

Cabinet
21 May 2015**4. RESOURCES REPORT****Relevant Cabinet Member**

Mr A I Hardman

Relevant Officer

Chief Financial Officer

Recommendation**1. The Cabinet Member with Responsibility for Finance recommends to Cabinet that:**

- (a) his conclusions be endorsed concerning financial performance for the year ending 31 March 2015 as detailed in paragraphs 5 to 18 and the statutory accounts be finalised on this basis;**
- (b) earmarked reserves and general balances should be updated as detailed in paragraphs 21 to 25;**
- (c) Cabinet approves an increase of £140,000 to the previously approved estimate of £620,000 for creating additional capacity at Timberdine Nursing and Rehabilitation Unit, and that this additional sum be redeployed (vired) from the Social Care Reform Capital pot within the Capital Programme;**
- (d) the current progress and successes regarding the FutureFit programme be endorsed; and**
- (e) the report on borrowing and lending transactions during 2014/15 detailed in paragraphs 39 to 40 and Appendix 4 be accepted.**

Introduction

2. This report outlines the provisional financial results for the year ending 31 March 2015 subject to external audit. It concludes that the provisional financial outturn is to break even compared with the Council's budget of £332 million.

3. General Balances at the end of the 2014/15 financial year will be £13 million, which is consistent with the Medium Term Financial Plan approved by Full Council in February 2015.

4. Financial performance for the Council's Capital Budget, Treasury Management activities and the Worcestershire County Council Pension Fund is also reported.

Provisional Financial Results for the year ending 31 March 2015

Cabinet is asked to approve the financial results for 2014/15 in order that the annual statutory accounts can be prepared.

5. The work to finalise the management accounts has been completed and a summary of the position is set out in Appendix 1. Appendix 2 gives details of specific variations by Directorate.
6. The Council has successfully managed a significant financial challenge for 2014/15 by delivering £30.5 million of savings whilst at the same time managing additional cost pressures with the most significant being £5.7 million Children's Social Care Placements. The demand for Children's Social Care Placements and the financial impact of them is subject to a medium term financial recovery plan and pressure on this service is likely to continue over the medium term. The effectiveness of all partners to work preventatively with children and families and to intervene earlier to manage demand is a key element of tackling the pressure on children's social care.
7. A risk assessment of the placement budgets to confirm the range of the risk within the delivery of the budget for 2015/16 is underway alongside a medium term financial assessment of all current children in care and a review of the future years' forecast and needs analysis for starters and leavers to assess the impact on future years budget requirements to produce a full medium term costed plan.
8. The cost pressures in 2014/15 have largely been met from a favourable variance on money market activity following an active strategy to defer borrowing costs whilst cash balances remain strong.
9. Income from Business Rates totalled £56.6 million for the year which is a surplus of £0.1 million compared with the budget. This surplus comprises a £0.2 million benefit as a result of the Council's Business Rates Pooling arrangements however this is reduced by receiving £0.1 million less income than expected. The net surplus will be transferred to the Business Rates Risk Reserve consistent with previous years.
10. The main features of financial performance in 2014/15, that will now be subject to External Audit, are as follows:
 - In overall terms revenue spending by Directorates was within the delegated cash limits coming in on budget whilst making identified savings. There have been significant areas of cost pressure which have been managed during the year including £5.7 million Children's Social Care Placements
 - The 2014/15 FutureFit savings target of £30.5 million

has been delivered. Of this amount, £3.7 million was achieved using one-off alternative funding and these project savings, which all have detailed plans to support them, will be carried forward to 2015/16 for delivery. Whilst this is an excellent achievement and a testament to the hard work of staff, it is recognised that savings are becoming more complex and difficult to deliver

- Consistent with the Medium Term Financial Plan (MTFP) approved by Council in February 2015, the level of general balances can be maintained at £13 million.

11. Whilst financial performance for 2014/15 has been good and is to be commended, looking forward to future years the Council still needs to achieve savings of around £25 million per year. Additionally, the general election and the publication of a national spending review over the autumn will have a significant bearing on our strategic financial plans.

12. Our ambition is clear for a World Class Worcestershire and our corporate strategic planning is well underway with the aim of establishing what services the Council will provide or commission others to undertake by 2020. The outcome of this work will drive the budget consultation for 2016/17 and will inform a revised Medium Term Financial Plan through to February 2016.

