

**Cabinet**  
**16 July 2015****10. RESOURCES REPORT**

<b>Relevant Cabinet Member</b>	Mr A I Hardman
<b>Relevant Officer</b>	Chief Financial Officer
<b>Recommendation</b>	<ol style="list-style-type: none"><li><b>1. The Cabinet Member with Responsibility for Finance recommends to Cabinet that:</b><ol style="list-style-type: none"><li><b>(a) his conclusions concerning revenue budget monitoring up to 31 May 2015 be endorsed;</b></li><li><b>(b) the current progress regarding the FutureFit programme be endorsed;</b></li><li><b>(c) Council be recommended to approve the Energy Efficiency Spend to Save Fund addition to the capital programme and that the capital budget cash limits be updated accordingly;</b></li><li><b>(d) Council be recommended to approve the Worcester Cathedral Square addition to the capital programme and that the capital budget cash limits be updated accordingly;</b></li><li><b>(e) his conclusions concerning capital budget monitoring up to 31 May 2015 be endorsed; and</b></li><li><b>(f) the current position of the annual statutory financial accounts process is noted.</b></li></ol></li><li><b>2. The County Council has delivered just short of £100 million in savings and efficiencies since it commenced its Better Outcomes and Lean Delivery Programme – BOLD. This programme has evolved into Future Fit. With a greater focus on supporting the Corporate Plan and better outcomes for residents, it is pleasing to note that identified at the end of May 2015, £17.3 million of the £27.2 million target for 2015/16 has been either delivered or confirmed as on target. The majority of the remaining target has been rated as Amber in terms of risk to delivery. The County Council remains focused on delivering the remainder of the savings and efficiencies plan to take overall savings over the £125 million mark since 2010/11.</b></li><li><b>3. Forecasting the Year end Outturn at the end of May includes understanding the impact of two months of actual expenditure and</b></li></ol>
<b>Introduction and Summary</b>	

## Future Fit Programme Update

forecasting ahead for the remaining ten months. The overall financial pressure forecasted at this point for 2015/16 is circa £5.5 million or 1.7% of the authorised cash limited budget. All avenues to reduce this forecast financial pressure are being explored to support delivery of services in 2015/16 within the authorised cash limited budget of £326 million. Updates will be provided on this within forthcoming Resources Reports.

4. The County Council plays a vital role in supporting a sustainable economy and values its role in minimising the impact it has on the environment through its buildings and estate. Within this report is a recommendation to approve a further £0.6 million towards schemes that are intended to recover their initial costs to lower the County Council's carbon footprint.

5. Over recent years, the County Council has been working with the city and towns across Worcestershire to make improvements to the Public Realm and make Worcestershire an attractive place for business and retail opportunities. Investment into Cathedral Square represents one such opportunity and proposals are outlined for inclusion in the Capital Programme.

6. The External Auditor has reported to the Audit and Governance Committee that they plan to issue an unqualified external audit opinion on the Financial Statements for the County Council and the Worcestershire Pension Fund subject to the completion of a small amount of outstanding work.

7. The Future Fit savings programme target for 2015/16 is £27.5 million. This consists of £23.8 million of savings and efficiencies planned for implementation in 2015/16 and £3.7 million of prior year savings programmes carried forward from 2014/15.

8. As at the end of May 2015, £17.3 million of the £27.2 million target for 2015/16 has been either delivered or confirmed as on target. The majority of the remaining target has been rated as Amber in terms of risk to delivery. Notable outcomes within the programme are outlined below:

- Superfast Broadband  
The planned milestone of achieving 31,360 connections has been achieved ahead of the end of June 2015 target
- Child in Need Team  
The team worked with 246 children in the 6 months to May 2015 and ensured effective interventions were provided to support the right service and outcomes for each child. This resulted in 40 children able to rely less on the Council and become more independent.
- Learning and Achievement services  
The Council has appointed its preferred provider for these services, Babcock, who have a strong track record in providing these services in other areas of the Country
- Place Partnership Limited

## Revenue Budget Monitoring 2015/16 Outturn Forecast as at 31 May 2015

The Council and its partners appointed the Managing Director for the newly formed company who started in their role in June 2015. Partner organisations have commenced consultation with staff with regard to transfer.

