

CABINET
4 FEBRUARY 2016**2016-17 BUDGET AND COUNCIL TAX**

Relevant Cabinet Member

Mr S E Geraghty, Leader of the Council

Relevant Officer

Chief Financial Officer

Recommendation

1. The Cabinet Member with Responsibility for Finance (who is also the Leader of the Council) recommends that Cabinet agree the following recommendations to Full Council:
 - (a) the conclusions set out in the report concerning revenue budget monitoring up to 31 December 2015 be endorsed;
 - (b) the virement and transfers to Earmarked Reserves as detailed in paragraph 23 are approved;
 - (c) the budget requirement for 2016/17 be approved at £322.468 million;
 - (d) the Council Tax band D equivalent for 2016/17 be set at £1,122.31 and the Council Tax Requirement (precept) be set at £224.968 million;
 - (e) consistent with the provisional Local Government Finance Settlement that revenue cash limits be set for each Directorate (subject to (n) below):

	£m
(i) Adult Services and Health	132.746
(ii) Children, Families and Communities	84.797
(iii) Economy and Infrastructure	64.484
(iv) Commercial and Change / Finance	40.441
	<u>322.468</u>

- (f) that the County Council continues to engage with residents and businesses in shaping the Corporate Plan and spending profile in line with their priorities;
- (g) the Council's Pay Policy Statement is recommended for approval as set out in Appendix 8;
- (h) the conclusions set out in the report concerning capital budget monitoring up to 31 December 2015 be endorsed;
- (i) the capital programme as set out in Appendix 9 be approved;
- (j) the Medium Term Financial Plan as set out in Appendix 10 be

- approved;
- (k) delegated authority is provided to the Chief Financial Officer in consultation with the Leader of the Council to respond to Central Government and accept the offer of a four year settlement;**
 - (l) the Treasury Management Strategy set out in Appendix 11 be adopted; and**
 - (m) the Statement of Prudential Indicators and Minimum Revenue Statement as set out in Appendix 12 be approved.**
2. **The Cabinet Member with Responsibility for Finance (who is also the Leader of the Council) recommends that Cabinet:**
- (n) 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 in (e) as a result of Central Government confirming the final Local Government Finance Settlement and associated Specific Grants for 2016/17;**
 - (o) authorises the Director of Adult Services and Health and the Director of Children, Families and Communities to finalise the details in respect of their Directorates and formally execute the Section 75 agreement for Commissioning arrangements with Health for 2016/17.**

Introduction

2. This report represents the penultimate stage in the formal process to determine the County Council's budget and precept levels for 2016/17. If approved, the report will form the basis for proposals to Full Council approval on 11 February 2016. The approach to preparing the budget is in accordance with the Budget and Policy Framework Rules and reflects the County Council's Corporate Plan – Future Fit and Medium Term Financial Plan (MTFP).
3. The Cabinet received the draft budget for 2016/17 at its meeting on 17 December 2015 and:
- a) approved for consultation the draft budget which includes budget reductions that are currently being consulted upon arising from the FutureFit programme, a number of which have already been subject to detailed Cabinet and Scrutiny reports;
 - b) endorsed the plan to address a savings requirement of £2 million as a result of updating the Medium Term Financial Plan (MTFP) taking account central government's Spending Review announcement to be presented for approval within the February 2016 Cabinet and Full Council reports;
 - c) endorsed an investment of £0.5 million each year for road maintenance and £12 million over two years for the Driving Home highways infrastructure improvement programme following residents feedback on the importance of the County's roads and in support of the Council's Open for Business priority;
 - d) noted that the full detail of the provisional local government Finance Settlement is expected to be released in late December 2015 and that, if required, any significant updates will be presented at the February Cabinet meeting;
 - e) endorsed the view that the Council's planning assumptions remain consistent, with a need to plan for annual savings on average over the life of the MTFP of around £25 million per annum, and £24.6 million for 2016/17;
 - f) agreed that that it is minded to recommend to Full Council in February 2016 an

increase in Council Tax Precept by 3.94% in relation to two parts:-

- 1.94% to provide financial support for the increased costs for services for Looked after Children, forecast to be £5.8 million in 2016/17;
 - 2% ring-fenced for Adult Social Care services as allowed by the Spending Review, in order to contribute to existing cost pressures in 2015/16 that are being presently funded by one off grant income or reserves that will not be available from 2016/17; and
4. The Council continues to listen to the needs and priorities of residents and local businesses through the annual Viewpoint Surveys, Roadshows, Budget Consultations, public participation in Council meetings and through ad-hoc tailored consultations and surveys. This extensive interaction has made it clear that the three priorities identified by the public are and remain to be:
- Maintenance of the Highways;
 - Protecting vulnerable older people, particularly those with physical, learning and mental health difficulties; and
 - Protecting vulnerable young people, particularly those in or leaving care to ensure they are safe and can make the most of the opportunities they have.
5. This report provides recommendations to allow the determination by Full Council of the budget and precept level for 2016/17. This would enable the County Council to remain ambitious, continue to deliver what is important to local people and the four priorities contained in the County Council's Corporate Plan – Future Fit – as well as have robust plans for the significant financial challenges of this settlement. The County Council will need to develop robust plans for the significant financial challenges that will result from the Provisional Settlement. This report brings together:-
- a budget summary setting out the key aspects of this report;
 - the results of the budget consultation and engagement process;
 - confirmation of areas of investment in Core Priorities for residents and the Council;
 - the latest revenue forecast outturn and reserves movements for 2015/16;
 - summary of changes made in relation to the County Council's funding for 2016/17;
 - developments in expenditure budgets for 2016/17 from the plan presented to the December 2015 Cabinet; and
 - the effect of those changes on the budget and the provisional financial planning gap of £2 million for 2016/17 included in the December 2015 Cabinet report.
6. At the time of writing there are three income forecasts that have yet to be confirmed:
- Central Government have yet to issue the final figures for the Local Government Finance Settlement;
 - District Councils have yet to confirm their forecasts for 2016/17 Business Rate income; and
 - there remain a range of Specific Grants that are yet to be confirmed by the Department for Communities and Local Government (DLCG) and other Government Departments.

A verbal update will be provided at Cabinet with regard to any confirmations that have been received. Within this report forecasts relevant to these items have been reviewed and refined based on the latest information that is available.

7. Delegated authority is requested in this report to be given to the Leader of the Council, in consultation with the Chief Financial Officer, to make any final adjustments to the

proposed cash limits being recommended to full Council once these three remaining items are resolved.

8. This report then goes on to summarise work undertaken in the following areas since the draft budget in other areas of financial planning:
 - Joint Commissioning arrangements with the NHS, known as Section 75 agreements;
 - The Proposed Settlement in relation to funding in relation to Worcestershire Schools including Dedicated Schools Grant passed directly to Schools and the Education Support Grant that supports the Council's services to Schools;
 - The proposed Pay Policy for the Council in 2016/17;
 - Changes to the forecast New Homes Bonus payments;
 - The Council's proposed 2016/17 and medium term Capital Programme; and
 - The base assumptions supporting the Council's MTFP as well as associated areas of risk that will continue to be kept under review.
9. Finally, this report covers those reporting responsibilities that are required to be included in this budget report by statute. These include:
 - the proposed Treasury Management strategy;
 - the proposed Prudential Code parameters for the Council to operate within;
 - consideration of the Council's Equalities Duty in relation to this budget;
 - Commentary from the Overview and Scrutiny Board;
 - Arrangements around the consideration of alternative budget proposals; and
 - Statutory Duties in relation to calculating the Budget.

Budget 2016/17 Consultation and Engagement

10. This budget confirms the initiatives that were set out in the Draft Budget report to the December 2015 Cabinet and supports the delivery of the four Corporate Plan focus areas. The Corporate Plan focus areas are informed by extensive engagement over the last three years with residents and businesses.
11. The Council has spoken to more than 4,000 individuals and over 1,200 businesses bringing the total response to our engagement since 2010 to more than 53,000 conversations with residents.
12. It is pleasing to see that an increasing number of young people now engage in these processes and the Council will continue to encourage wide public participation.
13. Residents' satisfaction with the local area is high, and:
 - satisfaction levels in the County Council have increased compared to a year ago (56% compared with 54%);
 - more people in Worcestershire agree that the County Council provides value for money (44% from 38% in 2014); and
 - 82% of residents are satisfied with their area as a place to live.
14. Over the Autumn the County Council engaged with residents, staff, businesses and the Voluntary Sector through a number of channels including:
 - public and staff road shows involving the Leader of the Council and the Chief Executive;
 - voluntary and community sector event; and
 - press briefings and Social Media.

15. Since the December 2015 Cabinet meeting, budget consultation has taken place with the following organisations:
- Parish and Town Councils;
 - Staff associations, School governors and head teachers;
 - The local Business Community through the Worcestershire Local Enterprise Partnership (WLEP) Business Board including National Non Domestic Ratepayers;
 - Voluntary and Community organisations;
 - Employee representatives including Unions; and
 - Partners including health service organisations.
16. Feedback from the budget consultations in general showed appreciation of the Council's financial challenge and support for lobbying Central Government over funding reductions. Other comments concerned the need to ensure any new money from increasing Council Tax would be spent wisely in particular with regard to looked after children, social care services, and support for our overall approach to economic development. Positive feedback was received regarding optimising income generation.
17. The draft budget proposals will have been considered by the Overview and Scrutiny Performance Board on 28 January 2016 through receiving its Budget Monitoring Group's report informed by feedback from each Scrutiny Panel. The Overview and Scrutiny Performance Board's response is set out in Appendix 1.

