

Cabinet
19 April 2010**5. MONEY MATTERS****Relevant Cabinet
Member****Mr A I Hardman****Recommendations**

1. **The Director of Financial Services recommends that:**
 - (a) **his conclusions concerning financial performance in 2009-10 be endorsed;**
 - (b) **the Council be asked to approve the proposal to establish a capital fund to promote energy conservation measures;**
 - (c) **the Council be asked to approve the allocation of Local Authority Business Growth Incentive Scheme grant for 2009-10 and 2010-11 of £367,000 to the Planning, Economy and Performance Directorate and the funds be used to match fund grants available through the European Regional Development Fund to support business in the County;**
 - (d) **his conclusions concerning the government's consultation on the review of schools funding be endorsed and a further separate report on the consultation response be submitted to the Cabinet;**
 - (e) **his conclusions concerning the Audit Commission report "Surviving the crunch: local finances in the recession and beyond" be endorsed; and**
 - (f) **the Cabinet supports the statement on the Role of the Chief Financial Officer published by the Chartered Institute of Public Finance and Accountancy.**

2. The net revenue budget for the year ending 31 March 2010 was set at £297.407 million.
3. On 31 March 2009:
 - (a) The general working balance stood at £12.732 million
 - (b) Specific reserves stand at £46.627 million with a further £13.678 million held on behalf of schools.
4. The Cabinet has received reports during the year outlining the most significant funding developments and changes to the financial strategy. The most important issues influencing financial performance during the year are:
 - (a) Demographic pressures in Adult Social Care continue to be very challenging. The service is managing the increase in demand for services through careful budget management and plans to draw on Directorate reserves through between year flexibility of up to £0.5million.
 - (b) The exceptionally harsh winter has placed more demand than anticipated on the roads maintenance and gritting budget and the Environmental Services cash limit could not be expected to absorb the scale of extra work that has been necessary as 7,000 have been repaired in recent weeks. An adverse variance of £1 million is likely. However, on 25 March the government announced a grant of £1.273 million will be made available to the Council to assist with the repairs to damaged roads.
 - (c) Staff pay will not increase by as much as originally envisaged because the settlement was lower at 1%. The favourable variance is £1.3 million.
 - (d) Treasury management activity will yield a positive variance for the year in the region of £2.5 million because the use of working capital has minimised borrowing costs.
 - (e) West Mercia Supplies continues to make steady progress and the Council's share of its operating surplus has increased by around £0.4 million.
 - (f) The financial performance of other directorates is forecast to be on target.
 - (g) Some of the favourable variance could be set aside to establish a capital fund of £1 million to enable energy efficiency measures to be progressed as detailed in paragraphs 6 to 9 of this report.

Energy Efficiency Spend to Save Fund

(h) **Building Schools for the Future.** The Council has set aside £4.5 million to create the redevelopment proposals for schools in Wyre Forest. Good progress has been made and the fund of £4.5 million continues to appear adequate for this vital preliminary stage in the process. On 22 March the Council received confirmation from the government that the Outline Business Case has been approved. The Council can now move to the procurement phase and implementation of phase 1 sample schools at Bewdley and Stourport. Planning work on the other schools also continues.

5. The Director of Financial Services concludes that the Council's budget calculations for 2009-10 have proven to be robust and reserves at 31 March 2010 will continue to be adequate as the Council prepares for a very challenging period over the medium term.

6. A proposal has been developed to establish a capital fund to support the investment in energy saving projects with a payback period of up to 10 years from reduced energy costs. This proposal was included as part of the Climate Change Scrutiny report as endorsed by Cabinet on 2 November 2009. The fund will support the Authority's targets to reduce its CO₂ consumption and lead to ongoing efficiency savings in the longer term.

7. A programme of potential projects has been identified, including building insulation and lighting replacement, renewable energy schemes (including solar), street lighting upgrades and ICT related projects. Each project would seek the budget holders agreement (including schools) to pass on the forecast saving in annual energy costs for a period until the original investment had been repaid, thus meaning the scheme is self-funded within a 10 year time frame. In subsequent years the saving can then be realised as an ongoing efficiency saving. Some building projects that involve betterment may require some additional investment (e.g. from repair and maintenance funds) to support the capital investment.

8. It is proposed that a fund of £1.0m is established for an initial 3 year period from 2010/11, with a review in the final year to assess the impact and requirement for any further investment.

