021/22 Adult Care cost pressures**

Description of pressure	2021/22 £m
Additional costs relating to complexity / acuity for over 65s	2.7
Growth in the price and complexity of care packages for Adults with a Learning Disability	3.1
Growth in the complexity of care packages for Adults with a Physical Disability including those transitioning from Children's to Adults care	0.8
Greater cost of mental health packages of care	0.9
<b>Total Price Related Inflation</b>	<b>7.5</b>
Pay Inflation across People Services	0.6
General Inflation across People Services	3.4
<b>Total</b>	<b>11.5</b>

7.4 As set out in the last table, the cost pressure on adults continues to increase with pressures arising from increasing complexity of those cared for, as well as increases in the cost of both transport and care. These pressures are forecast to increase following the COVID position further in the MTFP without further action or change in national policy given the impact that is projected to have on demand, complexity and the provider market.

**Children's Services / Worcestershire Children First (WCF) - £7.7 million gross increase in base budget less service efficiencies of £3.0 million.**

**Worcestershire Children First (WCF)**

7.5 On 1 October 2019 the our wholly owned company Worcestershire Children First was launched with over 800 staff transferring. A further 130 staff have transferred into WCF following the insourcing of the Learning and Achievement Service from Babcock Prime in the Summer of 2020. The following [link](#) to the companies key documents which include the Business Plan agreed by Cabinet in March 2020. The company's vision which is summarised in the following diagram:



7.6 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.

7.7 On the 1st October 2020 the Council and WCF had to submit a joint report to the Department for Education (DfE) as part of the statutory direction on all aspects of the first year of operation and for Ministers to assess our improvement journey which includes current and future financial performance. In summary, the first year had seen very good performance across the piece and the trajectory of improvement was upward even during the COVID pandemic. We have consistently invested over the last four years to enable social care service improvements.

7.8 The proposed investment in 2021/22 will focus on:

**Table 7: 2021/22 Gross and Net Investment spend proposed to improve children's services**

	2021/22 £m	Comments
Funding ongoing safeguarding pressures	6.8	includes £2.6million for 2020/21 pressures, and reflects a 5% increase in numbers and inflation
SEND and Home to School Transport	0.6	Includes £0.6m for demand increases
Pay inflation	0.1	Whilst a pay freeze was announced by the Chancellor there are still additional costs for staff paid less than £24,000 who receive £250 increases, as well as pay increment changes.
Prices Inflation	0.2	Contracts inflation
<b>Total</b>	<b>7.7</b>	
Less		
Savings	(3.0)	Discussed at section 10 and Appendix 1C
<b>Net change</b>	<b>4.7</b>	

7.9 As a result, the gross WCF contract budget will be approved in January 2021 alongside related income budgets that will be retained by the Council. As part of this process the WCF Board will have to approve the company budget as part of the governance arrangements. The net position is estimated to be £106.6 million as indicated in Appendix 1B.

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

7.10 In line with last February Council decision there will be a further investment 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 year. The following paragraphs highlight how that fund will be used.

- ***Highways and Footways***

7.11 The county highways network is a key asset of the Council and our aim is to maintain the condition of our roads, footways 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. This budget proposes to invest a further £30 million of capital funds into local highways, and a further £25,000 from strategic initiatives for continual improvement to highway safety markings and signage.

7.12 Cabinet also recognise that sometimes the most efficient way to maintain our highways is to ensure greater local empowerment. Over the last few years, we have set aside £1.250 million each year for local members to meet highway improvements in their areas. That fund was due to end after 2020/21, this proposal is that strategic initiatives will fund that for 2021/22.

- ***Public Rights of Way and Countryside***

7.13 Further investment will be undertaken in Public Rights of Way to support the increased access to the countryside since the start of the pandemic and the positive effects walking and getting outdoors can have on our Health and Well-Being Priority. This is also recognised as a key factor in our resident's survey of what makes Worcestershire a great place to live. As such we will be investing a mixture of revenue and capital, doubling at least the capital programme in 2021/22.

- ***Street Lighting***

7.14 February 2020 Council recommended £1 million on street lighting with a further £1 million in 2021/22 for continuation of the LED replacement programme. Since that time further analysis of our lighting columns and bulb replacement programme suggest that greater funding is needed to maintain excellent performance and shift to more efficient bulbs. Therefore, this report seeks to put an extra £1.5 million commitment in, taking the spend in this area for 2021/22 to a £2.5 million increase.

- ***Flood management***

- 7.15 Last year we committed £1 million more in to flood mitigation and highway drainage with a further £1 million planned for 2021/22. Given the scale of coverage and ongoing weather we have identified a need for further capital resources to ensure that we can continue to make improvements to the highway drainage network and have thus set aside £1.5 million more for 2021/22; making a total of £2.5 million next year.
- 7.16 In addition, we recognise the significant events of 2020 flooding that occurred in Bewdley. We were successful in securing monies for Tenbury Wells and we are keen to ensure a similar solution is found for Bewdley with the Environment Agency. As such we are setting aside £0.5 million as the County's contribution towards a solution for the residents and businesses of the town.

### **General inflation – pay and contractual: £2.6 million**

#### **Waste disposal**

- 7.17 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 £0.8 million and a further £0.6 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.
- 7.18 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 and an estimate of £0.5 million of costs associated with this has also been assumed to be funded from the Waste PFI reserve.

#### **Other pressures**

- 7.19 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 savings target. Budget monitoring in 2021/22 will maintain a review of this position and any in-year action needed.

## **Pay and related costs at £1.1 million cost pressure on the 2021/22 base budget**

- 7.20 Despite the Chancellor announcing a pay freeze on 25 November 2020 for the public sector, excluding doctors and nurses, there will still be an element of pay pressure going into 2021/22:

**Table 8: Pay inflation 2021/22**

<b>Description</b>	<b>2021/22 Pressure £m</b>
The budget includes an estimate of the Spending Review announced pay freeze (with protections for some staff)	1.075

- 7.21 Mandatory Unpaid Leave (MUL) has been in place for three years and was due to end 31 March 2021, however following the financial pressures and funding restrictions it is proposed that following consultation and ballot as necessary and if successful this approach will continue for a further year.
- 7.22 At this stage it is proposed that the Government's announced process for dealing with pay awards in 2021/22 as well as incremental and pension increases will be funded in the main as part of the budget.

### **8. Capital and Schools**

- 8.1 The following paragraphs summarise the changes to the capital programme and the dedicated schools grant (DSG).

#### **Capital**

- 8.2 Cabinet's proposed capital programme for 2021/22 is attached at Appendix 1C, along with the indicative sources of funding available. We are yet to receive Basic Need funding for 2021/22 and will update the Capital Programme when known. The programme for 2021/22 proposes a total value of £76.3 million of works. This maintains a long-term capital programme in the region of £391.6 million. Although it is noted that a large number of externally funded grants have yet to be identified beyond 2021/22, in part due to the fact that because of COVID response Government funding reviews are expected to be announced well after Council considers the 2021/22 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. Where grant allocations for 2021/22 are also still to be announced or finalised, particularly for education, 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 2021/22.

- 8.3 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 £3.6 million in 2021/22 received to fund part of the planned expenditure. This has assumed that all known receipts are achieved and applied to the current capital programme.
- 8.4 The total programme for 2021/22 as it currently stands requires £76.3 million of funding which includes £40.9 million from borrowing. Given the financial pressures on the revenue fund, this borrowing assumption in 2021/22 has been assessed as affordable within the current provision for financing.
- 8.5 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.
- 8.6 By maintaining a prudent and low borrowing forecast for 2021/22 it has a positive knock on impact to the general fund expenditure as regards the cost of repaying borrowing.
- 8.7 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.

## Dedicated Schools Grant

- 8.8 The Education and Schools Funding Agency announced the provisional Settlement on 17 December 2020. The provisional DSG allocations for Worcestershire are broken down as follows:

**Table 9: Gross DSG Blocks, (prior to Academy Recoupment)**

<b>Blocks</b>	<b>£m (Provisional allocations)</b>
Schools Block	371.403
Central Schools Services Block	3.377
High Needs Block – provisional allocation based on the national funding formula for High Needs	68.401
Early Years Block	36.476
<b>Total</b>	<b>479.657</b>

- 8.9 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 July 2020, applied to the October 2020 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. Beyond 2021-22, the DfE have indicated they will consult further on their NFF policy from 2022-23, including the potential for a 'hard' NFF for schools.
- 8.10 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 another 20% for all LAs.
- 8.11 The High Needs Block is based on the DfE NFF and includes an additional allocation of £8.2 million gross (£8.0 million net) in 2021-22, which is Worcestershire's share of the national £730 million announced in October 2020, to support High Needs placement and top up pressures being experienced in all LAs and the mainstreaming of former specific grant funding. This will support the future expected ongoing significant cost pressures in the High Needs DSG, however this will not eliminate the deficit from 2020/21 of around £10.5 million which will need to be carried forward into 2021/22. The Council continues to lobby and assess actions to address this area of spend.

- 8.12 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 £36.476 million being based upon the January 2020 census. This provides for minor increases to the DfEs NFF hourly rates. Subsequently it will be updated for the effect of the January 2021 census.
- 8.13 Following a consultation with the Worcestershire Schools Forum (WSF) and notification to all schools in the Autumn Term 2020, Cabinet on 10 December 2020 approved the LSFF for Worcestershire mainstream schools, both maintained and academies, for 2021-22 to continue, as in 2018-19, 2019-20 and 2020-21, 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 up to +2.00% per pupil, no gains cap and mandatory national Minimum Funding Levels (MFLs) for the primary and secondary sectors.
- 8.14 The Worcestershire Schools Forum (WSF) met on 15 September 2020 and on 5 November 2020. The WSF endorsed the proposals for the LSFF for 2021-22 and approved as required for 2021-22, under their responsibilities in the School Forum (England) Regulations 2021, the service de-delegations for maintained mainstream schools and centrally retained services for all schools. The WSF met again on 21 January 2021 to consider the School Funding Settlement 2021-22, the LSFF for mainstream schools and the required submission of the LSFF to the Education and Skills Funding Agency (ESFA) this was submitted on 21 January 2021.