Confirmation of areas of investment in Corporate Plan Priorities

18. Set out below is confirmation of areas of investment into residents and the County Council's Core Priorities in 2016/17 and across the MTFP.

- Open for Business

The continued investment in physical infrastructure such as roads and new business sites remains one of the Council's highest priorities to ensure a thriving and growing Worcestershire economy. Game Changer sites in Worcester, Redditch, Kidderminster and in Malvern are to generate up to 16,000 jobs for Worcestershire in the coming years.

The MTFP confirms the continuation of allocations to support the costs of prudential borrowing to fund new capital expenditure to drive the Council's Open for Business priority alongside the Strategic Economic Plan and Local Growth Plan funding through the Council's key partner, Worcestershire LEP.

Two additional allocations have been made to support this core priority and subject to approval at Full Council as follows:

- £2 million capital investment into four 4 key public realm improvements to town centres in Droitwich, Kidderminster, Redditch and Worcester.
- £1.7 million from the County Council unallocated New Homes Bonus to further the design work and associated studies for improvements to the Carrington Bridge and the A38 in Bromsgrove.

- Children and Families

The budget confirms the strengthening of the Children's Social Care budget through the allocation of £5.0 million to support the increasing number and costs of looked after children placements that result from the increased demand from services. The additional £5 million comprises £3 million of recurrent funding to support a more sustainable service with better outcomes for Children and £2 million to support the successful delivery of the financial recovery plan.

- Health & Well-being

The budget confirms the firming up of the Adult Social Care budget through the allocation of £3 million in response to the demographic growth and increasing complexity of supporting vulnerable older people and adults with disabilities.

- The Environment

The budget confirms the reinforcement by £0.5 million to support the costs arising from increases in the amount of waste disposed of by households whilst recognising that the Council still promotes residents to reduce or recycle where they can. The budget also confirms an increase of £0.5 million to support continued investment in road maintenance.

In response to the Notice of Motion as agreed at January 2016 Council, an additional £0.5 million allocation has been proposed for further improvements to footpaths in the Worcestershire.

19. The budget also includes proposed investments from the Strategic Initiatives allocation in the draft budget in respect of traffic studies in Evesham and Malvern, with the intention of examining whether traffic flows through these vital towns can be improved as well as support in the form of £50k to provide part match funding for Museums Worcestershire in respect of improvements to the Commandery in support of Worcester City's application for Heritage City status.

Building on a solid financial base

20. This part of the report sets out the firm base on which we can finalise the 2016/17 budget including the forecast revenue outturn for 2015/16 as well as proposed reserve movements.

Revenue Budget Monitoring for 2015/16

21. The County Council's outturn forecast at Month 8 to 30 November 2015 indicates a cost pressure of £2.3 million against authorised cash limits or 0.7% of the overall budget. It is anticipated that this variance will be reduced through to the end of the financial year so that the Council delivers services within its cash limited budget for 2016/17. In the main, this improvement will be delivered through the implementation of the Minimum Revenue Provision policy change agreed by Full Council in January 2016 and further anticipated flexibility in the Council's financing transactions budget due to interest rates remaining at historic lows.
22. Within this breakeven forecast there remains a significant adverse variance and financial pressure with regard to Children's Social Care Placements. In common with a number of other local authorities there are significant increases in demand and costs with regard to Children's Social Care. The County Council's Children's Services placement budget is currently facing a cost pressure of around £5.8 million in 2015/16. This is subject to the implementation of the remaining £0.8 million in-year operational action plan and ongoing mitigation strategies are in place to contain expenditure within the budget allocation over the medium term.
23. The FutureFit transformational programme continues to make good progress and the 2015/16 target of £27.5 million is forecast to be achieved. There are a small number of schemes totalling £2.9 million which are likely to be carried forward and implemented in next financial year. Any shortfall in 2015/16 is due to be covered by one off means and all plans remain on track for implementation.
24. The 2015/16 budget that was set by the County Council in February 2015 forecast to maintain General Balances at £13 million. Based on the outturn forecast at December 2015 it is likely that this will not change. General Balances are therefore likely to remain at £13 million at the end of the 2015/16 financial year.

Transfers to Reserves

25. The Cabinet Member for Finance recommends that Cabinet approve the following virement and transfer to earmarked reserves as part of the December 2015 forecast reporting. This does not require alteration of the net cash limits approved by Full Council. Virement can be made within existing 2015/16 directorate budgets from the favourable variance for financing transactions arising as the need for the Council to take external borrowing is deferred following strong cash balances and no significant rise in borrowing rates expected for the immediate future.
26. This represents confirmation on a proposal to make this allocation within the December 2015 Draft Budget of £0.6 million with regard to the Councillor's Divisional Funds Scheme.

Summarising the work undertaken on closing the provisional financial gap

27. As set out in the Draft Budget Cabinet Paper in December 2015, the County Council receives around 17% of its Net Revenue Budget funding through Central Government's Revenue Support Grant (RSG). The Comprehensive Spending Review, published on 25 November 2015 included Central Government's intention to reduce RSG by 56% over the term of the parliament.
28. The Comprehensive Spending Review was sufficiently in advance of the December Cabinet meeting and therefore this trajectory was included in the Cabinet paper in December 2015. The result was a forecast reduction in RSG from £54.4 million in 2015/16 to £43.5 million in 2016/17.
29. DCLG released the provisional Local Government Finance Settlement (the Provisional Settlement) on the day of the December Cabinet meeting. Central Government's intention is for the Provisional Settlement to articulate in more detail the headline messages of the Comprehensive Spending Review.
30. It is normally expected that Central Government issue a technical consultation in the preceding summer were there to be any consideration of significant changes to the way in which funding is distributed across the England. This would usually ensure local councils' are able to feedback and raise questions or comments on any significant proposals and to allow adequate time for planning and changes that may be required as a result of any change.
31. However, Central Government, without forewarning, included significant changes to the way in which RSG is reduced across the medium term and distributed across local councils in England on 17 December 2015.
32. The RSG, instead of being based on the needs of Worcestershire's residents has now been used by Central Government as the 'balancing item' to ensure a council's Core Spending Power (itself a new measure) is similar when viewed over a number of years. This has had a potentially significant impact on the County Council as included for the first time in 'Core Spending Power' is an ability (not whether this has actually happened) to raise income through Council Tax. As a result, urgent and intensive work to review financial plans for 2016/17 and across the medium term was undertaken.
33. Central Government provided just 18 working days for the County Council to consider the impact of this significant change for 2016/17 and respond as part of the formal consultation process. This response is set out in full within Appendix 2 and more detail is set out in the following sections describing the changes that have occurred and the revisions that have been made to the County Council's financial plans.
34. The County Council fully accepts the need for Central Government to make difficult decisions to reduce the size of the national deficit and that Local Government needs to play its part in that. This County Council in particular has played its part by delivering in

excess of £100 million of budget reductions since 2010/11 and currently has plans, approved in February 2015, to continue to deliver £25 million per year of further budget reductions, efficiencies and income generation through to 2019/20. At the same time, the County Council is transforming to become more commercial, agile and focused on place shaping supporting a Worcestershire economy that is now the third fastest growing economy in the country.

35. However, the County Council has expressed its very real concern with the Provisional Settlement and the extent to which significant proposed changes in the way in which the County Council is funded has been changed with very little notice. These changes will come into effect before the County Council can appropriately plan, consult and design changes to its services. Changes to the way in which core funding is distributed across the country means that there is an increasing gap in our finances for 2016/2017. By utilising some one-off monies, the County Council is proposing to deliver a balanced budget for 2016/17 despite a reduction in funding from Central Government of just over £11 million.
36. The delivery of a balanced budget for 2016/17 is supported by approximately £4.4 million of one off resources. The County Council is confident that the measures that are proposed will mitigate the impact on front line services for 2016/17. The Council has taken this approach in utilising one of resources to ensure that appropriate time is taken to consider how budget reductions, efficiencies and income generation schemes can be developed to replace this one off financial support and minimise any impact on front line services for 2016/17. However the County Council will face significant financial challenges in future years if the Provisional Settlement remains unaltered.
37. These one off resources include the utilisation of District Council Collection Fund surpluses and allow the County Council time to properly consider how these can be replaced by budget reductions, efficiencies and income generation in 2017/18 once appropriate consultation has occurred on any proposals. In addition, and set out below in more detail, additional resources that will benefit year on year have been identified as follows:
 - District Council's Buoyancy (increases in Council Tax Yield through housing growth);
 - release of Financial Planning contingencies contained within the Draft Budget;
 - deferral of some planned expenditure until future years; and
 - some additional budget reductions, efficiencies and income generation opportunities on a pro-rated basis across Directorates which can be achieved without further impact on front line services.
38. The key message over the medium term is that the requirement to achieve an average annual level of budget reductions, efficiencies and income generation opportunities of £25 million remains. However, due to the profile of Central Government's proposals for the reductions in RSG there will be an increased level of budget reductions, efficiencies and income generation required in the 2017/18 financial year. Further detail is provided from paragraph 127 within the Medium Term Financial Plan section.
39. Therefore, the next section of this report sets out the key aspects of these changes together with alterations that have been made to the Draft Budget.

