Cabinet

9 September 2021

2021-22 Financial Monitoring – Forecast Position as at Quarter 1

Recommendations

Cabinet is recommended to:

- Note the forecast overspend of £3.190m that would need to be funded from Directorate and General Risk Reserves at the end of 2021/22.

- Note there is a forecast under-delivery of the 2021/22 savings requirement to the value of £0.874m.

- Note the forecast capital spend for 2021/22 of £218.8m, of which £175.4m is capital payments controllable by the County Council and the balance, of £43.4m, relates to schemes funded by s278 developer contributions where the timing is not directly controllable by the Council.

- Approve the carry forward of the reprofiled spend on the capital programme of £17.656 in 2021/22 into future years and note the carry forward of S278 contributions of £10.043m that is not directly controllable by the Council.

- Approve the creation of a new earmarked reserve within People Directorate relating to the recently received Domestic Abuse Funding, in order to enable appropriate planning to ensure robust targeting of the funds to a realistic spend profile. Based on current estimates c50% (£0.523m) of the funding received would be transferred into the earmarked reserve to be incurred in future years.

1. Purpose of the report

1.1. This report outlines the forecast financial position of the organisation at the end of 2021/22, based on the information known at the end of the first quarter. It should be noted that significant uncertainty and potential volatility in our spending patterns due to Covid-19 remains, which is likely to lead to future movements in the forecast.

1.2. The current analysis includes:

- Capital and revenue financial performance;
- Explanations and, where developed/required, mitigating actions for variations and the impact on service delivery; and
- An indication of those areas where the current forecasts carry the greatest risk of change during the year due to demand volatility and assumptions that could still change over the course of the financial year.

2. Summary

2.1. Revenue Forecast Summary

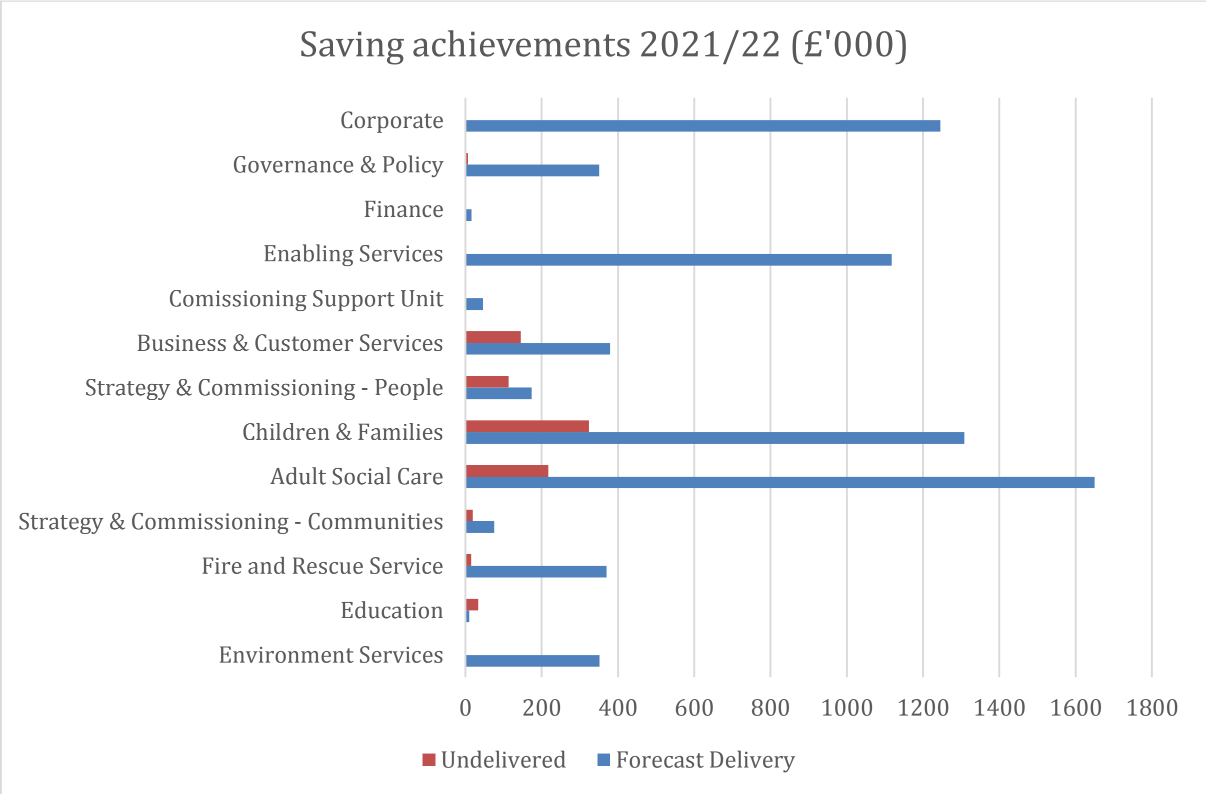
	£m
Approved Budget	335.945
Forecast net spending as at Quarter 1	356.939
Net overspend	**20.994**
Reason for, and resourcing, of the overspend	
• Covid variance fully funded by covid grants carried forward from previous years	11.018
• Reprofiling into future years and/or reduced spend of drawdowns from the Investment Funds	(1.666)
• DSG deficit to be offset against the DSG contingency reserve	7.887
• Spend to be financed from other Earmarked Reserves	0.565
Balance of overspend to be funded from Directorate and General Risk Reserves	**3.190**

The headline forecast overspend for 2021/22 is £20.994m. However, funding has already been set aside in the Medium Term Financial Strategy (MTFS) to meet most of these costs. Once these factors are taken into account the residual overspend is £3.190m which will, if unchanged by the end of the financial year, need to be financed from Directorate and General Risk Reserves.

Based on the current forecast of £7.887m DSG deficit the DSG Offset Reserve will also need to be topped-up by £6.6m by the end of the MTFS period subject to the ongoing analyses of recent DFE funding announcements and demand changes.