## **9 Efficiencies, reform and income proposals**

- 9.1 The Council's proposed budget for 2021/22 includes the need for £7.1 million of proposals to balance the budget.
- 9.2 As part of the process of setting the budget, managers have been assessing their expenditure and income forecasts. The savings 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. Where Cabinet took decisions in 2020/21 or are in the process of consultation then any related savings have been assumed within the base already and the updates will be through separate Cabinet papers. At this stage therefore the decisions for Cabinet / Council to consider as part of this budget paper related to, savings are broken down by directorate as follows:

**Table 10: Breakdown of Proposed savings 2021/22**

<b>Service Area</b>	<b>£ million</b>	<b>Detail</b>
People	0.0	Social care and communities will seek to manage demand and costs within their increased cash limit.
Worcestershire Children First	3.0	A review of back office posts and vacancies is forecast to yield £0.650m. Ongoing consultations with staff to be carried out in accordance with our HR policies; The in-sourcing of school improvement has enabled us to grow our traded element and we forecast to seek an additional £0.6m in 2021/22. Finally, a range of service reviews have begun to seek efficiencies, and this will focus on removing £1.75m.
Economy & Infrastructure	2.2	Capitalisation of staffing costs across a range of service areas along with other income generation opportunities.
Commercial and Change	0.4	There is an ongoing review of property charges and costs following both COVID and the in-sourcing of PPL that expects to save £0.4m.
Corporate	1.5	This is a continuation of the Organisational Design target set in 2020/21 following work supported by advisors 'C.Co' to change the way we work and review structures and posts.
<b>Total</b>	<b>7.1</b>	

- 9.3 These savings 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.
- 9.4 The proposals are coming from two main sources; pay and non-pay. Of the pay savings, 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.
- 9.5 The Council remains prudent and an element of provision for non-delivery of savings has been provided for in the General Fund Reserves discussed in more detail at Section 12 of this report.

## 10 Council Tax calculation

10.1 The overall position for 2021/22 reflected in this report is therefore:

**Table 11: 2021/22 Council tax provision required**

	£m	£m
<b>2020/21 Revised Base Budget</b>		<b>345.139</b>
<b>Plus</b>		
Net demand and inflation (Sections 7, 9 and Appendix 1B)	26.797	
Spending requirements		371.936
<b>Less</b>		
<i>Net efficiencies, reforms &amp; income (as set out at Section 9):</i>		(7.147)
Net movement in other grants		(9.258)
Transfer from Earmarked Reserves		(3.000)
<b>Net budget requirement</b>		<b>352.531</b>
Financed by		
- Settlement Funding Allocation (paragraphs 6.4 to 6.6) plus adjustments for local share of business rates		(69.000)
- Council Tax Collection deficit after assumption of support from Central Government (paragraph 6.15)		1.688
<b>Amount to be found from the Collection fund through Council Tax (paragraphs 10.7 to 10.9)</b>		<b>(285.219)</b>
<b>Total</b>		<b>(352.531)</b>

10.2 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 11th March to enable circulation of Council Tax bills to enable people to pay on and after 1st April- Section 30(6).
- The Chief Finance Officer must report on the robustness of estimates and the proposed adequacy of reserves – Section 25.

10.3 The Government has confirmed that the level of Council Tax could be before it triggers a referendum is 2%. In addition, the Chancellor announced a further extension of the use of the Adult Social Care Levy of up to 3% spread over the following two years 2021/22 and 2022/23 or all taken in 2021/22.

10.4 The original assumptions employed in setting the Medium-Term Financial Plan in 2020 were that Council Tax for Worcestershire County Council would be set as follows:

- 2021/22 - 2.99%
- 2022/23 - 2.99%

10.5 At this stage following the impact of COVID on employment and household incomes across the County the Financial Plan has been updated and reflects a reduction in Council Tax to 1.5% to reflect the general rate of inflation and the loss of Council Tax arising from COVID, and a 1.0% Adult Social Care Levy. Looking forward it is assumed that there will be similar increases in future years.

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

10.7 The Council is required to set a Council Tax sufficient to balance the Collection Fund account. Due to the impact of COVID projections at December Worcestershire County Council's Collection Fund is forecast to be in deficit. Regulations have been amended again due to COVID to enable this deficit to be recovered over 3 years as opposed to the previous guidelines of 1 year. That will mean from 2022/23 the County will need to pay an extra £3.0 million into the Collection Fund less any one-off support from Central Government under the Local Tax Income Guarantee Scheme where the Council could receive reimbursement for 75% of irrecoverable Council Tax.

10.8 The latest estimates from District Councils of the average Band D tax base are 213,070 for 2021/22. The County Council's Council Tax Requirement has been identified as £285.219 million (this is inclusive of the social care precept); The Band D Council Tax proposed for 2021/22 is estimated at £1,343.83 (£1,311.05 in 2020/21). That represents a change of £32.78, or an average of £2.73 per month.

10.9 Across the bandings that equates to the following:

**Table 12: Banding analysis for 2021/22 County Council precept**

Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
£	£	£	£	£	£	£	£
895.89	1,045.20	1,194.52	1,343.83	1,642.46	1,941.09	2,239.72	2,687.66

## 11. Medium Term Financial Plan

- 11.1 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 2021/22 will be in its fifth 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 2020. COVID has not only impacted on the timing and scope of the settlement, but it has significantly impacted on the demand and delivery of services in the current year and it is expected for at least some of 2021/22. In addition, the Fair Funding Review of local government funding and settlement allocations has again been delayed by 12 months due to the focus on COVID meaning there is still a high degree of uncertainty going into the final year of the Corporate Plan. 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.
- 11.2 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 2021; and we are still unclear of other external factors).
- 11.3 The assumption at present for 2022-24 is that there will be a total of around £74.8 million of efficiencies, reforms and income generation that will need to be found.

**Table 13: Funding Gap Forecast 2022-24 Assuming all grant income is retained**

	2021/22	2022/23	2023/24	Total
Medium Term Financial Plan	£000	£000	£000	£000
Funding	352,531	362,832	375,033	1,090,396
Transfer from Reserves	3,000	0	0	3,000
Total	355,531	362,832	375,003	1,093,366
Projected Budget Requirement	362,678	394,989	417,631	1,175,298
2021/22 Funding Gap before savings (Retaining current quantum of grants less one off COVID Grants)	7,147			7,147
2022-24 Funding gap		32,157	42,598	74,755

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

### **Funding**

11.5 The Government has issued a Provisional settlement consultation. However, it is assumed for this report that the announcements made by the Chancellor and Secretary of State MHCLG will remain unchanged for the final settlement. The key changes to the MTFP reported to Council in February 2020 are:

- £300 million of adult and children's social care grant – of which Worcestershire County Council is expected to receive £2.2 million.
- £0.5 billion of tax raising power through the extension of the Social Care Precept for a further year, of up to 3%. For Worcestershire this would mean a further £2.8 million at 1.0% in 2021/22, meaning up to a further 2.0% in 2022/23.
- £730 million for High Needs which we estimate will mean an extra £8 million for Worcestershire's DSG.

11.6 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 2021/22 for 81% of all funding income, with 19% coming from our share of the Business Rates.

11.7 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. 2022/23 will see a £10.0 million increase in Council Tax from returning assumed growth in our tax base to reflect new homes across Worcestershire, and a 1% increase in Council Tax and further 2% increase in Social Care Levy. There is a risk to increases in council tax base with regard to the number of Council Tax Support scheme claimants.

11.8 Future year increases in the number of new properties range between 1% and 2% at this stage due to prudence in the projection of future growth by district councils.

11.9 The funding increase expected in 2021-24 is £21.4 million, as follows:

**Table 14: Funding increase forecast 2021/24**

	2021/22	2022/23	2023/24
Funding	£000	£000	£000
Council tax	285,219	297,473	309,347
Collection fund surplus / (deficit)	-1,688	-1,018	-1,018
Grant / Reserves used to support funding	2,794	1,018	1,018
Business rates retention scheme	66,206	65,359	65,686
Total	<b>352,531</b>	<b>362,832</b>	<b>375,033</b>

### **Challenges to our spending**

11.10 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.

11.11 Examples of each of the above areas over the last 12 months and for 2021/22 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** – £11.5 million net increase in care services required for older people and £7.7 million in Children's Social Care

- **Pressures** – £2.5 million of inflationary uplifts in contracts and utility costs;

11.12 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 savings 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.

11.13 The focus of the spending challenges faced in year 1 (2021/22) are coming from:

- **Continued rise in demand and growth pressure** of approx. £17 million of which £12.6 million is driven by social care;
- **Investment** - £2 million Strategic Initiatives and £1.4 million waste services

11.14 This results in a gross funding requirement in 2021/22 to meet all of these challenges of £26.8 million.

**Table 15: Funding pressures faced 2021/22**

Service	Revised Budget 2020/21 £'000	Pay Inflation 2021/22 £'000	Contract Inflation 2021/22 £'000	Growth (Demand) 2021/22 £'000	Growth (Investment) 2021/22 £'000	Growth (Pressure) 2021/22 £'000	Total Growth 2021/22 £'000
People Services	151,374	575	3,464	0	0	7,500	11,540
WCF	101,815	0	2,718	4,950	0	100	7,768
E&I	55,924	187	1,315	200	300	0	2,003
Coach	6,954	131	193	60	0	240	624
Chief Executive	970	71	-98	0	0	250	223
Finance & Corporate	29,794	110	687	0	0	150	947
Non Assigned Items	-1,692	0	0	0	2,000	1,692	3,692
<b>Total</b>	<b>345,139</b>	<b>1,075</b>	<b>8,280</b>	<b>5,210</b>	<b>2,300</b>	<b>9,932</b>	<b>26,797</b>

11.15 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 2022/24 is £62.1 million.