The budget requirement and the funding position

40. The December 2015 Cabinet report set out a budget requirement of £327.8 million against funding from Central Government and Council Tax of £325.8 million leaving an initial funding gap of £2 million. This is summarised in the following table:

Table 1: Initial Funding Gap – December 2015

	£m
Revised estimate of 2016/17 budget requirement	327.8
Less provisional Revenue Support Grant funding from Central Government	-43.5
Less estimated funding from Business Rates Retention Scheme	-58.9
Less provisional funding received from Council Tax	-223.4
Initial funding gap	2.0

Developments since the last Cabinet report

41. The Leader of the Council who is also the Cabinet Member for Finance responded to Central Government's Provisional Settlement on 15 January 2016. A full copy of the response is provided in Appendix 2. The response raised concerns including:
- The Provisional Settlement sets out significant and immediate reductions in RSG for the County Council far in excess of the 2015 Spending Review;
 - The Provisional Settlement has only allowed a short consultation period to consider these reductions, and does not allow for changes to be implemented over a reasonable timeframe or include restrictions to limit significant adverse changes;
 - Disappointment that Central Government continues to use a baseline underlying the funding distribution system whereby the County Council continues to receive £7 million less than Central Government's own assessment of the funding required meeting local need;
 - In 2019/20, the County Council will have no RSG, and moreover faces around £0.7 million reduction in business rates top up grant (previously considered out of scope for reductions). It is not clear why the Provisional Settlement leaves some authorities with significant levels of RSG at 2019/20 and others have none at all.
42. Central Government are yet to confirm the outcome of the consultation on the Provisional Settlement but it is believed that it will be released during the first week of February 2016 and debated in Parliament shortly afterwards. This report has therefore been drafted on the basis of the Provisional Settlement and a verbal update will be provided at the February Cabinet confirming whether more information has been released and if there are any resulting changes to the content of this budget report.
43. The Provisional Settlement published on 17 December 2015 indicated a £11.4 million reduction in the County Council's funding compared with what was forecast in the December 2015 Cabinet report and the Spending Review. The key changes are outlined in the following table.

Table 2 : Updates following the Provisional Settlement

Detail	£m	£m
Initial funding Gap – December 2015 Cabinet Report		2.0
Further RSG reductions	7.2	
Business Rates Income reductions	0.8	
2015/16 Care Act Specific Grant funding of £3.4 million transferred to RSG without the equivalent flow of funds	3.4	11.4
Total funding Gap		13.4
Increases in income:		
Additional Council Tax Buoyancy	-1.6	
Council Tax Collection Fund Surplus	-3.1	-4.7
Reductions / changes in expenditure:		
Existing budget reductions, efficiencies and income generation brought forward from 2017/18	-0.4	
New / Increased budget reduction, efficiencies and income generation proposals	-1.9	
Planned expenditure that can be deferred to future years	-1.7	
Allocation of contingency to support Care Act expenditure reductions in 2016/17	-2.3	
Release of other remaining planning contingencies	-1.4	
Reduced Care Act expenditure forecast due to Care Act Phase 2 deferral	-1.1	
Lead Local Flood Authorities and Sustainable Drainage Systems grant funding changes	0.1	-8.7
Funding Gap February 2016		0.0

44. The next section sets out in more detail those changes summarised in the table above.

Central Government's 'Funding Assessment'

45. Central Government have in the past referred to the Council's 'Settlement Funding Assessment' as the funding it provides to the County Council. This 'Settlement Funding Assessment' comprised of RSG and Business Rates. RSG and the level of Business Rates retained by the County Council have in the past been calculated based on a formula driven by the needs of Worcestershire residents with an adjustment made periodically to take into account the level of income that has actually been raised locally through for example Council Tax.

46. Central Government has made three significant changes to the way in which the County Council is funded over and above those indicated in the Comprehensive Spending

Review to effectively make their RSG the balancing item in their assessment of the County Council's funding:

- Accelerated the pace of reduction in RSG

Central Government has accelerated the pace at which RSG is reduced for the County Council over and above the rate indicated in the Comprehensive Spending Review;

- Changed the way in which RSG is distributed across England

Central Government has changed the basis on which RSG is calculated, taking into consideration the impact of a council's ability to raise local taxation. This change has significantly impacted shire areas in comparison to other parts of England and resulted in significant redistribution of RSG from Shire areas to Metropolitan areas and London Boroughs.

- Moved funding for the Care Act from a Specific Grant to RSG without an equivalent movement of cash

Central Government have moved funding that was received through a Specific Grant Funding for Care Act responsibilities in 2015/16 into the County Council's RSG, however, this transfer has not been supported by an equivalent transfer of funds into the Revenue Support Grant.

47. When taken together, these three significant changes have resulted in a reduction in the County Council's funding from Central Government for 2016/17 of £11.4 million over and above that indicated within the Comprehensive Spending Review and are part of Central Government's new measure of 'Core Spending Power'.
48. The result is that the County Council's RSG will fall by £18.1 million in one year or by 33%. This compares to an average across all councils of 24%, and an average across County Councils without responsibility of fire services of 31%.
49. The County Council has expressed its disappointment to Central Government both over the timing and nature of these changes through an individual response to the Proposed Settlement Consultation and through the bodies with which it is affiliated including the County Council Network and Society of County Treasurers.

Council Tax

50. District Councils have confirmed during January 2016 increases to the Council Tax Base of £4.4 million (2%) for 2016/17. This increase funding is available on an ongoing basis. In addition to this, District Councils have also declared an overall surplus in their Collection Funds of £3.1 million. This surplus is available as a one-off income stream for 2016/17. Set out in the following table is how these increases and surpluses have arisen.

Table 3: Council Tax Income

	£m
Bromsgrove District Council	0.5
Malvern Hills District Council	0.5
Redditch Borough Council	0.3
Worcester City Council	0.7
Wychavon District Council	1.4
Wyre Forest District Council	1.0
Total additional income from an increase in Council Tax recurrent income as a result of buoyancy and District Council's support schemes changes	4.4
One off 2015/16 Collection Fund Surpluses	3.1

51. The Draft Budget included £3 million in relation to additional Council Tax Buoyancy for 2016/17 based on District Council's forecasts in the latter part of 2015. The table above illustrates that the County Council can therefore increase its forecast Council Tax Yield to £7.5 million following receipt of these declarations in 2016/17.
52. The increase forecast by Wyre Forest District Council includes the effect of the forecast changes in their local Council Tax Support Scheme approved by their Full Council in December 2015.
53. A detailed calculation of the Council Tax together with precept requirements for each District Council and the precept payment dates are set out in Appendix 4(a) and 4(b).

Proposed Council Tax increase and Central Government's Council Tax Referendum Limit

54. Central Government announced within the Spending Review that for the rest of the current Parliament, local authorities responsible for adult social care “will be given an additional 2% flexibility on their current council tax referendum threshold to be used entirely for adult social care”. This 2% flexibility is being offered in recognition of demographic changes which are leading to growing demand for adult social care, and increased pressure on council budgets and is in addition to the core referendum limit. In Worcestershire there is an ageing population, many of whom need some form of care or support. There are now more elderly and frail people living in the county than ever before.
55. The core referendum limit was set at 2% for 2015/16 and it is anticipated that this same level will be confirmed by Central Government as applying to 2016/17. However, at the time of writing, confirmation has not been provided by Central Government and the expectation is that this will be provided as part of the final Local Government Finance Settlement due to be published in the first week of February 2016.
56. The Draft Budget therefore considered by Cabinet in December 2015 included a proposal to increase Council Tax by 3.94% in two parts as follows:
 - 1.94% (within the anticipated core 2% referendum limit); and by
 - 2%, ring fenced for Adult Social Care as encouraged by Central Government following the announcement at the Spending Review.
57. The Council very carefully considers any increases but it is recognised that with more

children coming into care and more elderly and frail people living in Worcestershire than ever before, this extra funding is essential. The Council Tax increase will see an extra £42.54 a year added to the bill for an average Band D household or a rise of less £1 a week, which is still amongst the lowest council tax rates in the country.

58. Central Government has set out a process that it expects the County Council to adhere to should it utilise the 2% Adult Social Care Precept power for 2016/17. This includes the need for a return to be made to Central Government. At the time of writing, there remains a lack of clarity on the exact nature of the return required but it is assumed that there is a need to demonstrate that the precept has been applied to Adult Social Care.
59. Whilst the format and content is not yet confirmed, Cabinet is asked to note that should the Adult Social Care Precept be approved by Full Council, the Leader of the Council who is also the Cabinet Member for Finance in consultation with the Chief Financial Officer will make a return to Central Government confirming the application of the Adult Social Care Precept to those financial pressures in Adult Social Care as set out in the Draft Budget.