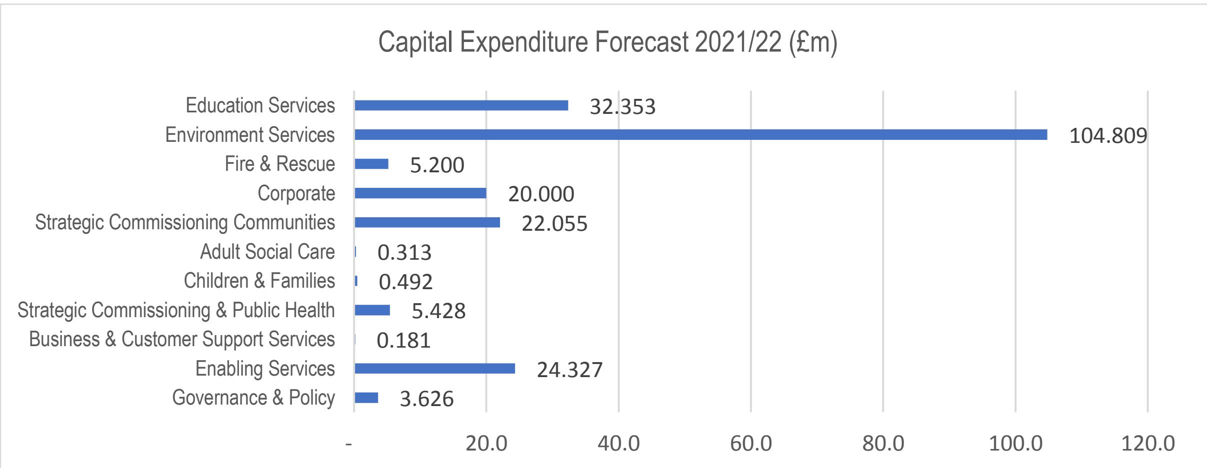
Any use of reserves to meet the cost of any overspends at the end of the financial year reduces the flexibility to use reserve to support the 2022/23 MTFS refresh and/or top-up the Investment Funds to deliver on the Council's ambitions.

2.2. Savings Achievement Summary



The savings plan for 2021/22 requires the delivery of £7.969m of savings from 45 individual saving initiatives. £7.095m is forecast to deliver in line with the plan (89.03%) with £0.874m forecast to be unachieved. For details on saving performance please refer to Section 5.

2.3. Capital Forecast Summary

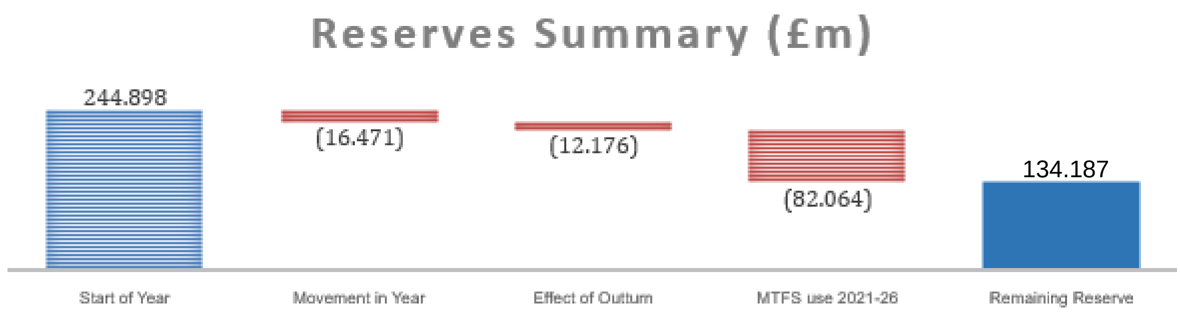


The total forecast capital spend for 2021/22 is £218.8m, of this £175.4m is capital payments directly controllable by the County Council and the balance, of £43.4m, relates to schemes funded by s278 developer contributions where the timing is not directly controllable by the Council.

2.4. Covid Summary

	£m
Covid income budgeted	(10.843)
Covid expenditure budgeted	2.336
Covid 2021/22 funding unallocated at 1 April 2021	(8.507)
Additional income notified since budget setting	(14.911)
Additional pressures identified since budget setting	25.929
Impact of in-year changes to covid spending/income	11.018
Net Covid spend in 2021/22 to be funding from reserves	2.511
Opening balance of Covid Reserves	24.445
Less: Net covid spend in 2021/22 to be funded from reserves	(2.511)
Less: Covid related commitments in 2022/23 and future years	(1.269)
Less: MTFS provision for the loss of Business Rates and Council Tax income	(10.839)
Covid funding to be allocated	**9.826**

2.5. Reserves Summary



The level of reserves at the end of 2020/21 reported to Cabinet as part of the outturn report was £220.992m. The late announcement of additional government grants, delay in the availability of business rates information and schools underspending increased reserves at the end of the year to £244.898m. The forecast spend in this report and indicative future use of reserves to support the MTFS indicate reserves will reduce by £110.712m over the period of the MTFS to £134.187m.

3. Revenue Forecast by Service

Service Area	Approved Budget	Service Forecast	(Under) /Over spend	Represented by: Investment Funds	Impact on Earmarked Reserves	Covid Impact	Remaining Service Variance
	£m	£m	**£m**	£m	£m	£m	£m
Communities							
Education Services - Non-DSG	41.120	43.770	**2.650**	0.000	0.081	0.590	1.979
Environment Services	26.392	26.893	**0.501**	0.000	0.000	0.522	(0.021)
Fire & Rescue	22.080	22.039	**(0.041)**	(0.025)	0.016	0.046	(0.078)
Strategic Commissioner for Communities	24.578	27.917	**3.339**	(0.037)	0.400	3.061	(0.085)
Subtotal Communities	**114.170**	**120.619**	**6.449**	(0.062)	**0.497**	**4.219**	**1.795**
People							
Adult Social Care	159.401	160.890	**1.489**	0.000	0.170	1.768	(0.449)
Children & Families	74.726	79.912	**5.186**	(0.498)	(0.216)	2.191	3.709
Strategic Commissioner for People	35.459	41.215	**5.756**	(0.159)	0.085	6.407	(0.577)
Subtotal People	**269.586**	**282.017**	**12.431**	(0.657)	**0.039**	**10.366**	**2.683**
Resources							
Business and Customer Services	19.021	22.904	**3.883**	0.000	(0.007)	2.986	0.904
Commissioning Support Unit	7.136	13.743	**6.607**	(0.445)	0.000	7.009	0.043
Enabling Services	25.944	24.344	**(1.600)**	(0.502)	0.055	0.075	(1.228)
Finance	6.245	6.311	**0.066**	0.000	(0.019)	0.126	(0.041)
Governance & Policy	2.511	3.875	**1.364**	0.000	0.000	0.486	0.878
Subtotal Resources	**60.857**	**71.177**	**10.320**	0.947	**0.029**	**10.682**	**0.556**
Subtotal Directorates	**444.613**	**473.813**	**29.200**	(1.666)	**0.565**	**25.277**	**5.024**
Corporate Services and Resourcing							
Corporate Services & Resourcing	(111.073)	(127.166)	**(16.093)**	0.000	0.000	(14.249)	(1.844)
DSG expenditure	248.727	256.614	**7.887**	0.000	7.887	0.000	0.000
DSG income	(246.322)	(246.322)	**0.000**	0.000	0.000	0.000	0.000
Subtotal Corporate Services and DSG	**(108.668)**	**(116.874)**	**(8.206)**	0.000	**7.887**	**(14.249)**	**(1.844)**
Total	**335.945**	**356.939**	**20.994**	(1.666)	**8.452**	**11.018**	**3.190**

3.1. Overview

This report provides the first update to Cabinet on the Council's revenue financial position in the current financial year. The forecast outturn position is set out in the table in Section 3 and shows a total forecast overspend of £20.994m representing 6.2% of the Council's net revenue budget.