**Table 16: Funding Pressures 2021-24**

	2021/22	2022-24
	£000	£000
Rebase Budgets	2,432	0
Growth - Demand	5,210	9,400
Growth - Investment	2,300	0
Growth - Pressures		
• Pressures	7,500	32,636
• Pay inflation	1,075	3,483
• Contract inflation	8,280	16,581
<b>Total 2021/22</b>	<b>26,797</b>	
<b>Total 2022-2024</b>		<b>62,100</b>

### **Transformation programme**

11.16 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:

- **Children's Services** - The Company's Business Plan for the period was presented to Cabinet in September 2020. This identified a continuation of the improvement programme that has been in place for a number of years.
- **People** – The Council is developing an Integrated Well-Being strategy that will seek to transform the way we work with our voluntary bodies and communities. It seeks to build on areas such as the success of Here2Help in response to COVID as well as the change to a reablement focussed domiciliary care service and helping people live in their own homes well for longer. Alongside a clear digital shift to support communities find the right services.
- **Commercial, procurement and efficiency** – The Council is progressing a Commercial Strategy which will set out an overall approach to delivering greater commercial challenge of costs including procurement. With the anticipated changes to procurement legislation in 2021, and the new flexibility to be introduced, we will have a significant opportunity to deliver improved commercial and qualitative outcomes, whilst potentially channelling more spend to local providers, including SMEs.

- **Corporate Change Initiatives** – The Council is progressing a number of localised reorganisation and service optimisation reviews designed to enable a more centralised, efficient and effective operating model, and that have been engineered to best leverage our new ways of working, both during and post pandemic.

11.17 More detail on the 2021/22 proposed savings is set out at Section 9 of this report.

11.18 As a result, the MTFP is aligned to corporate programmes to deliver savings.

11.19 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**

11.20 The Council's General Fund reserves are currently at £12.2 million (3.4% of net spend). This has resulted in a real focus on savings as the Council cannot allow overspends or underachievement of income to occur on a recurring basis.

11.21 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.

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

11.23 Overall, the Council has a robust MTFP to allocate resources to set and deliver balanced budgets for the remaining year of the Corporate Plan, starting with 2021/22, that supports the delivery of the Council's priorities. The following sections of this report set out in more detail the position for 2021/22.

## 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 2020/21 and has formed the platform in preparing the Section 151 Officer's assessment of risk.

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

**Table 17: General fund risk assessment summary**

<b>Year ended 31st March</b>	<b>2020 £ million</b>	<b>2021 £ million</b>	<b>2022 £ million</b>	<b>2023 £ million</b>
<b>General Fund Reserve risk assessment</b>	12.217	12.217	12.217	12.217
<b>Current Projections (see Para 12.6)</b>	12.217	12.217	12.217	12.217
<b>General Fund Reserves sufficient</b>	✓	✓	✓	✓

12.3 The Council's General Fund estimated reserve at 31 March 2021 based on the forecast outturn, at Section 5 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 savings or urgent one of needs arise unexpectedly. The Council will seek to manage within resources by proposing alternative savings first rather than drawing on reserves which are only available as a one off and do not address recurring saving needs. The following key assumption have been made in considering the level of reserves:

- Service savings – the risk assessment continues to provide for non-delivery of savings. 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 savings or earmarked reserves.
- The lack of certainty over funding beyond 2021/22, and the significant level of grants in particular that relate to social care and one off COVID response grants 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.
- Provision has also been made for unexpected demand due to unforeseen events around care or weather.

12.4 Based on an assessment there is no opportunity for a further call on general fund reserves in 2021/22 or earmarked reserves. Further risk assessment of the General Fund Reserve need is attached at Appendix 3.

12.5 The key risk identified this time as noted above are related to the ongoing response to the COVID pandemic, the transformation programmes in progress, inflation, the uncertainties over future funding streams and the increasing volatility in both demand beyond 2021/22 arising post COVID.

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

**Table 18: Forecast General fund reserves requirement 2019-22**

	2020	2021	2022	2023
	£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 2021/22 will be kept under continual review as part of the budget monitoring process.

12.8 The Council has also set aside significant amounts within its Earmarked Reserves (EMRs). The forecast movement and balances in these reserves is summarised below and shown in more detail at Appendix 2.

**Table 19: Analysis of earmarked reserves 2019-22**

	2019/20		2020/21		Forecast	2021/22	Forecast
	31/03/2019	Movement	31/03/2020	Movement	31/03/2021	Movement	31/03/2022
	£m	£m	£m	£m	£m	£m	£m
Open for Business	13.0	0.7	13.7	-4.9	8.8	-0.5	8.3
Children & Families	4.0	0.8	4.8	0.0	4.8	0.0	4.8
The Environment	0.6	0.3	0.9	-0.2	0.7	0.0	0.7
Health & Well-Being	6.4	0.0	6.4	-0.6	5.8	-2.8	3.0
Efficient Council	40.1	5.8	45.9	-2.6	43.3	-2.3	41.0
<b>Total</b>	<b>64.0</b>	<b>7.7</b>	<b>71.7</b>	<b>-8.3</b>	<b>63.4</b>	<b>-5.6</b>	<b>57.8</b>

12.9 There are also a number of reserves that are not able to be redistributed for County Council purposes. 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 due to the deficit held by schools overall. It is anticipated that the government's intention is to review DSG allocations in light of forecast pressures with the aim of increasing funding for DSG.

**Table 20: Analysis of ring-fenced reserves 2019-22**

	2019/20		2020/21		Forecast	2021/22	Forecast
	31/03/2019	Movement	31/03/2020	Movement	31/03/2021	Movement	31/03/2022
	£m	£m	£m	£m	£m	£m	£m
<b>Other</b>							
Schools Balances	5.6	-4.2	1.4	0.0	1.4	0.0	1.4
Schools ICT-PFI Reserve	0.3	-0.1	0.2	0.0	0.2	-0.1	0.1
Bromsgrove High School PFI Adv	1.6	0.0	1.6	-0.1	1.5	-0.2	1.3
DSG c/fwd Balance Reserve	-0.6	0.6	0.0	-6.3	-6.3	0.0	-6.3
DSG High Needs Overspend	0.0	-6.3	-6.3	4.5	-1.8	0.0	-1.8
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Waste Contract PFI Grant	10.5	-2.8	7.7	-3.8	3.9	-3.8	0.1
<b>Total Other</b>	<b>17.4</b>	<b>-12.8</b>	<b>4.6</b>	<b>-5.7</b>	<b>-1.1</b>	<b>-4.1</b>	<b>-5.2</b>
<b>Total Earmarked Reserves</b>	<b>81.4</b>	<b>-5.1</b>	<b>76.3</b>	<b>-14.0</b>	<b>62.3</b>	<b>-9.7</b>	<b>52.6</b>

12.10 The level of general and earmarked reserves overall are 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 savings arising from decisions taken in previous years relating to 2021/22 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 2021/22 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 3 February 2021 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 7) in time for the Cabinet meeting on 4 February 2021.

## **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 2021/22 is set out in Appendix 4.
- 14.2 The strategy for 2021/22 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 2021/22 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 2021/22 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) 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.
  - S32 the 1992 Act. This section sets out the calculations to be made in determining the budget requirements, including contingencies and financial reserves.
  - S33 the 1992 Act. This section requires the Council to set a balanced budget.
  - S25 (1) Local Governance 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.

- S25 (2) 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.

16.2 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, Regulations provide that the Leader formulates the plan or strategy (in relation to the control of the Council's borrowing or capital expenditure) and the preparation of estimates of the amounts to be aggregated in making the calculations under S32 of the 1992 Act. However, the adoption of any such plan or strategy/calculations is the responsibility of (full) Council.

16.3 This report meets those requirements.

16.4 The legislation that governs local government will continue to be reviewed across this parliamentary term and the business plan will be kept under review to see if changes are needed as the changes in legislation are made available and clarified.

## **17. HR advice**

17.1 The Head of Human Resources & Organisational Development has been involved in the process surrounding savings 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 savings. 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. Savings 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.

17.2 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 for those paid less than £24,000 and other associated costs have been included within the base budget assumptions, in line with the national pay negotiations and agreement. The report also contains the proposals to continue with Mandatory Unpaid Leave (MUL) for a further year. This will form part of a consultation with unions and staff and further updates brought back to Cabinet and Council.

## **18. Equalities assessment**

- 18.1 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.
- 18.2. 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 policymaking 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.
- 18.3. An overarching strategic equality relevance assessment has been undertaken in respect of budget proposals for key transformational change programmes which are detailed in Section 9. 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.
- 18.4. 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.

## **19. Risk assessment**

- 19.1 Services have considered risk in developing the proposals for investment and savings shown in the financial plan and these will be reflected in their usual risk management arrangements.
- 19.2 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 2021/22, 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.
- 19.3 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.

## **20. Privacy and Public Health Assessments**

- 20.1 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.
- 20.2 This report concerns a number of budget proposals for 2021/21 and associated updates to the Medium-Term Financial Plan in advance of approval by Full Council later in February 2021. 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.
- 20.3 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.

## **21. Financial Implications**

- 21.1 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 2021/22 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.
- 21.2 Members are required under the 2003 Act to have regard to the Chief Financial Officer's report when making decisions about the budget calculations.
- 21.3 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 balanced 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 2021/22, to maintain tight financial control.
- 21.4 In assessing the assumptions in the setting of the 2021/22 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 Head of Service's base budget calculations to put the figures in context and to help inform the formulation of this budget and the Council Corporate Plan. 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**

- 21.5 The financial assumptions are set out in detail in sections 7 to 10. These take account of key factors such as demographic and inflation rates of change.

### **Alternative Budget Proposals and Amendments**

- 21.6 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.
- 21.7 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.
- 21.8 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 11 February 2021, to ensure the obligations of Section 25 are met.

