

CABINET
19 NOVEMBER 2015**RESOURCES REPORT**

Relevant Cabinet Member

Mr A I Hardman

Relevant Officer

Chief Financial Officer

Recommendation

1. The Cabinet Member with Responsibility for Finance recommends that Cabinet endorses:

(a) his conclusions concerning revenue budget monitoring up to 30 September 2015;

(b) the current progress regarding the FutureFit programme;

(c) his conclusions concerning capital budget monitoring up to 30 September 2015; and

(d) his conclusions regarding the treasury management half yearly report.

Introduction and Summary

2. The County Council spends over £300 million per year on services and has delivered savings and efficiencies of around £100 million since it commenced its transformation and change programme. With a greater focus on supporting the Corporate Plan and better outcomes for residents, it is pleasing to note that, at the end of September 2015, £20.8 million of the £27.5 million target for 2015/16 has been either delivered or confirmed as on target. The County Council remains focused on delivering the remainder of the savings and efficiencies plan.

3. Forecasting the year end outturn at the end of September includes understanding the impact of six months of actual expenditure and forecasting ahead for the rest of the financial year. Following in depth appraisal work across a number of budget headings, the overall financial pressure forecasted at last month for 2015/16 of £5.1 million can now be reduced to around £3.1 million or 1.0% of the authorised cash limited budget. This has been achieved by withdrawing £1.4 million from Earmarked Reserves, utilising £0.5 million from the Public Health Ring-fenced Grant and £0.1 million of other minor variations. All avenues to support the delivery of services in 2015/16 whilst reducing further this forecast financial pressure continue to be explored.

4. This report also includes an update on the Council's Treasury Management activities for the first half of the financial year.

FutureFit Programme Update

5. The FutureFit savings programme target for 2015/16 is £27.5 million and at the end of September 2015, £20.8 million has been either delivered or confirmed as on target. Around half of the remainder is at risk of delivery during the current financial year and work to mitigate this risk is being managed by the Corporate Business Board.

6. The most significant update within the programme concerns Superfast Broadband. At the beginning of October 2015 Superfast Worcestershire announced that the Extension Programme is expected to be delivered nine months earlier than originally anticipated.

7. More than 40,000 premises are now able to access faster fibre broadband as a result of this programme and the new deployment timescales are July 2016 to the end of September 2017.

8. Other successes include:

- An additional 14 supported living apartments in Worcester developed by Sanctuary Housing have been opened and occupied
- Tender opportunities for the Home Care Improvement Project and the provision of a Shared Lives Scheme have been published and contracts are expected to be awarded over the next month.

Revenue Budget Monitoring 2015/16 - Outturn Forecast as at 30 September 2015

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. The overall financial pressure forecasted at this point in the 2015/16 financial year is £3.1 million or 1.0% of the authorised cash limited budget. This is a reduction of £2 million since last month following detailed work across a number of budget headings to identify actions that could reduce the financial pressure. This includes utilising £0.5 million from the Public Health Ring-fenced Grant for qualifying expenditure and identifying £1.4 million of Earmarked Reserves where the need to retain funding for other services is no longer required.

11. Work will continue to identify further ways to keep the budget within the overall £326 million cash limit.

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 six months of £1.1 million from continuing to borrow internally rather than externally. Taken together with increased dividends forecast from organisations in which the County Council has a financial interest, a £1.3 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 the position will continue to be kept under review.

14. The most significant area of financial pressure continues to be the Looked after Children's placement budget which is forecasting a financial pressure of £5.8 million for 2015/16 which assumes the successful delivery of £2 million from an action plan for the remainder of the financial year. This forecast remains in line with previous months and follows careful and intensive management action to contain costs. The local forecast demand pressure within services for Looked after Children is consistent with that facing a number of other local authorities nationally.

15. The forecast cost pressure for Home to School Transport – Special Educational Needs provision has fallen since last month by £0.1 million to £0.6 million.

16. The Council is continuing to develop its internal services and maximising 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 positive activity is already taking place to develop the Council's in-house fostering service.

17. Additionally, there continues to be more 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.

Capital Programme Budget Monitoring - 2015/16 Forecast

18. The Council's capital expenditure at 30 September 2015 totals £54 million compared with the revised expenditure profile of £180.2 million.