The new format of the table is intended to provide greater visibility of the actual service variance after taking account of the impact of activity such as funding from Investment/Transformation funds, contributions to/from Earmarked Reserves and Covid pressures. The purpose of this greater transparency of the link through to resourcing is to support improved and informed decision-making both operationally and for the MTFS refresh.

3.2. The material aspects of the overspend are attributable to the following factors:

3.2.1. **Covid:** The table in section 3.1 shows the Covid spend against each service whilst Covid income offsetting the cost is reported as part of Corporate Services. The 2021/22 budget included £10.843m grant income partially offset by £2.336m budgeted expenditure. The difference of £8.507m was not budgeted and intended to be drawn down from reserves as required. Since setting the budget in February several new Covid funding streams have been announced and services have identified additional pressures resulting in an overspend against budget of £11.018m. This position would result in a decrease in the Covid reserves by £2.511m. A further £1.269m of Covid funding is committed for projects that will continue into future years, which will further decrease the reserve balance. Currently the highest Covid spend is reported by the Commissioning Support Unit which largely represents the Contain Outbreak Management Fund (COMF) grant which also heavily features within the forecast Covid spend within Strategy & Commissioning for People.

3.2.2. **Dedicated Schools Grant (DSG):** The forecasted £7.887m overspend consists primarily of the current forecasted overspend on the High Needs Block (HNB) of £7.894m. The forecast will be updated based on revised data and activity following the refresh of the DSG recovery plan, which is currently in progress. There is a risk that the HNB deficit will present a further significant challenge for the MTFS. The level of overspend being forecast here is £6.604m higher than the figures already assumed in the MTFS and is also £4.353m higher than outlined in the current recovery plan. This will utilise all remaining capacity in the DSG deficit offset reserve and is likely to require additional savings unless the rate of overspending can be reduced. Recent DfE announcements on 2022/23 High Needs funding suggest a larger than expected rise in funding, which may offset some of this increased pressure. Work is ongoing to analyse the impact of this increase as there is a risk that some of the reasons for the increased funding will further increase costs within the HNB expenditure. This analysis and any effects it has on future savings assumptions will form part of the comprehensive refresh of the DSG recovery plan. It is recommended that this refresh is overseen by the SEND and Inclusion Board, with clarity on the short and long-term impacts of any changes to the plan; and with sufficient interventions to bring the plan into balance including addressing any increased deficits that emerge from the refresh. The timing of this will be closely aligned to the MTFS process so that any implications can be incorporated at the earliest opportunity. There are two Board meetings scheduled before the end of the second quarter of the financial year with monthly meetings to follow.

3.2.3. **Service specific issues** (for which further detail can be found in Appendix A):

- *Education (non-DSG) £1.979m*
  The primary driver of this overspend is the Children with Disabilities forecast overspend of £1.560m. The service is incurring high unit costs from increasingly complex needs for which the supply of high-quality specialist placements is low; and the use of emergency placements can be both necessary and expensive. There is ongoing work to commission cost-beneficial spot contracts; to review strategies and options to secure quality and affordable placements and to move and maintain more children at Early Help stage.
- *Children and Families £3.709m*
  The variance mainly consists of an overspend on placements of £2.599m and staffing of £2.017m offset by some underspends including a part year underspend of £0.435m resulting from the new internal children's home opening part way through the financial year. The service is carrying out work on a number of areas to address the placements overspend including initiatives to rebalance the 'Placement Mix'; recruiting and retaining internal foster carers; the opening of our own children's home (with plans to pursue funding for further homes), early help wrap around services to children-in-need families; and wrap around support to foster carers to assist in stepdown from residential care. A workforce review has resulted in a number of strategies which are being progressed to encourage recruitment and retention of social workers - such as improved career pathways and a commission with an organisation to recruit 40 permanent social workers to reduce agency costs by up to £0.100m on the short term with potentially further opportunities longer term depending on demand.

3.3. A continuing trend from last year is the forecast underspend on planned transformation and investment fund projects. Services are expecting to re-profile £1.666m of funding from 2021/22 to next year relating to delayed projects, with Children and Families, Commissioning Support Unit and Enabling Services reporting most of the delays. £0.181m of funding previously allocated to specific projects is no longer required as those projects either have been delivered below budget or are no longer progressing. The funding has been returned to the Change Fund for consideration as part of the MTFS refresh and possible allocation to new priorities.

3.4. The Children and Families reprofiling of transformation and investment fund projects totals £0.497m and is the result of a number of factors. This includes delays in recruiting staff; delays in third party contracts commencing; as well as continuing difficulties in engaging with some 3rd sector organisations and the originally planned start date of April 2021 for some projects being rescheduled to a more realistic start date, has also been the impact of Covid and backlogs in the Courts, later in the financial year. Approximately 50% of this rephasing of expenditure is on workstreams funded by the DfE. Discussions with the DfE have suggested they are content with the plans to rephase the expenditure and they may consider reducing the 2021/22 grant payment and paying it in 2022/23.

3.5. In the Commissioning Support Unit, the variance is caused by uncertainties about the timing of some projects as well as underspends against contingencies included in project budgets. In Enabling Services, the delay relates to digital transformation projects and is driven by the difficultly of releasing capacity from other areas of activity.

4. Savings Performance

4.1. Performance against individual saving targets are listed in Annexes A to M in Appendix C of this report. The table below provides a summary of the current forecast.