## **22. Conclusions**

- 22.1 The Council's Corporate Plan, supported by its Financial Plan and the budget for 2021/22 sets a clear direction for the coming year, 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 2021-24**
- Appendix 1B – Service Budget summary**
- Appendix 1C – Capital Programme**
- Appendix 1D – Capital Strategy**
- Appendix 2 – Earmarked Reserves**
- Appendix 3 – General Fund Reserves’ Statement**
- Appendix 4 – Treasury Management Strategy including Prudence Indicators**
- Appendix 5 – Pay Policy Statement**
- Appendix 6 – Public Health Ring Fenced Grant proposed spending**
- Appendix 7 – Commentary from Overview and Scrutiny Performance Board and other groups**
- Appendix 8 – Glossary of terms**

## Contact Points

### County Council Contact Points

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### Specific Contact Points for this Report

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## Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) the following are the background papers relating to the subject matter of this report:

- Previous Cabinet Resources Reports

## Financial Plan Update 2021/22 to 2023/24

**MTFP - Subjective Summary**

	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>Total</b>
	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>
<b>Funding</b>				
Council Tax	285,219	297,473	309,347	892,038
Collection Fund Deficit	-1,688	-1,018	-1,018	-3,725
Reserves / Grants Used to Support Funding	2,794	1,018	1,018	4,831
Business Rates Retention Scheme	66,206	65,359	65,686	197,252
	<b>352,531</b>	<b>362,832</b>	<b>375,033</b>	<b>1,090,395</b>
<b>Expenditure</b>				
Base budget	345,139	355,531	394,989	1,095,659
Change in Specific Grants	-9,258	0	0	-9,258
Rebase Budgets	2,432	0	0	2,432
Pay inflation	1,075	1,680	1,803	4,558
Contract inflation	8,280	8,193	8,389	24,861
Growth – Demand	5,210	4,450	4,950	14,610
Growth – Investment	2,300	0	0	2,300
Growth – Pressures	7,500	25,136	7,500	40,136
	362,678	394,989	417,631	1,175,298
Efficiencies	-7,147	0	0	-7,147
<b>Net Expenditure Budgets</b>	<b>355,531</b>	<b>394,989</b>	<b>417,631</b>	<b>1,168,151</b>
Funding Gap	0	32,157	42,598	74,756
Transfer from Earmarked Reserves	-3,000	0	0	-3,000
<b>Funding requirement</b>	<b>352,531</b>	<b>362,832</b>	<b>375,033</b>	<b>1,090,395</b>

**Service Budget summary (page 1 of 4)**
**Appendix 1B**

Service	Revised	Service	Changes in	Pay	Contract	Growth	Growth	Growth	Unachieved	New	Net
	Budget	Income	Specific	Inflation	Inflation	(Demand)	(Investment)	(Pressure)	Savings	Savings	Budget
	2020/21	2021/22	Grants and	2021/22	2021/22	2021/22	2021/22	2021/22	2020/21	2021/22	2021/22
	£'000	£'000	Other Funding	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>PEOPLE SERVICES</b>											
Older People	64,260	0	-2,596	174	296	0	0	2,700	0	0	<b>64,834</b>
Learning Disabilities	61,111	0	-1,100	24	2,019	0	0	3,100	0	0	<b>65,154</b>
Mental Health	17,048	0	-1,100	28	0	0	0	900	0	0	<b>16,876</b>
Physical Disabilities	15,984	0	0	3	0	0	0	800	0	0	<b>16,787</b>
Adults Commissioning Unit	593	0	0	18	0	0	0	0	0	0	<b>610</b>
IBCF	-18,500	0	0	7	-19	0	0	0	0	0	<b>-18,512</b>
Social Care Grant	-9,819	0	-2,177	0	0	0	0	0	0	0	<b>-11,996</b>
Adult Provider Services	9,299	0	0	149	0	0	0	0	0	0	<b>9,449</b>
Strategic Libraries	4,935	-213	0	41	272	0	0	0	0	0	<b>5,036</b>
Museum Services	636	-3	0	3	15	0	0	0	0	0	<b>652</b>
Archives and Archaeology	1,525	-52	0	25	45	0	0	0	0	0	<b>1,543</b>
Greenspace & Gypsy Services	500	-38	0	13	26	0	0	0	0	0	<b>501</b>
Community Services Leadership Team	204	0	0	2	2	0	0	0	0	0	<b>208</b>
Skills & Inv incAdult learning	414	-49	0	20	21	0	0	0	0	0	<b>406</b>
Severn Arts Music	0	0	0	0	0	0	0	0	0	0	<b>0</b>
SENDIASS	95	-2	0	2	1	0	0	0	0	0	<b>96</b>
Chs Comm & Ptnership	349	0	0	4	2	0	0	0	0	0	<b>355</b>
Buildings & Pensions (Chs)	199	0	0	10	313	0	0	0	0	0	<b>522</b>
Registration & Coroner	872	-38	0	16	30	0	0	0	0	0	<b>881</b>
Public Analyst	67	0	0	0	1	0	0	0	0	0	<b>69</b>
Trading Standards	183	-20	0	9	8	0	0	0	0	0	<b>179</b>
Childrens S75	1,419	0	0	0	0	0	0	0	0	0	<b>1,419</b>
Public Health Grant Funded Services	0	0	-3,386	27	846	0	0	0	0	0	<b>-2,513</b>
<b>Total People Services</b>	<b>151,374</b>	<b>-415</b>	<b>-10,359</b>	<b>575</b>	<b>3,879</b>	<b>0</b>	<b>0</b>	<b>7,500</b>	<b>0</b>	<b>0</b>	<b>152,555</b>

Service Budget summary (page 2 of 4)

Appendix 1B

Service	Revised Budget	Service Income Changes	Changes in Specific Grants and Other Funding	Pay Inflation	Contract Inflation	Growth (Demand)	Growth (Investment)	Growth (Pressure)	Unachieved Savings	New Savings	Net Budget										
												2020/21	2021/22	2021/22	2021/22	2021/22	2021/22	2021/22	2020/21	2021/22	2021/22
												£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>WCF Contract</b>	<b>101,815</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,718</b>	<b>4,950</b>	<b>0</b>	<b>0</b>	<b>100</b>	<b>-3,000</b>	<b>106,583</b>										

Service	Revised Budget	Service Income Changes	Changes in Specific Grants and Other Funding	Pay Inflation	Contract Inflation	Growth (Demand)	Growth (Investment)	Growth (Pressure)	Unachieved Savings	New Savings	Net Budget										
												2020/21	2021/22	2021/22	2021/22	2021/22	2021/22	2021/22	2020/21	2021/22	2021/22
												£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000

<b>E&amp;I</b>											
Business, Administration & Systems	-375	-24	0	11	-9	0	0	0	0	0	-397
Strategic Land & Economy	1,116	-131	0	28	97	0	300	0	0	-211	1,198
Waste management	27,947	-416	0	6	1,224	0	0	0	0	0	28,760
Infrastructure & Assets	6,146	-2	0	9	164	0	0	0	0	-1,166	5,151 *
Winter Maintenance	1,179	0	0	1	33	0	0	0	0	-224	989 *
Project Delivery	359	0	0	6	66	0	0	0	0	-431	0 *
Sustainable Schemes	13	0	0	-1	3	0	0	0	0	-15	0
Operations, Highways and PROW	6,951	0	0	34	0	0	0	0	0	0	6,985
Transport Operations	11,114	-153	0	51	509	200	0	0	0	-200	11,522
Planning & Regulation	908	-18	0	15	13	0	0	0	0	0	918
Network Control	567	-75	0	28	34	0	0	0	0	0	554
<b>Total E&amp;I</b>	<b>55,924</b>	<b>-819</b>	<b>0</b>	<b>187</b>	<b>2,135</b>	<b>200</b>	<b>300</b>	<b>0</b>	<b>0</b>	<b>-2,247</b>	<b>55,680</b>

\* The net reduction of the service budget is due to capitalisation of staff and additional income generation. The service level remains unchanged.

Service Budget summary (page 3 of 4)

Appendix 1B

Service	Revised Budget 2020/21 £'000	Service Income Changes 2021/22 £'000	Changes in Specific		Pay Inflation 2021/22 £'000	Contract Inflation 2021/22 £'000	Growth (Demand) 2021/22 £'000	Growth (Investment) 2021/22 £'000	Growth (Pressure) 2021/22 £'000	Unachieved Savings 2020/21 £'000	New Savings 2021/22 £'000	Net Budget 2021/22 £'000		
			Grants and Other Funding 2021/22 £'000	Pay Inflation 2021/22 £'000										
													Contract Inflation 2021/22 £'000	Growth (Demand) 2021/22 £'000
			Grants and Other Funding 2021/22 £'000	Pay Inflation 2021/22 £'000										
<b>COACH</b>														
COACH - Management	266	-10	0	4	11	0	0	0	0	0	0	270		
Legal and Democratic Services	5,172	-69	0	35	149	0	0	0	0	0	0	5,287		
Commercial, Management Information	255	-68	0	23	28	0	0	0	180	0	0	418		
Property Services	715	-344	0	3	365	60	0	0	0	-400	0	398		
Digital, IT and Customer Services	504	0	0	63	129	0	0	0	60	0	0	756		
Programme Office	43	0	0	4	2	0	0	0	0	0	0	48		
<b>Total Coach</b>	<b>6,954</b>	<b>-491</b>	<b>0</b>	<b>131</b>	<b>684</b>	<b>60</b>	<b>0</b>	<b>0</b>	<b>240</b>	<b>-400</b>	<b>0</b>	<b>7,177</b>		

Service	Revised Budget 2020/21 £'000	Service Income Changes 2021/22 £'000	Changes in Specific		Pay Inflation 2021/22 £'000	Contract Inflation 2021/22 £'000	Growth (Demand) 2021/22 £'000	Growth (Investment) 2021/22 £'000	Growth (Pressure) 2021/22 £'000	Unachieved Savings 2020/21 £'000	New Savings 2021/22 £'000	Net Budget 2021/22 £'000		
			Grants and Other Funding 2021/22 £'000	Pay Inflation 2021/22 £'000										
													Contract Inflation 2021/22 £'000	Growth (Demand) 2021/22 £'000
			Grants and Other Funding 2021/22 £'000	Pay Inflation 2021/22 £'000										
<b>CHIEF EXECUTIVE</b>														
Engagement & Communications	56	0	0	12	-2	0	0	0	250	0	0	315		
Health & Safety	22	-10	0	4	3	0	0	0	0	0	0	19		
HR - Core	444	-143	0	52	49	0	0	0	0	0	0	402		
HR - Old	0	0	0	0	0	0	0	0	0	0	0	0		
Chief Executive	448	0	0	4	5	0	0	0	0	0	0	457		
<b>Total Chief Executive</b>	<b>970</b>	<b>-153</b>	<b>0</b>	<b>71</b>	<b>55</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>250</b>	<b>0</b>	<b>0</b>	<b>1,194</b>		