Local Business Rate Retention Scheme

60. The County Council works closely with District Councils who maintain the systems to calculate, bill and collect business rates. The income that the County Council forecasts to receive in 2016/17 and included within the December 2015 Cabinet report through the Business Rates Retention Scheme was based on both:
 - an assessment undertaken by the District Councils taking into account forecast collection rates, changes to the number of businesses paying rates and the likely impact of successful appeals; and
 - an assessment of grants that will be received from Central Government in relation to indicatives to support local businesses to provide compensation for lost income such as Small Business Rate Relief and the 2014/15 Business Rate Multiplier Cap.
61. The forecast income in relation to the Business Rates Retention Scheme for 2016/17 has been reduced by £0.8 million. This is due to the following reasons:
 - The rate at which the level of business rates will increase from 2015/16 to 2016/17 is lower than previously forecast as the increase is based on the Retail Prices Index which remains lower than Central Government's previous forecasts; and
 - The actual and forecast impact of appeals and other reductions in local business rates outweighing growth in business rates.
62. The latter point, is of particular importance given Central Government's intention to fully localise Business Rates within this Parliament increasing both the potential reward but also the potential risk of fluctuations in locally collected business rates. A recent example in 2015 related to the revaluation of a number of General Practitioner Surgeries that resulted in a backdated refund of over £10 million across Worcestershire's local authorities as well as an ongoing reduction in business rate income.
63. District Councils are not required to formally confirm their forecasts for business rates collectable in 2016/17 until the end of January 2016. Therefore at the time of drafting this report the indicative forecasts for Business Rates income for the County Council in 2016/17 is £58.1 million. A verbal update will be provided to Cabinet should District Council's indicate formally any significant change to this forecast.

Specific Revenue Grants

64. Alongside the publication of the Provisional Settlement Central Government has stated that certainty has been provided to local councils of funding for both 2016/17 and the medium term. Forecast RSG for 2016/17 as outlined above is £36.3 million. Specific Grants received from a range of Central Government Departments in 2015/16 were £92.3 million. The table below sets out in overall terms those areas of the County Council in receipt of Specific Grant funding.

Table 4: Summary of Specific Grant Funding received in 2015/16

Directorate (£m)	2015/16
Adult Services & Health	67.4
Children's Services	11.2
Business, Environment & Community	10.0
COaCH / Finance	3.7
Total Specific Revenue Grants (excl. Schools budgets)	92.3

65. It is usually the case that by the time of publishing this report the value of the vast majority of these specific grants are confirmed. However, at the time of writing, this is not the case.
66. Set out in Appendix 3 is a summary of the specific grants that the County Council is expecting to receive. It is disappointing to note that only around 50% of these grants have been confirmed. Therefore, there remains some risk that, when confirmed, these specific grants include further reductions to the County Council's funding that has not yet been factored into future plans.
67. A verbal update will be provided to Cabinet to confirm those specific grants that are confirmed prior to the Cabinet meeting and a full listing of confirmed specific grants for 2016/17 will be published in the annual budget book in March 2016.

Public Health Ring-fenced Grant

68. It is helpful to make specific reference to the Public Health Ring-Fenced Grant. The County Council's grant in 2015/16 was £28 million. In 2015/16 this grant has been subject to in year reductions of 6.2%. Cabinet received a report at its July 2015 meeting and agreed actions. A subsequent Cabinet member decision confirmed the areas for reduction.
69. The specific grant for 2016/17 has not yet been confirmed, however communication from Public Health England indicates that further budget reductions and efficiencies will be phased in at 2.2% in 2016/17, 2.5% in 2017/18, 2.6% and flat cash in 2020/21. The changes will also take into account each areas funding position compared to Public Health England's 'target' funding and therefore the County Council's reductions may be greater.
70. The County Council discussed and consulted in some detail with key partners plans for 2016/17 and these can be clarified once confirmation of the 2016/17 grant is received from the Department for Health. There has also been a clear signal that the specific grant will be replaced as we move to a model based on retained business rates. The detail of how this change will work needs to be set out and will be subject to full consultation.

Expenditure budgets

71. The County Council's expenditure budgets have been reduced by 0.7% or £2.7 million since the December 2015 Cabinet report. Whilst minor when compared with the County Council's overall budget, these include:
- £1.7 million reduction for planned expenditure including in relation to the financing of debt that can now be carried forward to a future year when the expenditure will be incurred;
 - £1.4 million reduction by the removal of a planning contingency that has been released to mitigate the addition reductions in RSG;

- £0.4 million increase to reflect higher Better Care Fund grant allocation in 2016/17; and
 - £0.1 million increase to maintain Lead Local Flood Authority and Sustainable Drainage Systems responsibilities as the grant funding for them has been rolled in to Revenue Support Grant.
72. As referenced above, District Councils indicated during January 2016 that the County Council will receive a £3.1 million surplus on 2015/16 Council Tax Collection Funds. The County Council plans for this surplus to be used to balance the proposed revenue budget for 2016/17. This one off funding will need to be replaced by recurrent budget reductions, efficiencies or income generation schemes from 2017/18.
73. The Leader of the Council who is also the Cabinet Member for Finance recommends that £0.7 million set aside within the draft budget presented to Cabinet in December 2015 for Strategic Initiatives is allocated as follows:
- £0.25 million Revenue Contribution to Capital for Footways
 An amended notice of motion was agreed at the January 2016 Full Council requesting Cabinet to consider an allocation of the Driving Home Programme towards Footpaths. Further detail is provided later in this report. The intention is for the allocation of £0.25 million of Strategic Initiative monies in 2016/17 to be combined with Capital Programme flexibility of £0.25 million to create an investment pot of £0.5 million to be spent during 2016/17. More detail is provided in Paragraph 118.
 - £0.15 million – Strategic Transport Modelling Activity
 The further development and maintenance of strategic transport models is increasingly important given the continued housing and business growth in Worcestershire. New models are required for Evesham and Worcester City to inform highway and transport improvements in the urban areas driven by the significant housing growth allocations. The Wyre Forest model needs a significant refresh to support the Local Plan Development process that will run through 2016/17. This allocation of £0.15 million from the strategic initiatives programme will complement existing allocation of £0.225 million from New Homes bonus funding and focus on transport studies in Evesham and Malvern.
 - £0.05 million – Worcester Commandery
 To part match fund a contribution from Worcester City Council to support the development and enhancement of the Worcester Commandery in support of promoting tourism into Worcestershire and the city's bid to gain Heritage City status.
74. The remainder of the unallocated Strategic Initiatives totalling £0.25 million will be used to support the 2016/17 overall budget for one year only. All these allocations are for one year, and the full £0.7 million will be available for permanent allocation in 2017/18.
75. A summary and detailed list of budget variations is provided in Appendices 5, 6 and 14. The list of FutureFit budget reductions, efficiencies and income generation schemes is provided at Appendix 7.

Closing the Provisional Funding Gap 2016/17

76. The changes set out to Council Tax, Business Rates Income, and expenditure budgets have enabled the provisional funding gap of £2 million referred to in the December 2015 Cabinet Report to be fully recovered. The following table summarises progress made since the December 2015 Cabinet Report to close the financial gap for 2016/17.

Table 5: Summary of changes since December 2015 Cabinet

£m	December 2015	February 2016	Change
Council Tax	223.4	225.0	1.6
Collection Fund Surplus	0.0	3.1	3.1
Revenue Support Grant	43.5	36.3	-7.2
Business Rates Retention	58.9	58.1	-0.8
Better Care Fund	33.5	33.9	0.4
Total Funding Available	359.3	356.4	-2.9
Total Net Expenditure	383.9	381.2	-2.7
Future Fit Programme	-22.6	-24.8	-2.2
Earmarked Reserves Contribution	0.0	0.0	0.0
Funding Shortfall	2.0	0.0	2.0

77. General Balances can be retained at their planned level of £13.0 million for 2016/17 and future years. This represents around 4% of net revenue expenditure and is above the minimum level of General Balances considered prudent in light of the risks faced through further reductions in RSG over the medium term planning period. This level of General Balances also is consistent with the level referenced by external audit of £10 million for an organisation of this size.
78. The County Council continues to hold around £5.5 million of Earmarked Reserves for risk in addition to general balances against specific service areas and if used, they only can be used once. Taken together with General Balances, this means that the County Council holds around £18.5 million of un-ring-fenced reserves that could be used to support a financial planning gap in the short term.
79. Central Government recently published information indicating that the County Council has 'unringfenced reserves' of £112 million alongside the implication that these can be used to support the financial planning gap in 2016/17 and the medium term.
80. It should be noted that the majority of Earmarked Reserves held by the County Council support known and future commitments and obligations and are not available to support ongoing financial planning gaps. Examples include receipt of specific grants from Central Government ranging from income received to pay under contract to PFI providers to income received to support specific activities commissioned on behalf of Central Government. These monies cannot be diverted from their original intention.

2016/17 Cash Limits

81. The spending requirements set out in Appendix 4 are proposed to become cash limits for each directorate in 2016/17. These are set out in summary within the following table.