2020/21	No. of Savings Options	Saving Delivered £m	Saving Not Delivered £m
Savings target achieved/overachieved	34	6.010	0.000
Savings target partially achieved	5	1.085	0.446
No saving delivered against target	6	0.000	0.428
Total	**45**	**7.095**	**0.874**

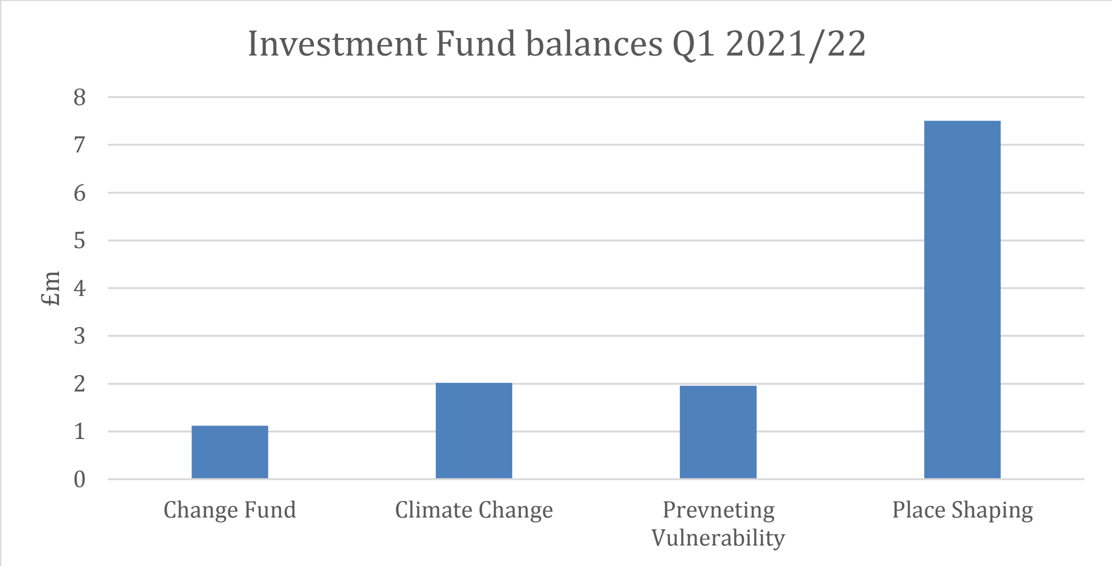
4.2. Below are details of those savings which are highlighting forecast under-achievement. 49% of the underachievement relates to schemes where the services failed to reduce third party spend with a further 42% associated with insufficient cost reduction from vacancy management. Covid continues to impact on savings performance with 31% of the underachievement being related to the ongoing effect of covid on services.

Description	Target £m	Forecast £m	Reason for variance and associated management action
Education - Further savings on third party spend	0.034	0.000	Plans are yet to be agreed for how this saving will be delivered.
Fire & Rescue - Further savings on third party spend	0.015	0.000	This saving was expected to be delivered from savings achieved on training. Due to delays with the capital investment that would provide alternative facilities, this saving is unlikely to be met this year. The position will be continually reviewed to establish whether in year mitigations are possible until the saving can be permanently achieved next year.
Communities - Household waste recycling centre storage -	0.038	0.019	Containers due to be ordered shortly, with delivery expected in November. Due to this

purchase of storage containers to remove revenue cost of hire			delay, it is currently anticipated that 50% of the original savings target will be achieved this financial year, but the full saving will still be delivered in future years.
Adult Social Care - Further savings on third party spend	0.217	0.000	Unachieved but mitigated by wider service underspends. There is no future impact while the service is operating within budget.
Children and Families - Further savings on third party spend	0.052	0.000	Plans are yet to be agreed for how this saving will be delivered.
Children and Families - Maximise income and contributions to care packages and income from safeguarding training	0.275	0.225	Due to continued COVID related issues and pressures the safeguarding training will not reach the turnover anticipated to make the £50,000 income savings target.
Children and Families - Recalibration and reduction of staff - Reduction of posts across the Children Families Service through natural wastage and redeployment alongside recognising natural underspends from staff turnover and operating under capacity.	0.889	0.667	Due to continued pressures / demands on the whole of Children and Families it has not been feasible to take the anticipated post reductions forward.
Strategy and Commissioning – People - Further savings on third party spend	0.103	0.000	Unachieved but mitigated by underspends on commissioning budgets. There is no wider impact while the service is operating within budget.
Strategy and Commissioning – People - Review of expenditure on smoking cessation and falls prevention targeted support.	0.069	0.059	Underachieved, but covered by the forecast service underspend. There is no wider impact while the Service is operating within budget.
Business and Customer Services - Vacancy management	0.260	0.115	The Service are responding to additional demands from front line services/Covid impacts by retaining/recruiting staff which is resulting in the under-delivery of this saving.
Governance and Policy - Further savings on third party spend	0.007	0.000	Currently overspending due to Service Level Agreement costs. It remains to be seen whether these can be mitigated during the year and therefore bring this budget back on target.
Total	**1.959**	**1.085**	

5. Corporate Investment Funds

5.1. The remaining balances of each of the Corporate Investment Funds are shown below:



5.2. The work to produce an investment pipeline, so Members had greater visibility about future developments expected to come forward for approval, in the first quarter of the year demonstrated that the level of ambition is much greater than the resources available within the Investment Funds. Corporate Board temporarily paused new approvals from the funds to ensure initiatives can be prioritised and aligned to the Council Plan.

5.3. Over the medium term the funds will require additional resources to continue to support emerging projects and this will form part of the MTFS refresh this year.

6. Reserves

Reserve	Opening Balance	Movement in year	Outturn Impact	Closing Balance	MTFS Commitment	Balances at 31/03/2026
DSG Deficit	(8.271)	(2.405)	(7.887)	(18.563)	(28.585)	(47.148)
Other Schools Reserves	22.264	0.000	0.019	22.283	0.000	22.283
Covid Reserves	24.445	0.000	(2.511)	21.934	(21.934)	0.000
Other Earmarked Reserves	123.762	(10.527)	1.082	114.316	3.757	118.074
Risk and General Reserves	40.203	(3.540)	(2.897)	33.785	(2.681)	31.103
Available to Use Reserves	42.497	0.000	0.000	42.497	(32.622)	9.875
Total	**244.899**	**(16.471)**	**(12.176)**	**216.251**	**(82.064)**	**134.187**

6.1. At the end of 2020/21 the Council held £244.899 in reserves. Of these £16.471m has been drawn dawn in the first quarter including approved carry forwards, funding for investment and transformation projects as approved by Cabinet and Corporate Board and DSG Schools Block funding as approved by Schools Forum.