Service Budget summary (page 4 of 4)

Appendix 1B

Service	Revised Budget 2020/21 £'000	Service Income Changes 2021/22 £'000	Changes in Specific Grants and Other Funding 2021/22 £'000	Pay Inflation 2021/22 £'000	Contract Inflation 2021/22 £'000	Growth (Demand) 2021/22 £'000	Growth (Investment) 2021/22 £'000	Growth (Pressure) 2021/22 £'000	Unachieved Savings 2020/21 £'000	New Savings 2021/22 £'000	Net Budget 2021/22 £'000												
												<b>FINANCE &amp; CORPORATE</b>											
												Financial Services	584	-139	0	47	223	0	0	0	150	0	865
Financing Transactions (Borrowing and MRP)	15,593	-11	0	0	268	0	0	0	0	0	15,850												
Contributions and Precepts	10,782	0	0	0	316	0	0	0	0	0	11,098												
Pension Fund Backfunding Liabilities	259	0	0	0	8	0	0	0	0	0	267												
Miscellaneous Whole Organisation Ser	4,401	0	0	63	0	0	0	0	0	0	4,464												
New Homes Bonus Grant Income	358	-7	0	0	18	0	0	0	0	0	368												
COVID-19	-2,614	0	1,101	0	0	0	0	0	0	0	-1,513												
Whole Organisation - Contingency	0	0	0	0	0	0	0	0	0	0	0												
Whole Organisation - Contingency	431	0	0	0	13	0	0	0	0	0	444												
<b>Total Finance &amp; Corporate</b>	<b>29,794</b>	<b>-158</b>	<b>1,101</b>	<b>110</b>	<b>845</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>150</b>	<b>0</b>	<b>31,842</b>												
<b>NON ASSIGNED</b>																							
Organisation Review	-1,692	0	0	0	0	0	0	0	1,692	-1,500	-1,500												
Strategic Initiatives	0	0	0	0	0	0	2,000	0	0	0	2,000												
<b>Total Non Assigned</b>	<b>-1,692</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,000</b>	<b>0</b>	<b>1,692</b>	<b>-1,500</b>	<b>500</b>												
<b>TOTAL</b>	<b>345,139</b>	<b>-2,036</b>	<b>-9,258</b>	<b>1,075</b>	<b>10,315</b>	<b>5,210</b>	<b>2,300</b>	<b>7,500</b>	<b>2,432</b>	<b>-7,147</b>	<b>355,531</b>												

26,797

## Capital Programme

## Appendix 1C

	ACTUAL 2019/20	REVISED FORECAST 2020/21	REVISED FORECAST 2021/22	REVISED FORECAST 2022/23 and Beyond	REVISED TOTAL FORECAST 2020/21 - 2022/23 and Beyond
	£000	£000	£000	£000	£000
<b>TOTAL EXPENDITURE</b>					
CHILDREN AND FAMILIES	9,834	26,466	2,284		38,584
OPEN FOR BUSINESS	45,452	87,026	39,422	800	172,700
THE ENVIRONMENT	38,636	73,353	28,951	2,143	143,083
HEALTH & WELL-BEING	4,070	3,412			7,482
EFFICIENCY & TRANSFORMATION	6,568	12,553	5,620	5,056	29,797
<b>TOTAL</b>	<b>104,560</b>	<b>202,809</b>	<b>76,277</b>	<b>7,999</b>	<b>391,645</b>
	ACTUAL 2019/20	REVISED FORECAST 2020/21	REVISED FORECAST 2021/22	REVISED FORECAST 2022/23 and Beyond	REVISED TOTAL FORECAST 2020/21 - 2022/23 and Beyond
	£000	£000	£000	£000	£000
<b>TOTAL FUNDING</b>					
TEMPORARY AND LONG TERM BORROWING	30,502	87,729	40,889	4,426	163,546
CAPITAL RECEIPTS	9,652	10,950	3,559	3,550	27,711
GOVERNMENT GRANTS	56,351	100,394	23,455	23	180,223
CAPITAL RESERVE	1,192	672			1,864
THIRD PARTY CONTRIBUTIONS Bfwd					
THIRD PARTY CONTRIBUTIONS In Year					
THIRD PARTY CONTRIBUTIONS	6,863	3,064	8,374		18,301
<b>TOTAL</b>	<b>104,560</b>	<b>202,809</b>	<b>76,277</b>	<b>7,999</b>	<b>391,645</b>

	ACTUAL 2019/20	REVISED FORECAST 2020/21	REVISED FORECAST 2021/22	REVISED FORECAST 2022/23 and Beyond	REVISED TOTAL FORECAST 2020/21 - 2022/23 and Beyond
<b>Children and Families</b>	£000	£000	£000	£000	£000
- The Chantry High School Expansion	109	22			131
- Nunnery Wood High School Expansion	764	484			1,248
- Christopher Whitehead High School Expansion	7	15			22
- Rushwick Primary School Expansion		130			130
- Bengeworth 1st		139			139
- Social Care Projects	217	37			254
- Social Care Projects 17/18	138	3,323			3,461
- Redditch S.77 Projects	12				12
- Evesham St Andrews	1	129			130
- Leigh and Bransford	57	165			222
- Holyoaks Field 1st School	936	4,966			5,902
- Worcester Library and History Centre (Non - PFI capital costs)	27	147			174
- Redditch Library	12	119			131
- Kidderminster Library	6	78			84
- Flexible use of Capital Receipts		133			133
- Major Schemes - Residual	250	54			304
- Capital Maintenance	978	6,716			7,694
- Basic Need	3,135	9,993			13,128
- School Managed Schemes (Inc. Universal Infant School meals and Devolved Formula Capital)	2,525	-368	368		2,525
- EFA Extension of Provision (Early Years)		259			259
- Healthy Pupil	73	-73	73		73
- Special Provision	391	-391	1,843		1,843
- Libraries Minor Works	196	247			443
- Composite Sums - Residual		142			142
<b>TOTAL</b>	<b>9,834</b>	<b>26,466</b>	<b>2,284</b>		<b>38,584</b>

	ACTUAL 2019/20	REVISED FORECAST 2020/21	REVISED FORECAST 2021/22	REVISED FORECAST 2022/23 and Beyond	REVISED TOTAL FORECAST 2020/21 - 2022/23 and Beyond
Open for Business	£000	£000	£000	£000	£000
- Open for Business (including Economic Game Changer Sites).		4,050	2,500	450	7,000
- QinetiQ Land Purchase	1	2,000			2,001
- Worcester Technology Park	11	9	9		29
- Malvern Hills Science Park Scheme	18	321			339
- Local Broadband Plan Phase 1		3,310			3,310
- Local Broadband Plan Phase 3	510	3,386			3,896
- A4440 WSLR Phase 4	16,480	20,954	18,809		56,242
- A38 Bromsgrove	2,720	8,246	3,097		14,063
- Kidderminster Churchfields	1,658	2,909	129		4,696
- Pershore Northern Infrastructure (including up to £6.4m from HIIF)	2,377	5,758	4,419		12,554
- Capital Skills Programme	1,950	222			2,172
- Southern Link Dualling Phase 3	5,477	1,768			7,245
- Southern Link Dualling Phase 3 - Broomhall Way Footbridge	409	4,568			4,977
- Getting Building Fund (Including Redditch Transport Hub)		6,000	6,000		12,000
- Worcester Parkway Regional Interchange	6,850	1,604			8,454
- Kidderminster Rail Station Enhancement	2,338	941			3,279
- Railway Stations Upgrades / Extra Parking	359	3,541	750	350	5,000
- Additional Rail Station Developments inc. Worcester Shrub Hill Game Changer Site		12,000	3,000		15,000
- Town Centre Improvements:					
- Evesham	10	490			500
- Redditch	27	473			500
- Stourport	214	86			300
- Worcester	40	1,160			1,200
- Kidderminster Town Centre Phase 2	1,546	8			1,554
- Redditch Town Centre	2	0			2
- Worcester City Centre	963	412			1,375
- Malvern Public Realm		39			39
- ERDF Capital Projects	1,492	2,769	709		4,970
<b>TOTAL</b>	<b>45,452</b>	<b>87,026</b>	<b>39,422</b>	<b>800</b>	<b>172,700</b>

<b>The Environment</b>	<b>ACTUAL 2019/20</b>	<b>REVISED FORECAST 2020/21</b>	<b>REVISED FORECAST 2021/22</b>	<b>REVISED FORECAST 2022/23 and Beyond</b>	<b>REVISED TOTAL FORECAST 2020/21 - 2022/23 and Beyond</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Local Transport Plan:</b>					
- Structural Carriageway/Bridgeworks	27,617	33,868	11,287		72,772
- Integrated Transport	331	2,893	213		3,437
<b>Major Schemes: Infrastructure</b>					
- Cutting Congestion:					
- A38 / A4104 Staggered Junction Upton	36	3,964	2,500		6,500
- Evesham Town Centre	26	174			200
- Bromsgrove Town Centre	33	367	400		800
- Hoobrook Roundabout, Kidderminster	75	2,425			2,500
- Walking and Cycling Bridges:					
- River Severn - Keepax to Gheluvelt Park	290	3,709			3,999
- River Severn - Sabrina Bridge refurbishment	1	2,900			2,901
- Local Members Highways Fund	324	1,991	1,250		3,565
- Active Travel Fund - Walking and Cycling Schemes					
- Walk Cycle Route to Worc Parkway	77	67			144
- Green Deal Communities	41	3			44
- Investment Initiatives to Support Business and /or Green Technology	1	1,172	151		1,324
- Energy Efficiency - Spend to Save	24	462			486
- Warm Homes Fund	72	234	196	23	525
- Eastham Bridge	16	18			34
- Pavement Improvement Programme	1,700	4,086	4,000		9,786
- Cutting Congestion Programme	5,489	6,109			11,598
- Cutting Congestion Programme - Phase 2					
- Highway Flood Mitigation Measures	757	584	2,500		3,841
- Bewdley Flood Mitigation Measures			500		500
- Worcester Transport Strategy	112	443			555
- Hoobrook Link Road - Pinch Points	108	27			135
- Public Rights of Way	241	319			560
- Worcester Woods Paths Project		100			100
- Zebra Crossings Package		579			579
- Covid 19 Emergency Active Travel Fund		616			616
- Highways Capital Maintenance Costs			3,000	2,000	5,000
- Highways Strategic Investment Fund	583	843	454	120	2,000
- Completion of Residual Schemes	199	31			230
- Vehicle Replacement Programme	101	1,704			1,805
- Street Column Replacement Programme	382	3,665	2,500		6,547
<b>TOTAL</b>	<b>38,636</b>	<b>73,353</b>	<b>28,951</b>	<b>2,143</b>	<b>143,083</b>