Table 6: 2016/17 Directorate Cash Limits

	£m
Adult Services and Health	132.746
Children, Families and Communities	84.797
Economy and Infrastructure	64.484
Commercial and Change / Finance	40.441
Total	322.468

Section 75 Agreement

82. In order to provide the best and most efficient results for residents' wellbeing the County Council has a history of joint commissioning with the NHS across Adults' and Children's Services. Section 75 of the NHS Act 2006 empowers the NHS and local government to enter into formal agreements. The overall purpose of the Section 75 agreement is to formalise partnership arrangements designed to jointly improve outcomes for patients and service users.
83. The County Council renews its Section 75 partnership arrangements with Health for the Commissioning of Services on an annual basis. In Worcestershire, the Section 75 Agreement incorporates three types of budget management:
- Pooled
Includes the Better Care Fund (BCF). Decision making is shared, budgets are managed by the Council and there are agreed arrangements for risk sharing.
 - Delegated
From the Clinical Commissioning Groups (CCGs) to be managed by the Council, with decision-making, accountability and risk lying with the CCGs
 - Aligned
Council budgets are managed alongside the CCG budgets with decision-making, accountability and risk for Council budgets remaining with the Council.
84. A requirement of Central Government is that all plans for the use of the Better Care Fund (BCF) are agreed by the Health and Well Being Board. Headline information on the BCF for future years was provided in the Cabinet report on the 17 December 2015. The total revenue budget of the BCF for 2016/17 is £33.9m million, an increase of the 2015/16 allocation of £0.4 million. The County Council is still awaiting confirmation of any capital grant allocations. This is particularly relevant in respect of Disabled Facilities Grants.
85. Draft BCF plans for 2016/17 have been prepared and are subject to a number of assurance processes through the national framework. Partners are required to establish a Section 75 agreement in order to implement the BCF plan.
86. The formal Section 75 agreement will be in the form of a detailed legal partnership agreement that will include information on the specification of services, commissioning and contract arrangements, value, risk, exit strategy and governance. The detail is being finalised with colleagues in Legal and Democratic Services and Cabinet is requested to authorise the Director of Adult Services and Health and the Director of Children, Families

and Communities to agree the final details and formally execute the agreement in readiness for the 2016/17 financial year.

87. It should be noted that County Council budgets falling within the proposed Section 75 agreement will only be those agreed by Full Council as part of the 2016/17 budget setting. Also, the authority to make key decisions lies with elected members (Cabinet or Cabinet Members as delegated) and the authority to make operational decisions lies with County Council officers under the County Council's scheme of delegation. Reporting of finance and performance of those services commissioned from these budgets will be through the usual arrangements to Cabinet and Council.
88. Similarly for those budgets delegated by the CCGs, the authority to make key decisions lies with the CCG governing bodies and the authority to make operational decisions lies with CCG officers under the CCG schemes of delegation.
89. Reporting against the Section 75 agreement will also be to the Health and Well Being Board, which is responsible for strategic oversight of the Section 75 arrangements.

Dedicated Schools Grant

90. The 2016/17 provisional allocation is detailed in table below under the notional Dedicated Schools Grant (DSG) blocks. This is prior to the recoupment deduction for Academies and non-LA maintained specialist providers. It also compares the provisional allocations to the 2015-16 DSG final settlement.
91. The headline is that DSG overall has increased due to additional pupil numbers giving a higher Schools Block allocation, and an allocation of a nationally available increase in High Needs funding Further detail is provided in the table below with regard to each element of the DSG.

Table 7: Provisional DSG Gross Settlement 2016/17

DSG Allocations (rounded to nearest £0.1 million)	2015/16 £m	2016/17 £m	Pupil Numbers
Total Schools Block	300.3	303.5	70,310
Early Years Block	16.5	16.5	5,105
Early Years Pupil Premium	0.4	0.4	
2 Year olds	3.5	3.5	769
Total Early Years Block	20.4	20.4	
High Needs Block (Provisional)	44.5	44.9	
Other Adjustments:			
Newly Qualified Teachers	0.1	0.1	
Total Dedicated Schools Grant	365.3	368.9	

92. The preceding table illustrates that in overall terms the indicative DSG allocation for Worcestershire is £368.9 million. This allocation will reduce as the funding for academies and free schools will be provided direct to each academy from the Education Funding Agency. The estimated amount that the County Council will receive from the Schools Block element for maintained schools following recoupment of academy funding is £145.6 million. This compares to £157.2 million in 2015/16 which demonstrates the

increase in numbers of schools converting to academy status in Worcestershire.

93. There is an overall increase in pupil numbers between October 2014 and October 2015. The table below shows an increase in both the primary and secondary sectors. 31% of the primary increase and 74% of the secondary increase relates to the inclusion in 2016/17 of the pupil numbers for Holy Trinity Free School. The overall split of children across primary and secondary education remains broadly as demonstrated, with a slight increase in the proportion of primary children as the ratio increases from 60:40 in 2015/16 to 61:39 in 2016/17.
94. Within the sectors there were also some significant variations, with increases and decreases for individual schools when comparing October 2014 and October 2015. This will create some budgetary impact for some schools. The pupil numbers are reduced for the purpose of the SEN adjustment to reflect those pupils in Special Units in Mainstream Schools where place funding of £10,000 is allocated.

Table 8: Pupil Number Variation 2015/16 and 2016/17

Phase	2015/16 October 2014 Census*	%	2016/17 October 2015 Census*	%	Variance
Primary	41,951	60.7	42,878.5	61.0	927.5
Secondary	27,418	39.7	27,661.5	39.3	243.5
SEN Units Reduction	-248	-0.4	-230	-0.3	18
Total	69,121	100.0	70,310	100.0	1,189

Note 1* – Holy Trinity 472 pupils included for 2016-17 only (291 Primary; 181 Secondary)

95. For 3 and 4 year olds the DSG Guaranteed Unit of Funding is the same as 2015/16 i.e. flat cash per pupil based upon the January 2015 census. The numbers for 2, 3 and 4 year olds will be updated during 2016/17 for the January 2016 and 2017 census returns. There is also a continued allocation of £0.4 million to support the Early Years Pupil Premium. The High Needs allocation of £44.9 million (£37.2 million net of Education Funding Agency place recoupment) and is detailed in the table below and is £0.4 million greater than 2015/16

Table 9: High Needs Allocation

	£m
2015/16 Baseline	44.5
Add Post 16 Residency Adjustment	0.3
Less EFA Direct Non Maintained Special Schools	-0.8
Add Additional High Needs Top Up	0.9
Total	44.9
Less EFA Place Recoupment	-7.7
Net Total for 2016/17	37.2

96. From the 2016/17 financial year place funding for pre-16 and post- 16 pupils in Non-Maintained Special Schools will not be included in the High Needs Place funding and will no longer be not included in the DSG baseline, nor will it be part of the place deductions process. This is reflected in a reduction in the estimated place deduction from the High Needs block for SEN units in academies, maintained post 16 and Non-Maintained Special Schools providers.
97. Councils were originally advised of flat cash for High Needs based upon the 2015/16 final DSG. However the County Council has been allocated an additional £0.9 million to support general High Needs growth and funding pressures together with the consequence of the place change process for academies managed by the Department for Education in November 2015.
98. As well as supporting general High Needs growth in 2016/17 this net increase will also have to support deductions to be made from the DSG for places in Alternative Provision free schools opened before September 2015. There is likely to be a budget pressure in 2016/17 and subsequent years, as this additional High Needs DSG will be insufficient to cover all the High Needs pressures, Alternative Provision changes and the further High Needs places which will be required to be commissioned from other Alternative Provision specialist providers. An element of the DSG reserve has been set aside to fund the pressures in 2016/17; however a review of High Needs allocations will be needed in response to a National Funding Formula.
99. As previously reported to Cabinet, the national Pupil Premium Grant rates have been confirmed as being the same as 2015/16 and are set out in the table below.

Table 10: Pupil Premium Grant Funding Rates

Phase/Type (£)	2016/17
Primary	1,320
Secondary	935
Looked After Children	1,900
Service Children	300
Early Years Pupil Premium based on £0.53/hour for 15 hours for 38 weeks	302

Education Service Grant (ESG)

100. There has been a reduction of £10/pupil in the amount allocated for ESG retained duties for 2016/17. This is a direct reduction in funding for councils without a reduction in duties.
101. As announced in the Comprehensive Spending Review, budget reductions nationally of around £600 million will be made on the ESG, including phasing out the additional funding academies receive through the ESG. Central Government have indicated they will reduce the role of councils in running schools and remove a number of statutory duties and will consult on policy and funding proposals in 2016.
102. The Department for Education deducts ESG from the County Council when an academy converts and passes this funding direct to the academy. Some of the services provided by the County Council have a large element of fixed cost associated with them, as such a reduction in grant does not necessarily equal a reduction in spend. The same will apply for the reduction in £10 per pupil in the ESG general rate between 2015/16 and 2016/17.
103. The full impact of the future Central Government proposals will not be fully understood until the County Council receives the consultation and further information as to how maintained schools are expected to deliver (or have delivered for them) the duties

currently undertaken by the Local Authorities and how funding for this will be allocated to them (if at all). There remains a financial pressure of £0.5 million in 2016/17, where replacement budget reductions, efficiencies and income generation have been found and £3.1 million in 2017/18 where future plans are being developed across the County Council.

104. The ESG retained duties rate has been maintained at £15 per pupil in all state funded schools. However, the ESG general funding rate has been reduced to £77 from £87 per pupil as a first step towards achieving the budget reduction, efficiencies and income generation schemes indicated by the Spending Review. The rates for Alternative Provision academies and special academies are £288.75 (2015/16 £326.25) and £327.25 (2015/16 £369.75) per place respectively. There is continued protection to limit reductions in academy budgets as a result of changes to the ESG for 2016/17.
105. The provisional allocation to Worcestershire in 2016/17 is detailed in the table below. This will change depending on the number of in year academy conversions.