6.2. For the MTFS the key issue presented by the current forecast is the £7.894m deficit on the DSG High Needs Block. If it is not reduced by the end of the year it will leave a c.£6.6m gap in the DSG Offset Reserve that matches the accumulating deficit. There will be a need to increase this reserve through either redirecting underspends in 2021/22 and/or identifying savings to close the gap and manage any further deficit in future years.

6.3. The DfE has just announced their provisional funding for 2022/23 with a national average increase of 9.6% in High Needs Funding compared to 2021/22, however Warwickshire only receives an increase of 8%. Work is ongoing to refresh our model taking into account the updated funding assumptions as well as updated demand assumptions in order to assess the overall change in the forecast deficit. The updated DSG recovery plan and the refreshed DSG forecast are likely to have a further significant impact on the savings targets required for the MTFS refresh.

6.4. DfE has also recently agreed DSG recovery plans with a number of local authorities (with additional funding to help their recovery journey) however Warwickshire currently is low on the list of councils considered for additional support. This is due to the DfE assessment being based on the overall net DSG position, where our High Needs Block overspend is masked by better financial performance of the other DSG blocks.

6.5. As part of the budget resolution Council approved the creation of a Taxbase Volatility Reserve, alongside the existing business rates appeals reserve to provide for any deficits on the collection of the council tax and business rates from the current economic downturn. As part of our Covid funding we have received two grants whose purpose is well aligned with this new reserve: the Local Council Tax Compensation Scheme (£4.891m) aimed to cover any shortfall in Council Tax as a result of increased local council tax support cost and the Local Tax Income Guarantee scheme (£5.948m) that covers up to 75% of any lost business rate or council tax income.

6.6. These grants are un-ringfenced and if during the MTFS refresh they are not required to cover collection fund deficits they could be used to support one-off new initiatives.

7. Capital

7.1. The latest forecast of 2021/22 capital payments directly controllable by the Council is £175.418m. This represents an increase of £7.482m on the budget approved in June 2021. A further £379.646m of payments forecast over the medium-term results in a total capital programme of £555.064m.

7.2. The increase in the total capital programme of £134.172m consists of an increase in newly approved capital schemes of £135.125m brought into the programme (including the recently approved Warwickshire Recovery Investment Fund of £130m) and a net decrease in the overall cost of capital schemes of £0.954m.

7.3. The remaining Capital Investment Fund (CIF) allocation of £18.473m from 2020/21, which is not included in these figures, has been carried forward. Along with the future years' CIF funding approved figure of £24.914m per annum over the 2021-26 Medium Term Financial Strategy this results in a total balance available in the Capital Investment Fund (CIF) of £91.318m.

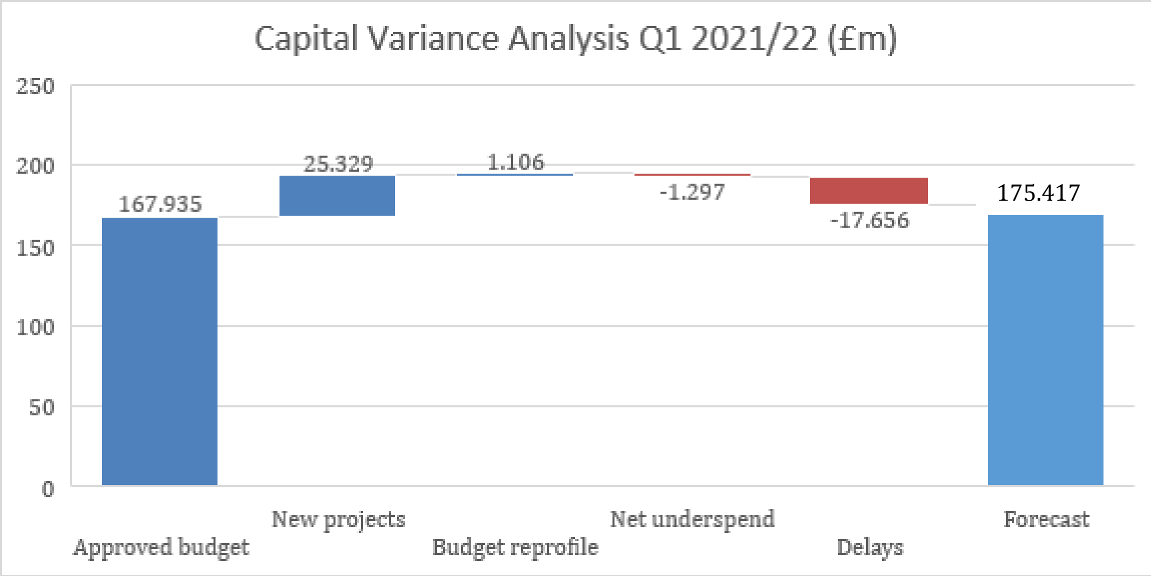
7.4. The forecast of 2021/22 capital payments directly controllable by the Council of £175.418m excludes the forecast spend on s278 developer schemes of £43.366m. This latter element is excluded from the headline figures as the timing of the spend is not directly controllable by the Council. If this is included the total 2021/22 capital expenditure forecast is £218.783m.

7.5. Capital Forecast by Service

	2021/22 Approved Budget £000	2021/22 Forecast £000	2021/22 Variance £000	2022/23 to 2025/26 Approved Budget £000	2022/23 to 2025/26 Forecast £000	2022/23 to 2025/26 Variance £000	Total Variance £000
Education Services	32,167	32,353	186	15,870	15,869	-	186
Environment Services	67,340	61,444	(5,896)	48,725	55,226	6,501	605
Fire and Rescue	7,337	5,200	(2,137)	208	2,395	2,187	50
Strategic Commissioning Communities	29,961	22,055	(7,907)	62,763	70,588	7,825	(82)
Communities	**136,805**	**121,051**	**(15,754)**	**127,568**	**144,079**	**16,513**	**759**
Adult Social Care	313	313	-	-	-	-	-
Children and Families	507	492	(15)	235	250	15	-
Strategic Commissioning & Public Health	344	5,428	5,084	0	41	41	5,125
People	**1,165**	**6,233**	**5,068**	**235**	**291**	**56**	**5,125**
Business and Customer Support	181	181	-	1,448	1,449	1	1
Enabling Services	26,159	24,327	(1,832)	3,606	3,728	122	(1,711)
Governance & Policy	3,626	3,626	-	-	-	-	-
Resources	**29,965**	**28,134**	**(1,832)**	**5,054**	**5,176**	**122**	**(1,710)**
Corporate (WPDG & WRIF)	0	20,000	20,000	120,100	230,100	110,000	130,000
WCC Capital Programme	**167,935**	**175,418**	**7,483**	**252,957**	**379,646**	**126,689**	**134,172**
s.278 funded schemes	51,314	43,366	(7,948)	5,122	22,531	17,409	9,461
Total Capital Expenditure	**219,249**	**218,783**	**(466)**	**258,079**	**402,177**	**144,098**	**143,635**

7.6. Capital Variance Analysis

The latest 2021/22 Approved Capital Budget of £167.935m was approved by Cabinet in June 2021. The chart below explains the changes between the Approved Budget and the actual spend of £175.417m.