	ACTUAL 2019/20	REVISED FORECAST 2020/21	REVISED FORECAST 2021/22	REVISED FORECAST 2022/23 and Beyond	REVISED TOTAL FORECAST 2020/21 - 2022/23 and Beyond
<b>Health and Well-Being</b>	£000	£000	£000	£000	£000

**Major Schemes:**

- Capital Investment in Community Capacity/ Specialised Housing	992	2,485			3,477
- Care Act Capital		61			61
- Social Care Case Management System Replacement	2,283				2,283
- IT Personalisation	444				444
- Capital funding utilisation		336			336
- A&CS Minor Works	90	271			361
- Social Care Performance IT Enhancement	261	259			520
<b>TOTAL</b>	<b>4,070</b>	<b>3,412</b>			<b>7,482</b>

	ACTUAL 2019/20	REVISED FORECAST 2020/21	REVISED FORECAST 2021/22	REVISED FORECAST 2022/23 and Beyond	REVISED TOTAL FORECAST 2020/21 - 2022/23 and Beyond
<b>Efficiency and Transformation</b>	£000	£000	£000	£000	£000

**Major Schemes:**

- Digital Strategy	2,013	5,255	2,070	1,506	10,844
- Repair and Maintenance of a Longer Term Benefit (And BUoP)	959	2,877			3,836
- Stourport Library/ Coroners Relocation to Civic Centre		18			18
- Capitalised Transformation Costs	3,596	4,403	3,550	3,550	15,099
<b>TOTAL</b>	<b>6,568</b>	<b>12,553</b>	<b>5,620</b>	<b>5,056</b>	<b>29,797</b>

## **Capital Strategy**

### **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**

### **8.1. 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.

## 8.2. 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.

## 8.3. 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 be 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.

#### 8.4. 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.

#### 8.5. 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.

## **8.6. 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.

## **9. 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.

## **10. 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.

## **11. 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.

### **12. 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.

### **13. Funding Strategy and Capital Policies**

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

#### **13.1. 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.

### **13.2. 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 been 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.

### **13.3. 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.

#### **13.4. 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.

#### **13.5. 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).

#### **13.6. 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.

#### **14. 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 Council's 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.

#### **15. 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.

#### **16. 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.

#### **17. 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.

### **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.

### **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.

### **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.

### **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.

### **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.

### **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.

### **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.

### **18. 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.

**Appendix 2**
**Earmarked Reserves**

	Balance at 31 March 2019	Transfers out	Transfers in	Balance at 31 March 2020	Transfers out	Transfers in	Balance at 31 March 2021	Transfers out	Transfers in	Balance at 31 March 2022
<b>Open for Business</b>										
Revolving Investment Fund	3.9	1.0		4.9		0.2	5.1		0.2	5.3
Open for Business	4.5	-1.3	0.7	3.9	-1.3		2.6	-0.2		2.4
Local Authority Business Growth Initiative	0.6			0.6	-0.2		0.4	-0.2		0.2
Sub regional mineral plan	0.6	-0.2	0.2	0.6	-0.5		0.1	-0.1		0.0
Growing Places reserve	2.4	-0.5	1.0	2.9	-2.9		0.0			0.0
Regional Improvement and Efficiency Reserve	0.7	-0.7		0.0			0.0			0.0
Other	0.4		0.4	0.8	-0.2		0.6	-0.2		0.4
<b>Children &amp; Families</b>										
Safeguarding			1.1	1.1	0.0		1.1			1.1
Revenue grants unapplied	4.0	-2.4	2.1	3.7			3.7	0.0		3.7
<b>The Environment</b>										
Regeneration and Infrastructure	3.0	-3.0	0.5	0.5			0.5			0.5
Revenue grants unapplied	0.4			0.4	-0.2		0.2	0.0		0.2
<b>Health and Wellbeing</b>										
Public Health	6.2	-1.9	2.1	6.4	-0.9		5.5	-2.5		3.0
Revenue grants unapplied	0.1		0.2	0.3			0.3	-0.3		0.0
<b>Efficient Council</b>										
Transformation / Change Reserve	5.3	-3.4	2.4	4.3	-1.0		3.3	-1.3		2.0
Digital Reserve	3.0			3.0			3.0			3.0
Elections	0.2		0.1	0.3		0.1	0.4	-0.4		0.0
Property Management	0.5		0.1	0.6		0.0	0.6		0.0	0.7
Insurance	8.4	-0.5	1.3	9.2			9.2			9.2
<b>Business Rates Pool</b>										
Business Rates Pool	9.8	-13.2	20.2	16.8			16.8			16.8
Coroners Major Inquests	0.2		0.2	0.4			0.4			0.4
Councillors Divisional Fund	0.6	-0.5	1.1	1.2	-0.6		0.6	-0.6		0.0
Fleet Surplus Reserve	0.4	-0.3		0.1	-0.1		0.0			0.0
Future Capital Investment	1.8	-0.6	0.3	1.5			1.5			1.5
Financial Services Reserve	1.6			1.6			1.6			1.6
Financial Risk Reserve	5.5	-7.2	8.3	6.6	-0.8		5.8			5.8
<b>Other reserves (not available for core spend)</b>										
Schools balances held under delegation	5.6	-5.6	1.4	1.4			1.4			1.4
Schools ICT PFI Reserve	0.4	-0.2		0.2			0.2	-0.1		0.1
Bromsgrove High School PFI Advance	1.7	-0.1		1.6	-0.1		1.5	-0.2		1.3
DSG c/fwd Balance Reserve	-0.7	-7.2	1.6	-6.3	-1.8		-8.1			-8.1
Waste Contract PFI Grant	10.4	-7.5	4.8	7.7	-9.1	5.3	3.9	-8.8	5.0	0.1
<b>Total</b>	<b>81.5</b>	<b>-55.3</b>	<b>50.1</b>	<b>76.3</b>	<b>-19.7</b>	<b>5.6</b>	<b>62.3</b>	<b>-14.9</b>	<b>5.2</b>	<b>52.6</b>

**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		
				2021/22 £000	2022/23 £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 2022/23.	0	3,000	0

Risk	Likelihood	Impact	Risk Mitigation	Residual Risk Provision		
				2021/22 £000	2022/23 £000	2022/23 £000
2. Volatility of Business Rates funding given uncertainty around impact of appeals	Possible	Low	The volatility of this funding stream is outside of Council control however the impact is mitigated 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.	0	500	500
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 assumption. 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

Risk	Likelihood	Impact	Risk Mitigation	Residual Risk Provision		
				2021/22 £000	2022/23 £000	2022/23 £000
4. Anticipated savings/ efficiencies not achieved	Possible	High to Medium	Regular monitoring and reporting takes 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 savings 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 savings programme governance provides some assurance that this risk can be managed but this remains a medium risk.	3,000	1,000	1,000

Risk	Likelihood	Impact	Risk Mitigation	Residual Risk Provision		
				2021/22 £000	2022/23 £000	2022/23 £000
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		
				2021/22 £000	2022/23 £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 takes 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 mitigated and any call on the general fund should be from unforeseen events identified in budget monitoring.	0	0	0

Risk	Likelihood	Impact	Risk Mitigation	Residual Risk Provision		
				2021/22 £000	2022/23 £000	2022/23 £000
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 earned 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 fund any increase above projections. As such the use of general fund would be for urgent placements that cannot be foreseen.	750	750	750

Risk	Likelihood	Impact	Risk Mitigation	Residual Risk Provision		
				2021/22 £000	2022/23 £000	2022/23 £000
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 the national Bellwin scheme	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		
				2021/22 £000	2022/23 £000	2022/23 £000
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 medium to long term impact of COVID. 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		
				2021/22 £000	2022/23 £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 a number of 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

Risk	Likelihood	Impact	Risk Mitigation	Residual Risk Provision		
				2021/22 £000	2022/23 £000	2022/23 £000
17. Contingency for other unforeseen events and any unplanned year end overspend	Possible	High to Medium	<p>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 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.</p> <p>This risk contingency recognises that Central Government is meeting most of additional costs of COVID-19. This can be supplemented by re-prioritising in year expenditure to priority areas.</p>	3,000	1,000	500
			<b>TOTAL</b>	<b>11,550</b>	<b>12,050</b>	<b>10,050</b>

**Treasury Management Strategy 2021/22****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 2021/22. The Treasury Management Strategy is reflected in the Personal Assurance Statement given by the Chief Financial Officer concerning the 2021/22 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 2020/21 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**

The COVID-19 outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 16th December, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above,

no increase in Bank Rate is expected in the near-term as economic recovery is expected to be only gradual and, therefore, prolonged.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably even, but dependent on how quickly the economy can reopen over the coming months.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.

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. Another complication is a post-COVID inflation spike, which could effectively end the post-2008 era of ultra-low interest rates, but this is not certain.

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 11<sup>th</sup> of August 2020. However, following the conclusion of the review of PWLB margins over gilt yields on 25<sup>th</sup> November 2020, all forecasts below have been reduced by 1%. These are forecasts for certainty rates, gilt yields plus 80bps:

Link Group Interest Rate View		9.11.20											
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20													
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5yr PWLB	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

## 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 was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was a heightened expectation that the US could have been heading for a

recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very 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. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years. Over the year prior to the coronavirus crisis, this has seen many bonds yield up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-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.

Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. After gilt yields spiked up during the financial crisis in March, we have seen these yields fall sharply to unprecedented lows as investors panicked during March in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western central banks took rapid action to deal with excessive stress in financial markets during March, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in “normal” times would have caused bond yields to rise sharply. Gilt yields and PWLB rates have been at remarkably low rates so far during 2020/21.

As the interest forecast table for PWLB certainty rates above shows, there is expected to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment, (as shown on 9th November when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

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, given the current low to non-existent returns on cash.

As HM Treasury has, de-facto removed the 100-bps uplift from PWLB rates, this is now a viable source for long-term funding again. Other borrowing sources are not ruled-out, when assessing these, 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 could be undertaken late in 2020/21 and mid-year 2021/22.

The gross capital borrowing requirement for 2021/22 is estimated to be £71.3 million. After the use of the minimum revenue provision to repay debt of £13.5 million, the net capital borrowing requirement is estimated to be £57.8 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 £14.7 million in 2021/22.

### **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:

<b>Agency:</b>	<b>Short-Term rating:</b>
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:

<b>Agency:</b>	<b>Long-Term rating:</b>
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. 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:

<b>Borrower</b>	<b>Amount</b>	<b>Date Lent</b>	<b>Terms</b>
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: £944k at 3% £3,500k at 6.37% 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 21<sup>st</sup> 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 31<sup>st</sup> March 2020, the carrying value of the loan to Mercia Waste was £111.3m, repayments of Principal and Interest to date have proceeded to schedule.

## **Statement of Prudential Indicators**

### **Introduction**

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.

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

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.

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.

## **AFFORDABILITY (CAPITAL AND BORROWING INDICATORS)**

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

The Chief Financial Officer reports that the County Council had no difficulty meeting this requirement for 2019/20, nor are any difficulties envisaged for the current or future years. This view takes into account all plans and commitments included in the 2021/22 budget policy.

### Capital Expenditure

The actual amount of capital expenditure that was incurred during 2019/20, and the estimates of capital expenditure to be incurred for the current and future years that are proposed in the 2021/22 budget policy are as follows:

#### **Capital Expenditure**

	<b>2019/20 Actual £m</b>	<b>2020/21 Estimate £m</b>	<b>2021/22 Estimate £m</b>	<b>2022/23 Estimate £m</b>	<b>2023/24 &amp; Beyond Estimate £m</b>
<b>Total Capital Expenditure</b>	<b>104.6</b>	<b>202.8</b>	<b>74.3</b>	<b>8.0</b>	<b>0.0</b>

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.

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

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.

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

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

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

	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
<b>Financing Costs</b>	<b>26.8</b>	<b>27.9</b>	<b>28.8</b>	<b>28.2</b>	<b>28.0</b>
<b>Net Revenue Stream</b>	<b>330.4</b>	<b>346.3</b>	<b>352.2</b>	<b>362.1</b>	<b>374.3</b>
<b>Ratio</b>	<b>8.13%</b>	<b>8.05%</b>	<b>8.18%</b>	<b>7.77%</b>	<b>7.49%</b>

#### Capital Financing Requirement

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.

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.

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

#### Capital Financing Requirement

	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
<b>Capital Financing Requirement at 31 March</b>	<b>600.1</b>	<b>677.5</b>	<b>702.1</b>	<b>690.2</b>	<b>673.2</b>

#### Authorised Limit

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 taking into account 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.

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).

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.

The following Authorised Limits for gross external debt are recommended:

<b>Authorised Limit for External Debt</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
External Borrowing	720.0	740.0	740.0	740.0
Other Long-Term Liabilities	13.0	13.0	13.0	13.0
<b>Total Authorised limit</b>	<b>733.0</b>	<b>753.0</b>	<b>753.0</b>	<b>753.0</b>

### Operational Boundary

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.

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.

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.

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.

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.

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

<b>Operational Boundary for External Debt</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
External Borrowing	700.0	720.0	720.0	720.0
Other Long-Term Liabilities	10.0	10.0	10.0	10.0
<b>Total Operational Boundary</b>	<b>710.0</b>	<b>730.0</b>	<b>730.0</b>	<b>730.0</b>

### Actual External Debt

The County Council's actual external debt as at 31/03/20 was £474.0 million; comprising £474.0 million External Borrowing and £0 (zero) Other Long-Term Liabilities.

## **PRUDENCE (TREASURY MANAGEMENT AND TM CODE INDICATORS)**

### Gross Debt and the Capital Financing Requirement

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. The Gross debt projections below are just a guide, the actual gross debt may vary within the limits as defined.

	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Gross Debt	<b>464.7</b>	<b>538.9</b>	<b>560.3</b>	<b>560.3</b>	<b>560.3</b>
Capital Financing Requirement	<b>600.1</b>	<b>677.5</b>	<b>702.1</b>	<b>690.2</b>	<b>673.2</b>
Ratio of Gross Debt to the Capital Financing Requirement	<b>77.4%</b>	<b>79.6%</b>	<b>79.8%</b>	<b>81.2%</b>	<b>83.2%</b>

The following prudential indicators have been taken into account in the 2021/22 Treasury Management Strategy.

### Fixed and Variable Interest Rate Exposures

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**

	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Net Principal sums Outstanding at Fixed Rates	<b>733.0</b>	<b>753.0</b>	<b>753.0</b>	<b>753.0</b>
Net Principal sums Outstanding at Variable Rates	<b>219.9</b>	<b>225.9</b>	<b>225.9</b>	<b>225.9</b>

This represents the position that all of 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

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.**

<b>Period of Maturity</b>	<b>Upper Limit %</b>	<b>Lower Limit %</b>
Under 12 months	<b>25</b>	<b>0</b>
12 months and within 24 months	<b>25</b>	<b>0</b>
24 months and within 5 years	<b>50</b>	<b>0</b>
5 years and within 10 years	<b>75</b>	<b>0</b>
10 years and above	<b>100</b>	<b>25</b>

#### Investments for longer than 364 days

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 2021/22, 2022/23 and 2023/24.

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 any one time for 2021/22, 2022/23 and 2023/24.

### **ANNUAL MINIMUM REVENUE PROVISION (MRP) STATEMENT**

#### Introduction

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.

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.

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

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

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”

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.

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.

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.

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 or not supported and whenever incurred.

#### MRP Policy relating to capital expenditure financed from borrowing

Taking into 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.

## **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 1<sup>st</sup> April 2021<sup>1</sup>. 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 19 of the chief officers as defined within S43 of the Localism Act are employed on a 35 hour per week contract. Table 1 lists the 26 chief officer posts as defined within S43 of the Localism Act that make up 0.94% of the 2755<sup>2</sup> people employed by the County Council (excluding schools).

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<sup>1</sup> Data to populate this was run on 4<sup>th</sup> January 2021 based on Chief Officers in post and expected to be in post with effect from 1<sup>st</sup> April 2021

<sup>2</sup> Refers to the staffing count as at 1<sup>st</sup> December 2020 which includes all permanent, temporary and relief/casual/sessional employees (as/when required) excluding Schools. The 2021 NJC award is currently being negotiated. The rates above are those effective from 1<sup>st</sup> April 2020

<sup>2</sup> The Strategic Director for Children's Services is an employee of Worcestershire Children First. They are not included in any of the calculations.

**Table 1: Chief Officer posts**

<b>Title</b>	<b>Grade</b>	<b>Pay range minimum</b>	<b>Pay range maximum</b>	<b>Incremental points</b>
Chief Executive (35 hours per week)	Chief Executive	(£164,668)	(£185,390)	4
Strategic Director for People; (Includes a Market Forces Supplement)	Director	£133,441 (£126,779)	£145,758 (£138,431)	6
Strategic Director for Children's Services (Functional) <sup>2</sup>	WCF Chief Executive	£123,229 (£116,567)	£135,546 (£128,219)	6
Strategic Director of Economy & Infrastructure;  Strategic Director of Commercial and Change	Director (2 posts)	£123,229 (£116,567)	£135,546 (£128,219)	6
Chief Financial Officer (Includes a Pay Supplement of 15% & a Market Forces Supplement)	Assistant Director 1	£108,198 (£103,331)	£117,331 (£111,971)	n/a
Director of Public Health (Includes a responsibility allowance of 18%)	Assistant Director 1	£106,292 (£101,426)	£115,426 (£110,066)	6
Assistant Director for Legal & Governance (Includes a responsibility allowance of 10%)	Assistant Director 1	£99,410 (£94,544)	£108,544 (£103,184)	6
Assistant Director for Communities; Assistant Director for Adult Social Care; Assistant Director for Economy, Major Projects & Waste; Assistant Director for Human Resources, Organisational Development & Engagement;	Assistant Director 1 (5 posts)	£90,030 (£85,164)	£99,164 (£93,803)	6

Assistant Director for Highways, Transport & Operations				
Public Health Consultant	Public Health BAND 9	£77,850	£98,453	6
Head of Finance; Assistant Director for IT & Digital; Assistant Director for Transformation & Commercial; Service Manager	Assistant Director 2 (4 posts)	£84,556 (£79,985)	£93,680 (£88,616)	6
Public Health Consultant (Includes a Market Forces Supplement)	PO7 + MFS (2 posts)	£74,611 (£71,214)	£78,456 (£74,851)	n/a
Head of Communications and Engagement (Includes a Market Forces Supplement)	PO7 + MFS	£70,633 (£67,236)	£74,478 (£70,873)	n/a
Programme Manager; Chief Accountant; Head of Human Resources Operations and Employee Relations	PO7 (3 posts)	£62,836 (£59,439)	£66,681 (£63,076)	4
Chief Auditor (Includes an Honorarium)	PO6 + Honorarium	£61,721 (£58,661)	£65,088 (£61,848)	4
Finance Manager - Pensions Treasury & Capital	PO6	£56,579 (£53,519)	£59,946 (£56,706)	4

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

## **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](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.

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.

## **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.

## **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;
- employer's 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<sup>st</sup> April 2021<sup>3</sup> this is £16,878 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.