Capital Investment

13. The County Council spent £121.2 million on Capital Expenditure in 2014/15 which included £35.7 million spent on school projects, £40.1 million on local transport infrastructure, £22 million Energy from Waste Loan Facility and £23.4 million on other County Council services. The major sources of financing capital spending were from external borrowing £38.5 million, capital grants and contributions £63.2 million, capital receipts £11.5 million and direct revenue contributions £8.0 million.

14. The following significant capital investment projects have been progressed during 2014/15:

- £16.9 million – Highways Structural Maintenance, includes £2.9 million potholes repairs
- £14.0 million – Habberley Learning Campus
- £6.3 million – Worcester Southern Link Road
- £3.7 million – Superfast Broadband
- £3.5 million – Malvern Hills Science Park

- £3.1 million – Bromsgrove Rail Station relocation
- £2.6 million – Worcestershire Parkway
- £2.3 million – Stourport Burlish Park School
- £1.5 million – Hoobrook Link Road
- £0.3 million – Worcester Technology Park (works just beginning).

Pension Fund Update

15. For 2014/15 the Worcestershire County Council Pension Fund had an operating deficit of £11.2 million compared to a surplus of £41.0 million for 2013/14. The deficit in 2014/15 was due to a £52.3 million group transfer out of the probation service to the Greater Manchester Pension Fund. Despite this the Worcestershire County Council Pension Fund's net assets increased by £190 million to £1.987 billion at the end of 2014/15.

16. The Pension Fund's Actuary has calculated that the Council's liabilities exceed its share of the assets by £387 million at 31 March 2015.

17. Whilst this net liability will change each year due to the volatility in share prices and changes in the assumptions used regarding financial risk and uncertainties, it remains consistent with the prudent long-term funding strategy agreed at the recent valuation of the Pension Fund in 2013 to ensure assets and liabilities are balanced over a 21 year period.

18. The next stage is to prepare the annual statutory accounts for both the Council and the Pension Fund, which will be audited by the Council's external auditor Grant Thornton UK LLP and presented to the Audit and Governance Committee on 26 June 2015.

19. The insurance reserve is held to meet the cost of claims within three specific areas of business:

- Payments that have to be made for liability claims that fall below the insurance policy excess
- Payments that have to be made for fire damage claims which fall below the insurance policy excess
- The cost of claims that have to be met under the self-insured property damage scheme for schools.

20. The adequacy of each reserve is annually reviewed internally and is subject to independent review every five years. The balance is currently deemed to be adequate and

Insurance

Proposed Earmarked Reserves, New Investments and General Balances

stands at £6.7 million at 31 March 2015.

21. A schedule setting out the proposed earmarked reserves at 31 March 2015 is detailed in Appendix 3.

22. Most of the Council's earmarked reserves are held for an existing financial commitment, leaving a diminishing but reasonable amount to cover risk and uncertainty.

23. During 2014/15 Directorates have withdrawn from their reserves and used the money productively to support current demand for services. There is a risk that Directorates will only have limited ability to continue this support as their reserves are reduced over time and work is being undertaken to minimise cost pressures.

24. These reserves have been carefully reviewed as being prudent and in light of the provisional financial results one new change is proposed:

- The gross favourable variance on money market activity is £0.7 million greater at the end of the financial year than last reported. It is recommended that this money is transferred into the Council's Transformation Fund to be set aside to fund, subject to business case approval, staffing back fill and specialised work which is required to deliver the objectives of the Corporate Plan and Medium Term Financial Plan.

General Balances

25. The effect on general balances following the financial outturn for the 2014/15 financial year is as follows:

	£m
Balance at 31 March 2014	13.0
Transfers to / from during 2014/15	0.0
Balance at 31 March 2015	13.0

Redeployment within the Capital Programme - Timberdine Nursing and Rehabilitation Unit

26. On 20 November 2014 Cabinet approved the investment of £620,000 capital from the Better Care Fund for building works to increase capacity at Timberdine nursing and rehabilitation unit in Worcester, and full Council amended the Capital Programme accordingly.

27. The proposal agreed was to create capacity for additional beds and that any savings realised across the social care and health system would be reinvested in community health services. Plans have been revised with operational managers and commissioners to ensure that nursing management and patient dignity are optimised. The revised total cost is £760,000.

28. The additional £140,000 cost can be funded from existing capital funds within the Social Care Reform capital pot (with a view also to utilise money bequeathed to the Council for the benefit of Timberdine service users).