7.7. The 2021/22 budget is set according to the forecast spend on 31st March 2021. The forecast shows the changes in capital programmes since then, made up of:

- Reprofiled projects – these are schemes where there has been a slip in the time scale for delivery. The project is still being delivered and with no material change in cost, but the impact is that the benefits of projects are not realised and available to the taxpayers of Warwickshire in the timeframe originally anticipated. There is £17.656m of project expenditure which has been reprofiled into future years, and work is ongoing to make initial estimates of planned delivery more realistic to ensure reprofiling only occurs where delays are uncontrollable.

- New projects – these are projects recently added to the capital programme or projects where costs have risen as a result of a substantial change in scope. These schemes have been added through formal governance, with financing made available from Capital Investment Fund or funding from third parties.

- Projects with Increased Spend – these are schemes where project costs have risen above the level previously expected. This means additional funding has had to be arranged. This may be in the form of a contribution from a Service's revenue budget, the use of basic need funding for education projects or alternative grants. The impact of this is that there is less funding available for other projects/activity.

- Underspent projects – these are schemes which have been delivered under budget. The impact of this is that funds are no longer required for a specific scheme. This may mean the authority will be able to recycle funds to alternative projects or will borrow less.

Service	Opening 2021-22 capital programme	New projects in year	Budget Reprofile	Net over / underspend	Total capital programme	Delays	Forecast In year capital spend
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Education Services	32,167	-	-	186	32,353	-	32,353
Environment Services	67,340	204	967	732	69,243	(7,799)	61,444
Fire and Rescue	7,337	-	-	50	7,387	(2,187)	5,200
Strategic Commissioning for Communities	29,961	-	139	(433)	29,667	(7,613)	22,054
Adult Social Care	313	-	-	-	313	-	313
Children & Families	507	-	-	-	507	(15)	492
Strategic Commissioning & Public Health	344	5,125	-	-	5,469	(41)	5,428
Business and Customer Support	181	-	-	-	181	-	181
Enabling Services	26,159	-	-	(1,832)	24,327	-	24,327
Governance and Policy	3,626	-	-	-	3,626	-	3,626
Corporate (WPDG & WRIF)	0	20,000	-	-	20,000	-	20,000
WCC Capital Programme	**167,935**	**25,329**	**1,106**	**(1,297)**	**193,073**	**(17,656)**	**175,417**
S278 Developer Funded Schemes	51,314	3,456	-	(1,362)	53,408	(10,043)	43,365
Total Capital Expenditure	**219,249**	**28,785**	**1,106**	**(2,659)**	**246,481**	**(27,698)**	**218,783**

7.8. Adding £25.329m new projects to the capital programme in 2021/22 requires that an equivalent amount of additional funding has also been identified. For 2021/22, the additional funding is from grants (£5.125m for the Disabled Facilities Grant to be paid to the district/borough councils) and, primarily, the additional borrowing approved to finance the Warwickshire Recovery and Investment Fund of £20.000m in 2021/22 with a further £110.000m over the capital programme (see County Council decision on 1 July 2021).

7.9. Detailed explanation at a Service level of all changes to the capital programme is provided in **Annexes A to M**. The main reasons for the £17.656m movement to future years in the quarter compared to the approved budget are set out in Appendix B.

7.10. A wider issue which services have started to report but which may not be currently included in forecasts are cost pressures from HS2 and the Commonwealth Games using up local available materials/supplies and labour and inflating labour and supply costs. Any contracts not fixed will be exposed to these increasing costs from the reduced local supply of materials and labour and we expect this to be a feature for future quarterly monitoring reports.

7.11. Based on the analyses of trends and reoccurring patterns of capital forecasts in previous financial years, it is probable that the forecast presented in this report is subject to a level of optimism bias. No explicit adjustments have been made to individual capital schemes to eliminate the effect of this, but work is ongoing with project managers across the organisation to ensure that estimates of project cost, benefits and duration are realistic based on previous experience taking into account the unique characteristics of the current project portfolio. As a result of this work, a reduction in the forecast capital spend is anticipated in the forthcoming monitoring reports.

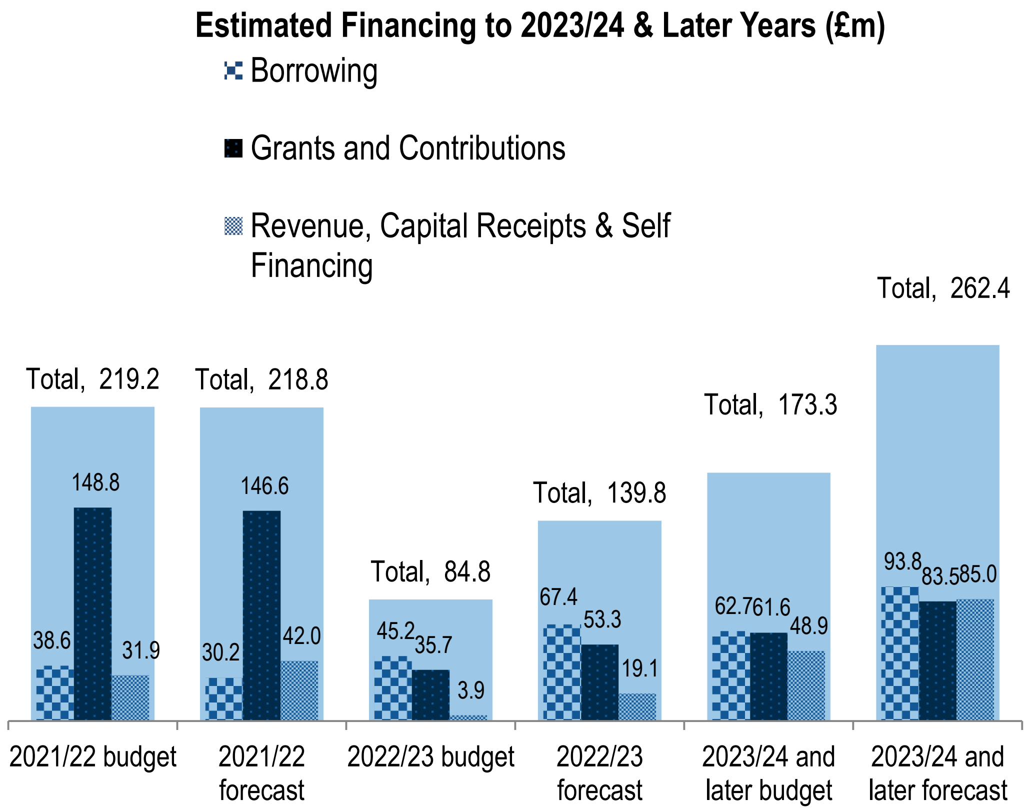
7.12. **Capital Financing**
All local authorities consider their gross capital spend and how it is financed separately. This is because where allowed, at a whole Council level, it is more cost effective to make use of any external capital resources (primarily government grants and capital receipts) before taking out additional borrowing. In 2021/22 we are forecasting to use £24.136m of Education capital grant to support overall capital spending. When the funding is required to finance the Education capital programme the Council will need to take out additional borrowing to fund gap between our spend and available funding for capital projects in that year.