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.

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<sup>3</sup> Refers to pay structure at 1<sup>st</sup> December 2020. The 2021 NJC award is currently being negotiated. The rates above are those effective from 1<sup>st</sup> April 2020

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 1:10.98 and; between the lowest paid employee (35 hours per week) and average chief officer as 1:5.28. The multiple between the median (average) full time equivalent earnings and the Chief Executive (35 hours per week) is 1:7.94 and; between the median (average) full time equivalent earnings and average chief officer is 1:3.81.

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 13 February 2020

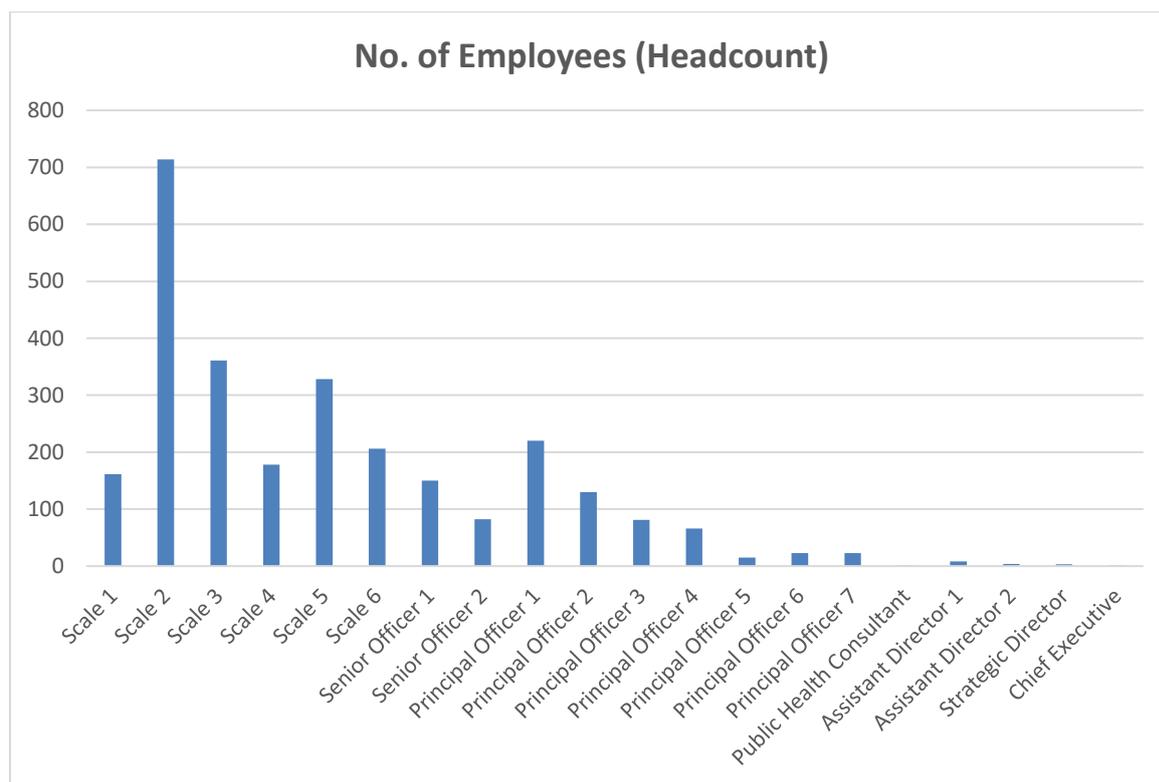
CEU/HR/SH: Updated 4 January 2021

Approved by Council TBC

**Table 2: Other main salary grades from April 2020\* based on 37-hour full time equivalent (35-hour full time equivalent shown in brackets)**

<b>Grade</b>	<b>Pay range minimum</b>	<b>Pay range maximum</b>	<b>National Pay spine Points</b>
Scale 1	£17,842 (£16,878)	£18,198 (£17,214)	1 – 2
Scale 2	£18,562 (£17,559)	£ 18,933 (£17,910)	3 – 4
Scale 3	£19,312 (£18,268)	£19,698 (£18,633)	5 – 6
Scale 4	£20,092 (£19,006)	£21,748 (£20,572)	7 – 11
Scale 5	£22,183 (£20,984)	£24,491 (£23,167)	12 – 17
Scale 6	£24,982 (£23,632)	£27,041 (£25,579)	18 – 22
SO1	£27,741 (£26,241)	£29,577 (£27,978)	23 – 25
SO2	£30,451 (£28,805)	£32,234 (£30,492)	26 – 28
PO1	£32,234 (£30,492)	£34,728 (£32,851)	28 – 31
PO2	£35,745 (£33,813)	£38,890 (£36,788)	32 – 35
PO3	£39,880 (£37,724)	£42,821 (£40,506)	36 – 39
PO4	£45,610 (£43,144)	£49,186 (£46,527)	40 – 43
PO5	£50,716 (£47,975)	£53,926 (£51,010)	44 – 47
PO6	£56,579 (£53,519)	£59,946 (£56,706)	48 – 51
PO7	£62,836 (£59,439)	£66,681 (£63,076)	52 – 55

**Chart 1: Staff Distribution Across Grades**



**Notes:**

Chart 1 above refers to the staffing count as at 1<sup>st</sup> December 2020 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.

**Appendix 6**
**Public Health ring fenced grant proposed spending**

## Strategic Functions

<b>Strategic Functions</b>	<b>BUDGET 21/22</b>
Public Health Team	2,214
ABCD Project	150
Medicines Management	32
PH Recharges	211
Emergency Planning	141
PH ICU/Finance Staff	335
<b>Total</b>	<b>3,083</b>

## Adults Prevention Services

<b>Adults Prevention Services</b>	<b>BUDGET 21/22</b>
Lifestyle Services	350
Community Lifestyle	80
Smoking in Pregnancy	164
Health Checks	325
Walking for Health	25
Worcestershire Works Well	35
Obesity, Diet, Exercise	20
Carers Support	617
Stroke Contract	92
Info & Advice Contracts	250
Connect Services	312
Fluoridation	200
Healthwatch	275
LRCV Grant	-224
Digital Inclusion	10
MECC (Health Chats)	2
Time to Change	25
Substance Misuse Contract	3,942
DIP Grant	-106
Domestic Abuse Contract	417
Social Prescribing	100
Loneliness Service	150
Strength and Balance	90
Warmer Worcestershire	19
Extra Care Housing	759
Oral Health	50
LD Reablement	60
Promoting Independent Living Service	273
Adults Housing Support	100
Support at Home	49
Sexual Health (WHCT)	4,137
Sex.Health - GUM OoA	300
<b>Total</b>	<b>12,898</b>

## Prevention Services

Prevention Services	BUDGET 21/22
Childrens:	0
Children's Targeted Family Support	850
Positive Activites	530
Children's Development Centres	442
CDOP	15
Young Adult Carers	35
Family Safeguarding Model	125
Dawn's Project	75
Adults:	0
0-19 Health Servs (WHCT)	9,751
Social Mobility Project	91
<b>Total</b>	<b>11,914</b>

## Other Services

Other Services	BUDGET 21/22
Occupational Health	160
Libraries Service	300
Countryside Service	100
Quality Assurance and Compliance	132
Quality Improvement	140
Trading Standards	649
Planning Service	70
Adult Learning	211
Coroners & Registrars	130
3 Conversation Model	291
<b>Total</b>	<b>2,183</b>

	<b>£'000</b>
Total PHRFG spend	£30,078
Expected PH ring fenced grant (assumes 3% RPI increase)	£30,078

**Appendix 7**

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

**Will be added here**

**Glossary of terms**

<b>SFA</b>	<b>Settlement Funding Assessment</b>	The Settlement Funding Assessment consists of the local share of business rates, and Revenue Support Grant and is part of the Council's funding.
<b>RSG</b>	<b>Revenue Support Grant</b>	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 2021/22.
<b>DSG</b>	<b>Dedicated Schools Grant</b>	<p>The grant is paid in support of the local authority's schools budget. It is the main source of income for the schools budget.</p> <p>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.</p>
<b>NNDR</b>	<b>National Non Domestic Rates</b>	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.
<b>MTFS</b>	<b>Medium Term Financial Strategy</b>	The Strategy that sets out the future ways in which the Council will manage its finances, considering pressures, funding and available resources.
<b>MTFP</b>	<b>Medium Term Financial Plan</b>	The Financial Model covering the next three years based on assumptions within the MTFS

## Glossary of terms, continued

<b>GFR</b>	<b>General Fund Reserve</b>	Reserves held for non-specific purposes, to manage risks as / if they arise during the year.
<b>EMR</b>	<b>Earmarked Reserve</b>	Reserves held for specific purposes.
<b>CPI</b>	<b>Consumer Price Index</b>	Measures changes in the price level of market basket of consumer goods and services purchased by households.
<b>RPI</b>	<b>Retail Price Index</b>	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.
<b>SEND</b>	<b>Special Educational Needs &amp; Disabilities</b>	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.
<b>DAS</b>	<b>Directorate of Adult Services</b>	Directorate of the Council providing services such as care for the elderly, adults with disabilities, mental health and integration with health partners
<b>CFC</b>	<b>Children, Families and Communities Directorate</b>	Directorate of the Council providing services such as care placements, education, SEND, libraries and arts.
<b>E&amp;I</b>	<b>Economy and Infrastructure Directorate</b>	Directorate of the Council providing services such as highways, waste and transport.
<b>COACH</b>	<b>Commercial and Change Directorate</b>	Directorate of the Council providing services such as human resources, legal and procurement.
<b>LEP</b>	<b>Local Enterprise Partnership</b>	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.
<b>LGF</b>	<b>Local Growth Fund</b>	Growth deals provide funds to LEPs for projects that benefit the local area and economy.
<b>BCF and iBCF</b>	<b>Better Care Fund and Improved Better Care Fund</b>	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).
<b>PFI</b>	<b>Private Finance Initiative</b>	A way of creating 'public – private partnerships where private firms are contracted to fund, complete and manage public projects, predominantly building related.