- Assistive Technology

Innovative technology partners have been invited to work with the County Council to improve care provided to older people and more vulnerable residents to allow more independence for older people and vulnerable service users to live at home.

9. The County Council's authorised cash limited budget for 2015/16 is £326 million. When taken together with the amount of money spent by the County Council that is received through specific grants and miscellaneous income the County Council spends over £1 million per day on providing services to residents and service users.

10. As reported in the February 2015 budget, the County Council is faced with some significant service and financial pressures to deliver services within this budget for 2015/16, including increases in the demand for its services, previously planned but now also new cuts in funding from Central Government as mentioned, for example, elsewhere in this Cabinet meeting for Public Health funding as well as a significant savings programme.

11. The overall financial pressure forecasted at this point in the 2015/16 financial year is circa £5.5 million or 1.7% of the authorised cash limited budget. This includes a range of financial pressures, but also forecast underspends against budget at this early stage.

12. The County Council's borrowing costs are influenced by UK Government Gilt rates or the cost for Government of borrowing money on the Capital Markets. Over the last few years, the County Council has undertaken a policy of borrowing from its own reserves as interest gained on its investments is circa 0.5% per annum, whilst its cost of borrowing has typically been between 2.5% and 4%. As Government Gilt Rates increase, the County Council needs to replace its internal borrowing with borrowing from the Public Works and Loans Board or the newly formed Municipal Bonds Agency.

13. UK Government Gilt rates remain low and savings have been generated in the first two months of £0.5 million from continuing to borrow internally rather than externally. Taken together with increased dividends forecast from organisations that the County Council has a financial interest in; a £0.7 million surplus is forecast. There remains some risk of significant fluctuations in this area, particularly as the UK Government cost of borrowing is significantly influenced by global factors and volatility such as US Federal Reserve Interest Rate movements and the Eurozone. Volatility in these areas will continue to be kept under review.

14. The most significant area of financial pressure continues to be the Children's Services Directorate, within the Looked after Children's placement budget. Nationally, demand pressures within services for Looked after Children remains high with a significant number of local authorities experiencing significant demand and financial pressure in this area.

15. The pace at which this demand pressure has risen in Worcestershire, both in terms of numbers of children and the complexity of their needs, has increased. The County Council recently invited a Local Government Association Peer Review team to review the service and its findings have been shared by the County Council together with the County Council's response that included the need to review and revise its medium term plan for the service.

16. As part of that response the County Council has introduced a Back to Basics Social Work programme and has developed a significant programme of reform to both better cope with the demand pressures but also importantly improve the outcomes of Worcestershire's Looked after Children. The emerging plan will cover an extended period – through to 2018 and will be considered alongside any announcements that Central Government make in the Emergency Budget on 8 July 2015 and the Comprehensive Spending Review in the autumn of 2015.

17. As part of developing the medium term plan, investment in the service is required to put the service in the best position to achieve the best outcomes for Worcestershire's Looked after Children within the medium term plan. A detailed review has been undertaken following the Peer Review and as a result the service is forecasting a financial pressure of £5.8 million in 2015/16.

18. The Council is looking to develop its internal services and also maximise the use of best value external providers to provide the right placement at the right time and at the right cost for each of its looked after children. Significant activity has already taken place to develop the Council's in house fostering service. Having more children placed with Worcestershire carers is not only more cost effective but, more importantly, provides a better opportunity for children to remain within their own communities and benefit from continuity of education and healthcare. This campaign is progressing well and early indications show that the recruitment targets are on track. In-house supported living and short breaks units will also continue to be developed over the coming months.

19. There is also an increased focus on early intervention and preventative action to ensure family problems are resolved before there is a need for specialist services such as social care. A Back to Basics Improvement Board has also been established to challenge and support both practice and financial management issues.

20. Work continues within the County Council to explore ways in which this financial pressure can be reduced in 2015/16 and managed across the medium term financial plan and further updates will be provided in future Resources Reports. The effectiveness of the plans in place continue to be monitored on a weekly basis and operational managers have a clear focus on delivering the best outcomes for Worcestershire's Looked After Children within the resources that are available to them

21. All parts of the County Council are currently considering ways

## **Capital Programme Addition – Energy Efficiency Spend to Save Fund**

in which the financial pressure within Children's Services can be minimised either through their work directly with the Children's Services teams or how their own services can be delivered in light of this financial pressure.