Table 11: ESG Provisional Allocations 2016/17

Detail	Pupils 15/16	Rate £	ESG £m
ESG General			
Maintained Mainstream Pupils 3-19	36,269	£77	2.8
Special Maintained School Places	597	£327	0.2
Maintained PRU Planned Places	73	£289	0.0
ESG Retained Duties			
Maintained and Academies Mainstream Pupils 3 to 19	75,470	£15	
Special Maintained and Academies School Places	1,212	£15	1.2
Maintained PRU and AP Academies Planned Places	245	£15	
Total ESG			4.2

Pay Policy Statement

106. The Localism Act 2011 requires the County Council to approve a Pay Policy Statement for each financial year. The Pay Policy Statement specifies its policies relating to pay of its workforce including 'chief officer related' positions and its lowest paid employees. The Pay Policy Statement must be published, on the Council's public website by 31 March each year. The County Council's Pay Policy Statement is at Appendix 8.
107. In developing its Pay Policy Statement the Council has had regard to the recommendations of the guidance on Openness and Accountability in Local Pay. Cabinet are asked to recommend the Pay Policy Statement included in full in Appendix 8 for approval by County Council or consider any amendments to be recommended to County Council.

New Homes Bonus

108. The County Council receives a 20% New Homes Bonus share, currently for a period of 6 years on the basis of New Houses built within Worcestershire. 80% of the New Homes Bonus currently is received by District Councils. The County Council has previously allocated funding from the New Homes Bonus into investment on infrastructure intended to support future growth in house-building and businesses. The Draft Budget Report indicated that £2.0 million will be allocated to the County Council's Driving Home initiative

and this budget confirms that intention. Further examples include:

- £3.6 million Flood Alleviation projects;
- £0.5 million Transport Planning; and
- £0.3 million Cathedral Square improvements, Worcester.

109. This budget also proposes a contribution of £0.4 million to support the investment in Bromsgrove Parkside.

110. Central Government is currently consulting on changes that it would like to make to the New Homes Bonus from 2017/18. The County Council will be responding later in February 2016 to this consultation. The forecast, even when taking Central Government's proposals contained within the consultation, is that the County Council will have £1.4 million remaining in the New Homes Bonus Reserve at the end of 2016/17 and will have a further £1.7 million of funding available over the medium term based on New Homes built since the introduction of the scheme after making the above allocations.

111. An additional proposal is contained within this Budget Report to develop further two key schemes in different parts of the County to further support and grow the local economy for residents and businesses within Worcestershire. These allocations cover further improvement works on the following schemes:

- £1.4 million Worcester Carrington Bridge; and
- £0.3 million, A38 Bromsgrove.

Capital Programme, 2015/16 to 2018/19

Delivery in 2015/16 and confirmation of the existing plan

112. The County Council's Capital Budget for 2015/16 totals £183.7 million. Capital expenditure at Month 8 (30 November 2015) is forecast to be £177.4 million by the end of the financial year with the variance of £6.3 million expected to be carried forward to 2016/17 as projects will now be delivered next financial year.

Major areas of Capital Grant funding

113. The County Council expects to receive Local Transport Plan funding of around £93 million covering 2015/16 to 2020/21, this includes indicative allocations of £14 million per year from 2018/19 totalling £42 million. With regard to the capital programme for schools, to date, the County Council is still awaiting details of funding allocations and Cabinet will be updated when these figures are known.

114. The Director of Children, Families and Communities, in conjunction with the Cabinet Member with Responsibility for Children and Families, will continue the normal process of allocation to specific schemes. Should additional grant be awarded an update will be given to a future cabinet meeting.

The Medium Term Capital Plan

115. The emphasis for determining Capital Investment is based on how proposed schemes support the Corporate Plan – Future Fit with a particular focus on the Open for Business Priority. Work has also been undertaken on the financial provision within the MTFP for additional prudential borrowing of £5 million per year, with the aim of this being funded in future years from the income arising from capital investments that derive a financial return.

Capital Funding for Footpaths

116. The January 2016 Full Council meeting agreed an amended Notice of Motion for the Council to consider an allocation of the £12 million Driving Home Programme to be redirected towards footpaths.

117. The £12 million Driving Home Programme has been developed based on professional

advice from the County Council's Engineers to determine the extent of work required to maintain and extend the life of some Worcestershire's key transport routes. A review has been undertaken of this work and confirmed the need for this full allocation to be made to deliver the benefits envisaged and committed to by those Professional Advisors.

118. A further review has been undertaken of all future capital plans within the Economy and Infrastructure Directorate. This review has identified £0.25 million available for reallocation. Following a review of capital financial commitments, a budget re-allocation is proposed of £0.25 million, previously allocated to Fleet Services that is no longer required. It is therefore possible to release and reallocate this funding to future investment in footways. This additional investment of £0.25 million will require approval at Full Council and will be combined with a £0.25 million allocation from Strategic Initiatives detailed in Paragraph 73 to make a total allocation of £0.5 million.
119. This further allocation will be based on an assessment of need and be combined with previous investment in 2015/16 of £2.2 million that included additional recurring revenue budget of £0.4 million in 2015/16 to increase the investment into Worcestershire footways.

Further Capital Investment allocations

120. Following a review of requests for Capital funding the following allocations towards improvements in the Public Realm are proposed to be financed out of the medium term headroom on the Capital Programme.
121. Over the last five years the County Council, often working closely with key partners has invested in improving a number of important public realm spaces across Worcestershire.
122. A new investment of £2 million will ensure that our public realm spaces continue to flourish and provide an excellent quality environment for businesses and leisure activity for our residents and visitors to the County. The following investment allocations are proposed:-
 - £0.5 million – Droitwich High Street;
 - £0.5 million – Kidderminster Town Centre Phase 2;
 - £0.5 million - Redditch Town Centre; and
 - £0.5 million - Worcester City Centre.
123. Following these allocations, there remains £8 million unallocated capital funding over the period to 2018/19 and work is in hand to review potential new capital expenditure schemes that would meet the corporate plan objectives and in particular the Open of Business priority.
124. The Capital Programme includes the Energy from Waste plant at a total cost of £121.4 million in line with the Cabinet approval in December 2013.
125. As a result of the updates above, forecast capital investment over the period 2015/16 to 2018/19 is £430 million. This makes the County Council one of the largest investors in capital within Worcestershire.
126. Around £50 million will be invested in improving schools and £330 million in business, environmental and cultural schemes. The Cabinet Member for Finance recommends the changes outline within the Medium Term Capital Programme 2015/16 to 2018/19, provided in detail in Appendix 9 are approved.

Medium Term Financial Plan

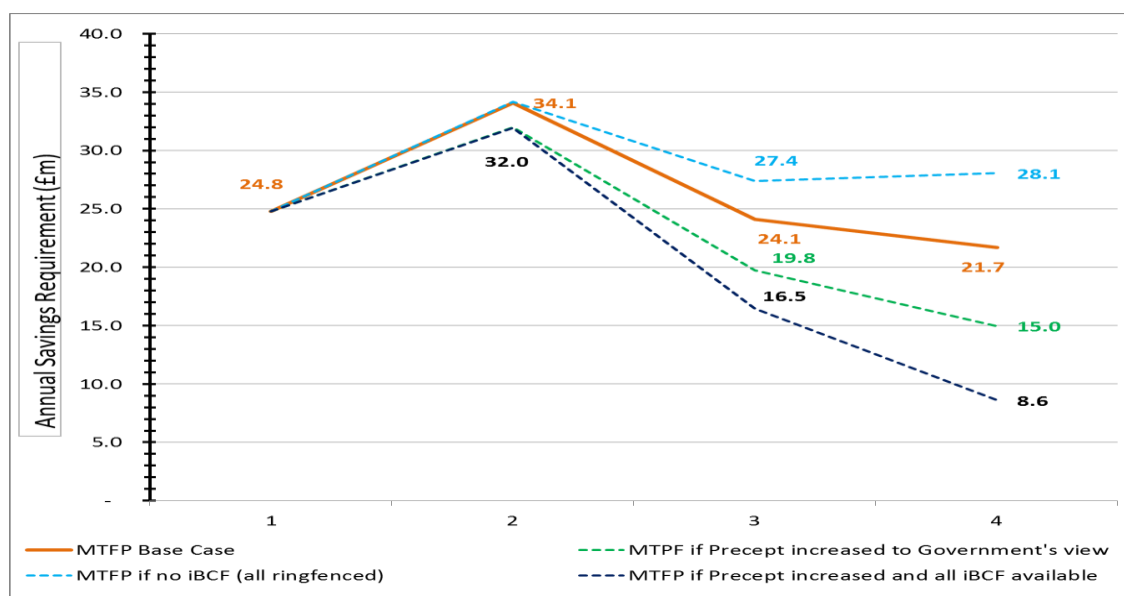
127. The MTFP has been updated to reflect the Provisional Settlement and a comparison has been made to the MTFP that was presented at the December 2015 Cabinet. The work to close the financial planning gap in 2016/17 set out earlier in this report has been considered too.
128. The key message over the medium term is that the requirement to achieve an average annual level of budget reductions, efficiencies and income generation opportunities of £25 million remains. However, due to the profile of Central Government's proposals for the reductions in RSG there will be an increased level of budget reductions, efficiencies and income generation opportunities required in the 2017/18 financial year.
129. The redrafted MTFP sets out a 'base case' assumption particularly around funding for the medium term. It includes the Provisional Settlement that sets out for the first time the changes Central Government is forecasting to a variety of income streams over a four year period, rather than just one or two years.
130. Whilst the County Council welcomes the opportunity to agree a longer term settlement over some of its income streams, the reductions in Central Government funding are far more significant than previously indicated and significant work remains to confirm and challenge the assumptions on which Central Government have developed these forecasts prior to locking in firm forecasts in the County Council's MTFP.
131. The income streams where significant changes in assumptions by Central Government can be categorised in the following ways:
- Revenue Support Grant
An existing and unchanged income stream from Central Government but this now includes significant additional reductions from that indicated at the Comprehensive Spending Review on 25 November 2015
 - New Homes Bonus and Specific Grants
An existing set of income streams that will significantly change where detail is either not currently available for 2016/17 and/or over the medium term or is subject to further consultation by Central Government
 - Improved Better Care Fund
A new income stream to be received directly by councils in the later part of the MTFP. However, confirmation has not been received with regard to the ability for the County Council to use these monies to support existing and budget expenditure
 - Locally generated income from local taxation
Included here are Central Government's assumptions in relation to local decision that will not be made until later in the MTFP planning process. Central Government has used their forecasts to plan their own funding, however this is presuming that the County Council exercises its local discretion over decision making in the same way as Central Government's forecasts.
132. Therefore the MTFP as set out as follows represents the current 'base case' position of the County Council as to how these may be applied over the medium term. The MTFP for approval is provided in the following table with further detail provided in Appendix 10.
133. In this analysis and consistent with the information presented in the December 2015 Cabinet report a further year has been added to the MTFP.