7.13. These technical financing adjustments are managed on an on-going basis that also encompasses the cash balances we have available at the time. The capital resource required to fund the whole capital programme is reflected in the MTFS and any scope to delay borrowing by the effective use of our capital resources provides a one-off underspend that can be redirected to Members' priorities.

7.14. The most significant variable in financing the capital expenditure is forecasting the timing of the delivery of capital receipts. Forecasts are determined by the Council's and Warwickshire Property and Development Group's programme of disposals and subsequent income from capital receipts is used to avoid the need to incur additional borrowing. Any shortfall in the level of expected receipts may require the Authority to borrow sooner than expected.

7.15. The timing of when additional borrowing is taken out will depend on the Authority's cash position which may provide an opportunity to borrow from other Council resources in the short term to minimise the impact of financing long-term external borrowing on the revenue budget. Monitoring of longer-term balance sheet projections will continue to be undertaken to ensure the authority maximises its resources.

7.16. The chart and table below provide further detail on how the 2021/22 capital programme is currently planned to be financed.



The Council manages cash as a whole, so even where borrowing is shown as a form of financing in this graph it does not mean new borrowing will be necessary. The borrowing figure shown is the gap between our spending and the funding available to us which is called the CFR (Capital Financing Requirement).

	2021/22 budget £'000	2021/22 forecast £'000	2022/23 budget £'000	2022/23 forecast £'000	2023/24 and later budget £'000	2023/24 and later forecast £'000
Corporate Borrowing	38,604	30,226	45,203	67,361	62,724	93,839
Self-financed Borrowing	1,326	-	-	-	-	-
Grants and Contributions*	148,791	146,562	35,716	53,289	61,591	83,541
Capital Receipts	29,177	41,995	3,907	19,135	48,938	85,011
Revenue	1,351	-	-	-	-	-
Total	**219,249**	**218,783**	**84,826**	**139,785**	**173,253**	**262,391**

*The income from grants and contributions includes grants from Government and contributions from developers and other third parties.

8. Financial implications

8.1. The report outlines the financial performance of the authority in the year 2021/22. There are no additional financial implications to those detailed in the main body of the report.

8.2. The key financial issue remains that the MTFS should reflect the need to put sustainable solutions in place for those services reporting material demand-led overspends; the need to ensure the ambitions of the capital strategy are aligned to the capacity to deliver; and that any plans developed to balance the budget going forward are robust so any decisions can be taken promptly.

9. Environmental Implications

9.1. There are no specific environmental implications as a result of the information and decisions outlined in the report.

10. Background Papers

10.1. None.

Appendices

Appendix A – Commentary on service revenue forecasts
Appendix B – Commentary on service capital forecasts

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No elected members have been consulted in the preparation of this report.

APPENDIX A

Commentary on Service Revenue Forecasts

1. Communities Directorate (and DSG)

Education Services (non DSG) £2.650m overspend including £0.590m Covid pressures
The main Covid related costs are the result of losses in income for traded services (with some increased costs). These services include Adult & Community Learning (£0.080m), Warwickshire Music (£0.153m), and Marle Hall (0.227m).

After taking account of Covid pressures and the impact of reserves, the remaining service variance of £1.979m overspends are primarily the result of:

- The SEND & Inclusion Service initially highlighted a potential shortfall in staffing budget compared to the establishment of £0.757m. Mitigating action on freezing recruitment, carrying maternity vacancies and increasing income has reduced the forecast in year overspend to £0.157m, which predominantly relates to the Education Psychologist team. Furthermore, service reviews are due to be completed by the end of August/September, where the service manager will endeavour to continue to permanently narrow the gap. The forecasts will be carefully monitored and updated as this work is reviewed and progresses.

- There is a Children with Disabilities service forecast overspend of £1.560m, against a budget of circa £12m. The unit costs for this group are high due to increasingly complex needs for which the supply of high-quality specialist placements is low; and where the use of emergency placements can be necessary and expensive. The ability to negotiate with the marketplace has been significantly impacted. Further work is required to review the spot contract forecast and its impact on the overall position, as the use of such contracts can avoid costly care proceedings and reduce some accommodation and associated costs. Work continues to review the strategies and options to secure quality and affordable placements and to move and maintain more children at Early Help stage to avoid them needing to enter care. The relationship between costs within the Children with Disabilities forecast and the High Needs Block is also being reviewed to have a clearer understanding of any correlation and cause/effect.

- £0.197m relates primarily to cost pressures on medical transport for pupils with medical conditions, coupled with cost pressures from taxi services. Further analysis of this pressure and intended mitigating action is being sought from Transport Operations.

DSG £7.887m overspend

Please note that the DSG forecasts are provisional until the refresh of the DSG recovery plan is concluded. The refresh is underway and includes further interventions being introduced; a review of the impact of the interventions in place; and a refresh of funding assumptions (following recent DfE funding announcements).

The DSG consists of 4 'Blocks' and the majority of the DSG overspend of £7.887m relates to the High Needs Block (HNB) for which the overspend is £7.894m.