9. This investment, coupled with a programme of installation of 'smart meters' (Automatic Meter Reading) across the entire property estate during 2010 will position the Authority well for the Carbon Reduction Commitment (CRC) Energy Efficiency scheme which commences in April 2010. The CRC scheme is a reporting year only in year one, in subsequent years the Authority will be required to purchase allowances for the CO₂ it uses. Revenue from the



**Local Authority
Business Growth
Incentive Scheme
(LABGIS) Supporting
Business**

**Review of Schools
Funding Formula
Allocation**

allowances purchased will be paid back to participants by government based on performance in a published league table. The nature of the CRC scheme makes it very difficult to assess the scope of risk to the Authority from penalties for poor performance in the league table, but by supporting investment in energy efficiency and installing the smart meters the risks will be mitigated.

10. The Council has LABGI funding available of £162,000 for 2009/10 and this is to be used to support businesses in the County. An additional £205,000 of LABGI funding has been allocated for 2010/11. There is a unique opportunity to match fund LABGI with the European Regional Development Fund (ERDF) Priority 2 programme - Stimulating Enterprise Development.

11. By combining both amounts of LABGI we can secure up to an additional £367,000 to further enhance business support within the county. Using European monies the Council can deliver a substantial project with a budget of up to £734,000.

12. The focus of this funding would be to increase enterprise in Worcestershire and improve economic performance. Projects which could be supported through ERDF include - Supporting growth businesses and those with growth potential within areas such as supply chain development / procurement/ business support. Improving the use of technology/innovation within business and supporting new business creation.

13. On 15th March 2010 the DCSF issued a number of documents on the future of school funding 2010-13. All the documents are available on:

<http://www.teachernet.gov.uk/docbank/index.cfm?id=14743>

14. The main document is a formal consultation on the Future Distribution of School Funding. The key issues from Government included are:

- (a) A wish to return to a formula-based method of allocation of the Dedicated Schools Grant (DSG) in 2011, so that allocations better reflect actual characteristics of pupils.
- (b) Proposing five elements for the formula:
 - A basic entitlement for every pupil
 - Additional money for pupils with Additional Educational Needs (AEN)
 - Funding for provision for High Cost Pupils (HCP)
 - A sparsity factor to support LA's to maintain

small schools in sparsely populated areas

- An Area Cost Adjustment (ACA) for LA's who have higher labour costs
- (c) Proposing the introduction of a Local Pupil Premium (LPP), in order to ensure that the very significant resources in the system for deprivation reach the pupils who need them.
- (d) Intend to continue to distribute money to schools through LA's using their local formulae.
- (e) Mainstream as many of the current separate specific grants as possible into the DSG, so it will form the vast majority of funding for schools.
- (f) The 'future' DSG is seen as:
- Current DSG
 - Schools Development Grant (SDG)
 - Schools Standards Grant (SSG)
 - School Standards Grant Personalisation (SSG(P))
 - School Lunch Grant
 - Ethnic Minority Achievement Grant (EMAG)
 - Extension of the Early Years Free Entitlement
 - Extended Schools – Sustainability and Subsidy
- (g) There will be further proposals for a grant to support school improvement, which will be outside of the DSG funded by re-directing resources from the national strategies and other central programmes.
- (h) Specialist school funding will continue to be allocated separately outside of the DSG.
- (i) Continue to set a Minimum Funding Guarantee (MFG) per pupil for schools, apply to a base including both DSG and grant funding.

15. In terms of overall resources the Ministerial statement confirmed:

- Real terms increases for 2011-13 in schools funding of 0.7%, or 2.7% in cash terms at current inflation providing for increases of 2.1% cash in per pupil funding after taking account of rising pupil numbers.
- DCSF expect average cost pressures 2011-13 of 1.6 % per pupil with 2011/12 at 1.9% and 2012/13 at 1.3%, with the message that schools on average will be able to meet the cost pressures from within

**The Audit Commission
report: Surviving the
crunch: local finances in
the recession and
beyond**

their overall increase.

- Schools are expected to make efficiency savings of 0.9% to enable them to meet all cost pressures.

16. The consultation closes on 7th June 2010 and discussions are ongoing with the Worcestershire Schools Forum on the issues and the continued case for Fairer Funding for Worcestershire schools.

17. The Director of Financial Services concludes this is a very important consultation and provides another opportunity for the Council to make its case for a fairer share of national resources. The next distribution formula review is likely to lead to a settled pattern of funding for several years. It is vital therefore that a strong well evidenced call for change is submitted to DCSF.

18. This report is the third in a series of publications looking at the impact of the credit crunch and subsequent recession on local authorities.