Table 12: The Medium Term Financial Plan

£m	2016/17	2017/18	2018/19	2019/20
Total funding available	356.4	348.2	356.1	365.3
Less service costs based on budget 2013/14	381.2	384.2	380.2	387.0
Less transfer from Earmarked Reserves	0.0	1.9	0.0	0.0
Sub-Total	-24.8	-34.1	-24.1	-21.7
Less budget reductions, efficiencies and income generation opportunities expected from the continuation of the FutureFit programme	24.8	13.4	7.0	2.5
Shortfall in funding still to be addressed	0.0	20.7	17.1	19.2

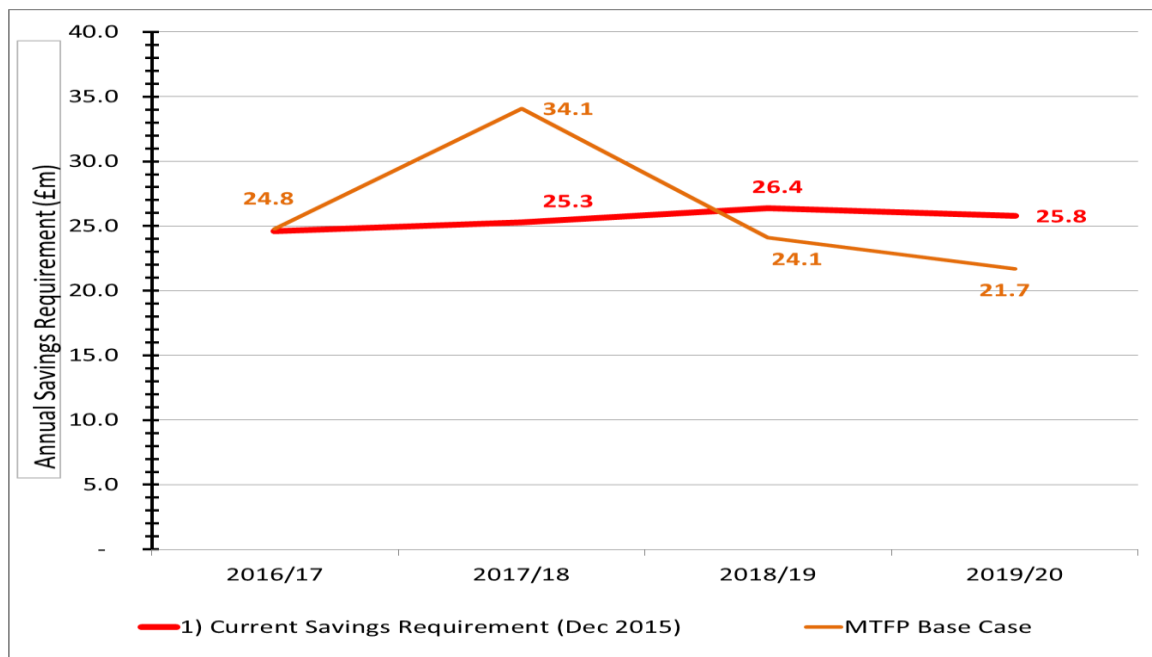
134. It is the intention for the County Council to commence work immediately following the approval of this budget to obtain further information from Central Government in particular around the new funding stream, the Improved Better Care Fund and consider its impact on the MTFP. This will then be considered together with the change in the profile of budget reductions, efficiencies and income generation opportunities required and consider the range of scenarios that could be taken with regard to Central Government's forecasts and assumptions as set out in Paragraph 129.
135. The Provisional Settlement has indicated reductions in RSG from £54.4 million in 2015/16 to £36.3 million in 2016/17, a 33% reduction in grant. RSG will fall further to £19.9 million in 2017/18, to £9.5 million in 2018/19 and will be zero in 2019/20.
136. £47.7 million Future Fit budget reductions, efficiencies and income opportunities have been identified across the MTFP planning period and are currently being developed into detailed plans.
137. Set out in the following chart is an example of how the MTFP budget reductions, efficiencies and income generation opportunities could change given changes that could be made to planning assumptions following this work planned for later in 2016.

Chart 1: Potential planning scenarios to be considered in the medium term



138. Whilst the average annual budget reductions, efficiencies and income generation opportunities required over the MTFP is consistent with previous planning assumptions the profile of budget reductions has changed with an increase of nearly £9 million in budget reductions, efficiencies and income generation opportunities required in 2017/18 and reductions of £2 million and £4 million respectively in 2018/19 and 2019/20. Whilst the margin for movement in 2017/18 is relatively small given the options set out in the preceding chart, the range of possibilities have a fairly significant impact on the budget reductions, efficiencies and income generation opportunities requirement in the latter part of the MTFP.
139. Set out in the following chart is a comparison of the profile of budget reductions, efficiencies and income generation opportunities in the Draft Budget in comparison to the proposed MTFP within this final Budget.

Chart 2: Comparison of the February 2015 budget reductions, efficiencies and income generation opportunities requirement against this MTFP Base Case



140. In addition to the changes made in Central Government Funding streams, changes have been made to the MTFP in the following areas:
- Future Precept beyond 2016/17 assumptions includes the 2% Adult Social Care Precept and a planning assumption for the non-Adult Social Care Precept of 1%. This broad estimate takes into account the future needs of service users and residents of Worcestershire. It should be noted that Central Government assume a total Precept increase for this County Council of 3.75% in each year of the MTFP in their calculations of future Central Government funding;
 - Increases in Council Tax Yield due to forecast growth in house-building have been revised upwards based on the latest data available from District Councils. However even with the most optimistic view on the effect of house-building, Central Government's assumptions around this are far in excess of what is contained in the MTFP and again Central Government has assumed these increases in assessing what Central Government funding should be provided to the County Council;
 - Planning assumptions have been made on the extent to which the Improved Better Funding will be available for supporting existing services when received in 2018/19 and 2019/20; and
 - Planning contingencies have been reviewed in light of the increased uncertainty of future funding and cost pressures as part of a normal review of the MTFP.

141. Throughout the rest of 2016 the County Council will consult with partners, stakeholders, service users and residents on these potential changes which will inform the next Corporate Strategy Planning process later in 2016. The remaining shortfall over the MTFP and updates to this position will be considered around this time and work is already underway in preparation for this.
142. Central Government are requesting, as part of the Provisional Settlement that the County Council accept the proposed reductions in RSG over the rest of the Parliament as well as proposed changes to existing Business Rate income. Central Government have not set out what the alternative is to accepting the 'four year proposal' but have indicated the 'four year proposal' set out the minimum level of funding that the County Council will receive. Central Government has indicated that were the County Council not to accept this 'offer' then future change in Central Government funding would remain subject to annual reassessment and the amount of income could reduce further.
143. It is therefore recommended that delegated authority is provided to the Chief Financial Officer in consultation with the Leader of the Council to respond to Central Government and accept the offer of a four year settlement should the terms be clarified, and in so doing to set out some of the real concerns that this presents over the medium term in the context of a significant additional budget reductions, efficiencies and income generation requirement in 2017/18.

Risks and Sensitivities over the Medium Term

144. The extent of risks and sensitivities that may have a significant impact on the MTFP have increased in this planning round given the significant changes proposed by Central Government for funding over the medium term. Set out below are those areas that remain under review but where the financial effect cannot be reasonably estimated at this stage. Officers will work with Cabinet in the early part of 2016/17 to confirm and challenge the impact of these potential risks and it is anticipated.
145. The intention, in particular around some of the more significant risks, is that Cabinet will consider the approach to take over the medium term and engage transparently with all stakeholders on those planning assumptions that will be used to support the work to identify budget reductions, efficiencies and income generation opportunities in a systematic and planned way for 2017/18 and the medium term.
 - **Central Government Funding**

The MTFP reflects a best estimate of the reductions in Central Government support in accordance with the latest spending review covering the period to 2019/20.

Further detail is not available on new changes that have been introduced to Central Government Funding on 17 December 2015. This includes key new income streams such as the Improved Better Care Fund as well as clarity around RSG and the County Council's Business Rate Top-Up grant. Work will commence immediately following the setting of the 2016/17 Budget to capture and understand the detailed arrangements that Central Government intend to put into place and assess whether changes need to occur on the MTFP 'base case'.
 - **Looked after Children's Placements**

The County Council has experienced significant growth in recent years on both the numbers of Looked after Children and the associated expenditure. Whilst there are signs that the recovery plan, overseen by the Director of Childrens, Families and Communities is beginning to gain traction, there remains a risk that the plans do not delivery the requirement improvements in outcomes and reductions in costs as envisaged over the medium term financial plan.