FutureFit Programme Update

Cabinet is therefore recommended to redeploy the additional sum through virement within the Capital Programme in line with the Financial Regulations.

29. The FutureFit programme has the clear intention of delivering the changes needed to support the four key areas of focus set out in the Corporate Plan – FutureFit: Open for Business, Children and Families, Health and Well-being and the Environment. It remains a key delivery vehicle for identifying, managing and delivering the transformation required of the organisation to realise the FutureFit vision.

30. Over recent years the Council's need to reduce expenditure whilst avoiding further cost pressures has risen from £20 million per year to a latest estimate of around £25 million per year as central Government has increased funding reductions directed towards Local Government as part of their plan to tackle the national deficit.

31. Budgets for vulnerable service users have been increased every year in response to demographic increases, and all budgets take account of the impact of inflation.

32. The Council has continued to meet the increased financial challenge whilst at the same time achieving service improvements. Recent examples include:

- **Assets.** Raised £6.4m in capital receipts from sale of redundant properties and exceeded targets for release of buildings – releasing 130 since 2011
- **Property Management.** Agreement has been secured to create a unique joint property service to be shared across 3 councils, two police forces and the Fire and Rescue service to manage the public estate as a single entity, creating usage and financial efficiencies and opportunities for local economic regeneration. Estimated transfer in Autumn 2015
- The **Broadband** Programme remains ahead of schedule to enable 55,000 premises by 2016 - over 24,000 business and residential premises are already now able to connect to fibre broadband. We have also secured a deal for a 'Superfast Extension Programme' enabling more than 8,000 additional homes and businesses access to high-speed fibre broadband by 2018 taking the percentage of homes and businesses able to access this service to more than 95%
- **Your Life Your Choice** - The new Adult Social Care website launched on schedule on 1 April 2015. In the first week over 2000 users accessed the system to get information and advice. The system

allows for online safeguarding, user and carer referrals from the public and professionals that link directly to the Social Care system reducing errors and speeding up response times

- **Public Transport** - A revised bus network was implemented in Worcestershire on 1 September 2014. This followed a major public consultation exercise with a record 8,500 responses which supported the Cabinet decision to continue to fund public transport in order to maintain access to schools, for essential shopping and for health purposes.

33. Since 2011/12, the Council has delivered savings of £96.8 million.

34. There are existing plans (subject to detailed consultation where appropriate) to deliver £27.5 million savings in 2015/16, £19.9 million in 2016/17 and a further £15.2 million over 2017/18 and 2018/19. Around two thirds of these planned savings are at risk of delivery and all plans are subject to robust project management.

35. However, based on the Medium Term Financial Plan approved in February 2015, there still remains a need to establish further savings to balance the budget of £7 million in 2016/17, £11.7 million in 2017/18 and £22.5 million in 2018/19.

36. The Council will continue its successful approach of being proactive and planning for change, listening to ideas, concerns and opinions.

37. This planning is being progressed with the intention of developing clear plans for consideration during Autumn 2015.

38. Clear and consistent messages are also being communicated around FutureFit to local people, for example, through the local media and also communications to staff through regular newsletters, intranet news items and email. In addition to this, FutureFit staff briefings are planned each month to communicate the key aspirations of the Corporate Plan – FutureFit and the future direction of travel for the organisation.

39. In accordance with Financial Regulations and the Council's Treasury Management Policy Statement, the Chief Financial Officer is required to report annually on the activities of the Treasury Management operation. This report is set out at Appendix 4.

40. The key highlights of this report are:

- The Council's treasury activities were managed successfully within the approved Prudential Indicator

Borrowing and Lending Transactions 2014/15

limits

- Base Rate has remained stable at 0.5% during 2014/15
- Investments prudently made to UK Debt Management Office, other local authorities and Money Market Funds are in line with the existing County Council Treasury Management Policy
- £5.2 million of existing loans have been repaid during the year
- New loans of £22 million have been taken out to support the approved Energy from Waste scheme
- No other new loans have been taken out during the year, and
- Total debt outstanding is within plan and stands at £256.7 million at 31 March 2015, at an average rate of 3.94% (4.35% for 2013/14).

Supporting Information

- **Appendix 1** Operating Activity – Summary Financial Results 2014/15
- **Appendix 2** Directorate Variations - Operating Activity 2014/15
- **Appendix 3** Proposed Earmarked Reserves
- **Appendix 4** Borrowing and Lending Transactions 2014/15

Contact Points

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Background Papers

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

Previous Cabinet Resources reports