19. The Audit Commission says:

- "that councils must think bigger and act quicker to reduce costs, or funding cuts will cause more damage to services and jobs than is necessary. Most councils have been cushioned from the worst of the recession because the government stuck to its three-year funding settlement. But this ends in 2011. On average, councils receive two-thirds of their income from grants."
- "Even though the timing and extent of cuts in government support are unclear, the report says that councils must prepare now for leaner times. The sooner they get clarity the better. The best-prepared councils are taking action now to preserve services in the years ahead, but others have yet to make any financial plans beyond 2011."

20. The report contains an analysis of national data on local government finance and service demand, including the detailed local government financial returns for 2008/09. This has been supplemented by information about 2009/10 from over 40 councils. The aims of this report are to:

- establish a balanced picture on how local authority finances and demand for services have been affected by the recession so far;
- identify and comment on the differences in impact at local level;
- identify and comment on the actions taken, particularly efficiencies, to address financial pressures; and

Endorsing CIPFA's Statement on the role of the Chief Financial Officer in public service organisations

- assess the resilience of council finances and the ability of councils to withstand future financial shocks.

21. A summary of the report and recommendations is contained in Appendix 2.

22. The Director of Financial Services concludes that the Audit Commission's report provides useful examples of good practice to be followed or adapted to local circumstances. The Council's financial planning track record is well established and robust. Through the Better Outcomes Lean Delivery (BOLD) Programme work is already in hand to deal with an extremely challenging financial outlook. However, it is important that the Audit Commission's suggestions do receive attention across the whole organisation and reinforce the BOLD Programme.

23. The Chief Financial Officer (CFO) occupies a critical position in any organisation, holding the financial reins of the business and ensuring that resources are used wisely to secure positive results. While the global financial crisis and economic downturn have made these tasks even more challenging, they have also underlined the fundamental importance of the role.

24. The Chartered Institute of Public Finance and Accountancy (CIPFA) has recently published a statement that sets out an overarching principles-based framework that is intended to apply to all public service organisations and their CFOs. The statement draws on established good practice and regulatory requirements, as well as, the requirements of CIPFA and other professional accountancy bodies' codes of ethics and professional standards.

25. The Statement covers principles that are vital for good governance. CIPFA aims to encourage use of the statement as the benchmark for organisational arrangements. CIPFA recommends that all public service organisations should report publicly on their arrangements. The Statement sets out the core responsibilities of the CFO as well as the personal skills and professional standards that are crucial to success in the role.

26. The most important features of the Statement are:

"The Chief Financial Officer in a public service organisation:

- (1) is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest;
- (2) must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and

alignment with the organisation's financial strategy;
and

- (3) must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

To deliver these responsibilities the Chief Financial Officer:

- (4) must lead and direct a finance function that is resourced to be fit for purpose; and
- (5) must be professionally qualified and suitably experienced."

27. The Statement sets out the five principles that define the core activities and behaviours that belong to the role of the CFO in public service organisations and the organisational arrangements needed to support them. Successful implementation of each of the principles requires the right ingredients in terms of:

- The Organisation;
- The Role; and
- The Individual

28. For each principle the Statement sets out the governance arrangements required within an organisation to ensure that CFOs are able to operate effectively and perform their core duties. The Statement also sets out the core responsibilities of the CFO role within the organisation. Many of the day-to-day responsibilities may in practice be delegated or even outsourced, but the CFO should maintain oversight and control.

29. Summaries of personal skills and professional standards then detail the leadership skills and technical expertise organisations can expect from their CFO. These include the key requirements of CIPFA and the other professional accountancy bodies' codes of ethics and professional standards to which the CFO as a qualified professional is bound. The personal skills described have been aligned with the most appropriate principle, but in many cases can support other principles as well.

30. The five principles are explained in more detail in the Appendix. The Council's financial management arrangements meet these principles.

31. The Director of Financial Services recommends that the Cabinet supports CIPFA's statement on the Role of the Chief Finance Officer.



Supporting Information

- **Appendix 1 – CIPFA's Role of the Chief Financial Officer Principles**
- **Appendix 2 – The Audit Commission report: Surviving the crunch: local finances in the recession and beyond**

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Background Papers

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

1. Annual Budget Papers for 2009-10 and 2010-11
2. Statutory Financial Statements for the year ending 31 March 2009
3. CIPFA Statement on the role of the Chief Financial Officer in public service organisations
4. Cabinet reports dated 7 May 2009, 6 July 2009, 17 September 2009, 2 November 2009, 17 December 2009, 8 February 2010 and 8 March 2010.