22. In addition to the financial pressure being experienced within the Looked after Children's Service, a forecast financial pressure of £0.7 million exists in relation to savings projects that are currently 'red rated' and work continues to deliver these savings in year. Further progress will again be reported in future Resources Reports.

23. The Directorate of Adult Services and Health has received as planned a grant of £3.7 million to support the implementation of the Care Act, and additional funding through the Better Care Fund of £1.3 million. It is expected that the grant and additional monies will be utilised this financial year.

24. An additional challenge for the Directorate of Adult Services and Health relates to an expected reduction of around £3.3 million in the 2015/16 Public Health Ring-Fenced Grant. Further details are included in a separate report to this Cabinet meeting.

25. The overall financial position will continue to be closely managed and work is underway to confirm a package of measures to address the forecast overspends.

26. The Council first established a capital fund for energy efficiency projects in 2010. The fund is self-financed, with the initial years' energy budget savings used to repay the investment costs. Projects are limited to those with a payback period of less than 10 years.

27. To date, £1.7 million has been allocated to the fund and 77 projects have been completed at a cost of £1.6 million, generating annual revenue savings of £0.2 million (1.4 million KwH saved), with an average investment payback of 7.3 years. The projects have also saved 630 tonnes of Co2 per annum.

28. The type of projects delivered across the schools and corporate estate include Solar PV (40 sites), energy efficient lighting (24), insulation, energy efficient cooling and voltage optimisation.

29. The existing funding approval is approaching full commitment and a further capital funding allocation of £0.6 million is proposed to allow scope to respond to demand for projects over the next 2-3 years. The investment will support the achievement of further energy and CO2 savings in accordance with the Carbon Management Plan. This addition to the Capital Programme would be funded by additional prudential borrowing, with borrowing costs mitigated by the budget savings achieved from the projects. It therefore has a neutral impact on the headroom in the programme for new projects.

## **Capital Programme Addition – Cathedral Square**

30. The Cathedral Square scheme will be delivered in three phases; the first being the highways realignment, the second phase the retail development and third phase improvements to the public realm. The County will be delivering phases one and three with an estimated cost of £1.9 million.

31. The overall scheme will enable the following benefits:

- Improved facilities for the public and other users;
- Increased tourism income;
- Increased capital investment by various retailers and local businesses; and
- Bring over 7,700 square metres of floor space back into use which will support approximately 416 jobs.

32. Consistent with the 18 December 2014 Cabinet Budget Report the Council's capital contribution to phases one and three of the scheme is capped at £0.4 million funded by an allocation from New Homes Bonus monies. Additionally, partners including Worcester City Council, the Worcestershire Local Enterprise Partnership and Salmon Harvester, the developer, will provide the remaining finance to secure the project with a final funding contribution being secured via highways maintenance funds contributing to the core highways elements of the scheme. The final split of those third party contributions will be confirmed prior to the sign off of the County Council contribution.

33. It is recommended that the capital programme is updated to include the above funding to enable phases one and three to be completed.

## **Capital Programme Budget Monitoring: 2014/15 Actual Expenditure as at 31 August 2014**

34. The Council's Capital Budget for 2015/16 totals £174.9 million after rolling forward £28.3 million from last financial year. The actual capital expenditure at Month 2 (31 May 2015) is £2.1 million or 1.2% of the budget which is as expected with no significant issues arising.

35. Work has begun to review the timing of capital expenditure over the current and future years and an updated profile of planned capital expenditure over the medium term will be brought to a future Cabinet meeting.

## **Annual Statutory Financial Statements 2014/15**

36. The work regarding the external audit of the 2014/15 Statement of Accounts has been completed with no significant adjustments to the amounts required to be charged to the Council's budget or the amounts held in Earmarked Reserves or General Balances. This work was approved by the Audit & Governance Committee on 26 June 2016.

37. The Council's external auditors, Grant Thornton, have indicated they will give an unqualified audit opinion subject to no matters arising from the public inspection period which ends 16 July 2015.

38. This is excellent news and enables the Council to move forward quickly in full confidence on the financial position for 2014/15 and this will support financial planning for future years.

39. The final stage is for the external auditor to formally close the 2014/15 audit. This is expected to happen over the late summer months following successful completion and audit of Council's Whole of Government Accounts process.

## Contact Points

### County Council 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