- Demographic Growth and demand pressures

A number of the County Council budgets continue to be demand led, for example where they are dependent on changes in the service users who are eligible for County Council Adult Social Care services or where activity is driven by residents' behaviours such as the costs of waste disposal. A judgement has been made to cater for the current forecasts in demographic growth and growth in the volumes of waste disposed of and its impact on service provision. These will need to be reviewed in the new financial year and any consideration will need to be given to vary the MTFP for any change in the impact demographic growth over and above that currently included in the MTFP.

- Medium Term implications of the Care Act

Whilst Phase 2 of the Care Act has been deferred, Phase 1 is being fully implemented. The Council has already seen some additional demand as a result of the new legislation and additional demand arising out of its implementation may not have fully come through to the County Council at this stage. The impact of the Care Act will continue to be monitored and full funding from Central Government will be pursued based on the New Burden's regulations. The implications of Phase 2, whilst deferred until 2019/20 still requires further consideration.

- Inflation

The MTFP includes a pay increase for staff as well as forecast rates of inflation for services where the additional cost is unavoidable. Views on inflation, including the impact of National Living Wage increases and other factors that affect the County Council's budgets will be kept under constant review and the MTFP will be updated accordingly.

- The current Business Rates Retention Scheme

A 50% share of risk of negative changes in existing business rates has now been transferred to local authorities. Central Government provides a financial safety net for reductions of more than 7.5% from a baseline calculation. Growth in business rates within Worcestershire, which is significantly influenced by the economic development policies of the County and District Councils, can now benefit local authorities directly. Under current arrangements local authorities can keep 50% of their business rates growth locally as long as this increase is not disproportionate to the size of their revenue budgets. The impact of future growth plans is kept under constant review and once reliable financial trends are apparent these will be included in the MTFP alongside the risk of significant appeals.

- Reform to the Business Rates Retention Scheme

Central Government is currently considering its plans for the full devolution of Business Rates income to local Councils from 2018/19. Whilst good news for the sector, there is a potential for risk in the system as the County Council alongside its District Council partners will be taking full risks on the success of appeals and challenges. In addition, Central Government has indicated that it will be considering new services that will be devolved to the County Council to support the 'new' funding that will be made available. A key risk is that these new services will not be adequately funded at the point of transfer under Central Government's New Burden's initiative. The County Council will continue with the Society of County Treasurers to ensure any new responsibilities are fully funded.

- New Homes Bonus

Central Government are currently consulting on plans for significant revisions to how the New Homes Bonus is operated. The MTFP has been revised to accommodate the preferred approach outlined in Central Government's consultation. The outcome

of the consultation, due in 2016/17, will be considered to assess whether there is any further impact for the County Council from changes in this income stream.

- Pensions

The current MTFP includes a provision for increases in the employer contributions towards the Local Government Pension Scheme as a result of the recent actuarial valuation. The next valuation will take place in 2016 and may result in further increases in the required employer contribution rates that may place more pressure on the MTFP.

Alternative Budget Proposals

146. The Budget and Policy Framework Rules allow alternative budget and council tax proposals to those presented by the Cabinet be considered in the period immediately prior to the budget and Full Council meetings.
147. A member of the County Council, or group of members, may wish to put forward alternative budget and council tax proposals. The more significant or substantial the alternative proposals 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.
148. In the circumstances alternative budget and council tax proposals should to be lodged with the Chief Executive by 10.00 am on Monday 1 February 2016 to ensure the obligations of section 25 are met. Members retain the right to put forward amendments to the budget resolutions placed before the County Council but where these amendments are proposed on the day of the Full Council meeting the Chief Financial Officer is still bound by the requirements of section 25.

Treasury Management Strategy

149. The County Council is required to review its treasury management strategy on an annual basis and the proposed strategy for 2016/17 is set out in Appendix 11. The strategy for 2016/17 is not fundamentally changed since last year, although it has been updated to include how the current forecast for interest rates will affect borrowing and lending transactions.
150. 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.
151. The borrowing strategy will be to borrow to protect the County 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 could occur more towards December 2016, however this will have to take into account 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.
152. 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% to 3.5%. The Treasury Management Strategy includes the borrowing needed to support the Energy from Waste Contract Variation approved by Full Council on 16 January 2014.

The Prudential Code for Capital Finance in Local Authorities

153. The County Council is required to set specific parameters each year to control the extent of its borrowing. The essential purpose of this requirement is to ensure that the County Council always has the means to repay and doesn't borrow beyond its ability to service associated debts. The statement for 2016/17 is set out in Appendix 12.

The County Council's Public Sector Equality Duty in relation to setting the budget

154. The Public Sector Equality Duty is set out in the Equality Act, 2010. The Act lists 9 Protected Characteristics in respect of which the Duty applies. The duty requires public bodies to have Due Regard to (consciously consider) three aims in their decision-making and in policy-making and service delivery. The aims are:
- To eliminate unlawful discrimination;
 - To advance equality of opportunity between people who share one or more of the Protected Characteristics (listed in the Equality Act) and those who do not; and
 - To foster good relations between people who share one or more of the Protected Characteristics and those who do not.
155. An overarching strategic equality relevance assessment has been undertaken in respect of budget proposals for key transformational change programmes which is detailed at Appendix 13. 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.
156. As many programmes are as yet at an early stage of development it is not yet possible to carry out more detailed equality impact analysis. Where necessary equality analysis will be undertaken and findings reported to Cabinet where key decisions are required.
157. Particular attention is being given to Demand Management and Commissioning, in terms of Demand Management: Robust data gathering and analysis which enables us to understand whether there are engagement barriers for some groups – these could be in respect of policy, delivery approach, physical or cultural issues; Agility in making changes to address barriers and ongoing monitoring. Commissioning: Co-production with carers and service users when designing services; Inclusion of measurable Equality outcomes in service specifications; Effective monitoring and, where necessary, ongoing action. We are carrying out equality assessment on some programmes at a strategic level and have identified the need for further assessment on more specific project proposals, as they are formulated. We also need to consider cumulative impact, but, while this need is recognised, there is as yet no clear approach or guidance (nationally) on how this should be achieved.

Consideration of Overview and Scrutiny Board views

158. The Overview and Scrutiny Performance Board (OSPB) met on 28 January 2016 and its comments will be available after the publication of this report. A summary and OSPB view and the feedback from Consultation Events will follow in a separate attachment.

Budget Calculation Statutory Duties

159. Section 25 of the Local Government Act 2003 requires the Chief Financial Officer as Section 151 officer to report to the County Council when it is setting the budget and the precept. The report must deal with the robustness of the estimates included in the budget and the adequacy of the reserves and must be taken into account by the County Council in setting the budget and the precept.
160. The budget currently provides for the financial implications of the County Council's policies to the extent that these are known or can be reasonably assessed. However, there are a number of risks which are beyond the County Council's control and for which it is not possible to be precise:
- some of the County Council's services are essentially demand led;
 - inflation;
 - interest rate volatility; and

- unforeseen emergencies e.g. flooding.
161. It is for this reason that an adequate level of resources must be maintained.
162. The Chief Financial Officer states that to the best of his knowledge and belief these budget calculations are robust and have full regard to:
- the County Council's Corporate Plan and budget policy;
 - the need to protect the County Council's financial standing and manage risk;
 - the estimated financial position at the end of 2015/16;
 - the financial policies of the Government as they impact upon the County Council;
 - the capital programme set out in Appendix 9;
 - the County Council's MTFP set out in Appendix 10;
 - treasury management policy set out in Appendix 11;
 - the prudential indicators set out in Appendix 12;
 - the strength of the County Council's financial control procedures including audit considerations; and
 - the extent of the County Council's General Balance and earmarked reserve.
163. The total budget requirement will be reflected in Directorate revenue budgets to be presented to Full Council on 11 February 2016 and the Annual Budget book for 2016/17 will be published by 31 March 2016.

Supporting Information

- Appendix 1 Key Messages from Overview and Scrutiny – to follow
- Appendix 2 Local Government Finance Settlement 2016/17 Consultation Response
- Appendix 3 Specific Revenue Grants 2015/16
- Appendix 4 (a) Council Tax Calculation and (b) Precept
- Appendix 5 Budget summary
- Appendix 6 Budget Variation Analysis
- Appendix 7 Future Fit Budget Reductions, Efficiencies and Income Generation Opportunities
- Appendix 8 Pay Policy Statement
- Appendix 9 Capital Programme
- Appendix 10 Medium Term Financial Plan
- Appendix 11 Treasury Management Strategy
- Appendix 12 Statement of Prudential Indicators and Minimum Revenue Provision Statement
- Appendix 13 Assessment of the County Council's Equalities Duty in relation to the setting of the Budget
- Appendix 14 Directorate Budgets 2016/17

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:

- DCLG, Proposed Financial Settlement for Local Government 15/16
- Annual Financial Statements for 2013/14
- Budget Book 2014/15
- Cabinet reports during 2014/15
- Agenda papers and minutes of the meeting of the Overview and Scrutiny Performance Board held on 29 January 2015