19. The remainder of the financial year will see continued planned investment in the Energy from Waste scheme of around £40 million and continued investment in highways and school's projects.

Treasury Management – Half Yearly Progress

20. The County Council has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice which recommends that a half yearly treasury management report is produced. The following paragraphs therefore detail the borrowing and lending transactions undertaken by the Council for the first half of the 2015/16 financial year.

21. Long-term borrowing is used to fund capital projects and to replace principal sums repaid during the year. Lending transactions are now made up of short-term

investments with the Debt Management Office held at the Bank of England, other local authorities, Svenska Handelsbanken, the two part Government owned banks (Lloyds and RBS) and in AAA-rated instant access Money Market Funds.

Background

22. The bank rate has remained at a historically low 0.5% for the whole period. Due to a steadily recovering economy, forecasters believe that the rate could start to rise in 2016, however, should the economic recovery lose momentum, this may be deferred. All investments have been made in line with the treasury management strategy approved by Council.

Borrowing

23. Total Council debt outstanding stood at £275 million at 30 September 2015, of which £41 million was to finance the Energy from Waste project. This is well within the Capital Financing Requirement estimated for 2015/16 of £507.5 million. The balance is temporarily funded by cash backed reserves and working capital. This level of debt also meets the Prudential Indicators for the authorised limit for external debt of £543 million and the operational boundary of £520 million. All debt is fixed rate and meets the Council's limits on the type of debt it holds (fixed or variable).

24. The Council may need to take short-term or long-term borrowing over the forthcoming months and in particular during December and the final quarter of 2015/16, as the amount of working capital is forecast to reduce. If working capital falls to around £20 million then this will prompt the decision to borrow. In addition, the Council will fund further drawdown requests for the Energy from Waste plant by borrowing, as required.

25. Total debt consists of longer and short-term debt.

26. The level of long-term debt during the half year increased by £19 million, due to a £1 million maturity in August which will be funded by working capital in the short-term and £20 million of drawdowns relating to the Energy from Waste project, detailed below.

27. New Loans were taken in relation to the Energy from Waste project. They are all annuity loans which mature on the 30 April 2042. Two tranches of debt were taken as follows:

Advance date	£m	Rate (%)
12 June 2015	8.3	3.38
23 July 2015	11.5	3.35

28. Existing debt plus the above drawdowns resulted in the following maturity structure as at 30 September 2015 for debt totalling £275.4 million. This repayment profile meets the Council's Prudential Indicator for maturity structures.

Within	£m	% of Total Debt
1 year	25.9	9.4
1 – 2 years	36.0	13.1
2 – 5 years	23.2	8.4
5 – 10 years	38.7	14.1
10 years and over	151.6	55.0
Total	275.4	100.0

29. The average rate of longer-term debt at 30 September 2015 stood at 4.2%, with a Weighted Average Maturity of 22 years.

30. The short-term debt consists of local deposit loans repayable at seven days' notice, which totalled £0.2 million at 30 September 2015. This is unchanged compared with 31 March 2015.

Lending

31. The Council has placed funds with the Bank of England's Debt Management Office, other local authorities, selected banks and Money Market funds. The temporary lending transactions for the first-half of 2015/16 of the Council's cash balances are summarised as follows:

	£m	£m
Balance at 01/04/2015		57
Investments made during the half-year (173)	466	
Less		
Investments recalled during the half-year (176)	(450)	16
Balance at 30/09/2015		73

32. The balance as at 30 September 2015 includes £4.2 million as part of its role in the West Midlands Regional Improvement and Efficiency Programme and £13.5 million invested on behalf of Hereford and Worcester Fire Authority.

33. All investments are made in accordance with the Council's Treasury Management Policy and to institutions that satisfy the criteria in the Council's Treasury Management Practices.

34. The average rate earned on investments during the first half of 2015/16 was 0.41% with the gross interest earned on investments totalling £0.1 million. The

Council continues to outperform its target for extra income resulting from the change in investment strategy that took place in 2013/14.

35. The Chief Financial Officer and the Cabinet Member with Responsibility for Finance confirm that the management of debt and short-term investments continues to be cost effective.

Contact Points

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Background Papers

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