If the service were performing to the targets and projections within the current recovery plan, the DSG overspend for 2021/22 would be £3.541m. This would represent the deficit still to be addressed through future year savings/interventions to be determined.

However the current Q1 projections (before the refresh of the recovery plan has been fully concluded) are forecasting the £3.541m deficit noted above (for which interventions are still to be determined) as well as a further £4.353m deficit on 'in year activity' that interventions in the current recovery plan were expected to have addressed.

For information, the 'in year' overspend is primarily in overspends in Mainstream School top ups, Independent Special Schools, Other Local Authorities schools, Post 16 education and SEND Commissions of £5.988m. These overspends are being offset somewhat by some underspends that are predicted in Special School top ups, Resource Provisions, Flex Learning, Alternative Provision, and the Specialist Teaching Service of £1.625m.

As noted in the body of this report, it is recommended that the SEND & Inclusion Board oversee the refresh of the recovery plan; have clarity on the interventions in the recovery plan that have had the required impact and those that have not - with an understanding of the reasons and future impact; obtain explanations on the short and long-term impacts of any growth, demand and funding updates; and ensure that sufficient, robust interventions are introduced that bring the updated recovery plan into balance in the required timeframe.

The timing of this will need to be closely aligned to the MTFS process as there is a risk that the High Needs Block deficit could present a significant challenge for the MTFS as the current forecast level of overspend is materially higher than used as the basis of the MTFS and is also higher than outlined in the current recovery plan.

Environment Services £0.501m overspend including £0.522m Covid pressures
Covid related expenditure mainly relates the requirement of barriers to make town centres safe and the removal of traffic management ramps.

After taking this into account the remaining service variance is a minor overspend of £0.025m due mainly to staff vacancies offsetting an increase in partnership contributions.

Fire and Rescue Services £0.041m underspend including £0.046m Covid pressures
After taking account of Covid related pressures of £0.046m; and the impact of earmarked reserves and Investment/Transformation funds, the remaining service variance is an underspend of £0.078m.

Please note that further work is required to understand the specific requirements and spend profile of a Fire Protection grant that has recently been received. The income for this grant of £0.145m may be masking an actual service overspend position of £0.067m if the grant is either fully spent in year or is approved for carry forward to future years.

Strategy and Commissioning for Communities £3.339m overspend including £3.061m Covid pressures

After taking account of Covid related pressures of £3.061m; and the impact of earmarked reserves and Investment/Transformation funds the remaining service variance is an underspend of £0.085m.

Included in Covid pressures are:

- £1.461m Business Economy (the balance of Adapt and Diversify grants to businesses initiated in 2020/21)
- £1.400 loss of income on Parking
- £0.200m increased spend in Country parks and Road Safety

It is expected that £0.400m spend on business support grants will be funded by earmarked reserves. The transformation underspend of £0.037 relates to Tourism and Leisure projects where there was a delayed start due to Covid restrictions.

2. People Directorate

Adult Social Care, overspend of £1.489m including £1.768m Covid pressures

The Quarter 1 forecast for Adult Social Care is an overspend of £1.489m. After taking account of the Covid element of the forecast of £1.768m; and the impact of earmarked reserves of £0.170m, the remaining service underspend is £0.449m, less than 0.01% of the Service budget.

The Covid forecast of £1.768m relates to:

- £1.568m of costs to be reimbursed from the Hospital Discharge Grant which supports the timely discharge of medically fit patients during the pandemic
- £0.200m to provide targeted financial support to Adult Social Care providers

There is expected to be a transfer from the earmarked reserve to reflect the agreement by the Health and Social Care Joint Commissioning Board for the Development Fund of the Better Care Fund to fund the additional costs of the Discharge to Assess pilot of £0.170m.

The underlying underspend for the Adult Social Care Service is £0.449m, set against a gross expenditure budget of £206m and a net budget of £159m. The overall position masks non-Covid overspends in Mental Health and Disabilities which are being mitigated by underspends elsewhere within the service. The combined overspends in Mental Health and Disabilities total £2.871m.

- In Mental Health this is due to increases across all areas of the service, with the largest increase being in supported living in the north of the county (younger people with complex needs) and nursing in the south of the county (where there are fewer alternatives to nursing care). The number of new entrants to the service has exceeded the number of leavers by >10% since April 2020 and high demand is expected to continue throughout 2021/22. Further to high demand, there is also a higher proportion of more complex, and therefore costly packages of care. This combination has led to the need to go outside of Warwickshire to secure beds, increasing the cost pressure further. To mitigate within the service there are plans to move a number of people on to more independent living.

- Within the Disabilities Service the overspends are mainly due to a pressure in physical disabilities, directly driven by increased expenditure in domiciliary care, supported living and direct payments. These three types of social care have increased by an average cost of 22% this year which represents both the intensity and complexity of packages i.e. individual customers requiring more support than provided previously; and there has also been an increase in the number of service users by 7%. The service is currently undergoing a comprehensive review of packages to ensure that they are appropriate and recorded correctly. Combined with a review of income charges, this may lead to a change in the forecast by Q2.

- Integrated Care Services are making a significant contribution to mitigating the overspends with a forecast underspend of £0.908m. This is predominantly due to Assistive Technology budget not expected to be spent due to Covid response dominating staff time leaving little capacity to run the pilot schemes that it was intended for. Staffing underspends are also making a smaller but valuable contribution.

- The non-Covid Older People's Service is also making a significant contribution of £1.311m to balance the overspends noted above. Older People are the main Service that incur expenditure as a result of hospital discharge, and hence some costs are being funded from the Hospital Discharge grant via the NHS. It should be noted that without the Hospital Discharge Grant, the Older People Service would be spending in line with budget.

- Finally, there are some further project, staffing and other minor underspends of approximately £1.100m across the service.

Children and Families £5.186m overspend including £2.191m Covid pressures.
After taking account of Covid and the impact of earmarked reserves and Investment/Transformation Funds, the remaining service overspend is £3.709m.

As part of the 2021/22 budget, the service was allocated a £0.631m Covid recovery budget. In addition to this, the service is forecasting to incur a further £2.191m on Covid related pressures, broadly consisting of:
- £0.621m additional placement / delays in leaving care costs.
- £1.570m additional staffing costs.

The overall Children Transformation Fund (CTF) / Child Friendly Warwickshire Transformation Programme is experiencing delay due to recruitment and interaction with 3rd sector partners taking longer than anticipated (often due to capacity and the post Covid effect on partners). Although the forecasted underspend for 2021/22 is £0.498m, the project leads are continually reviewing plans to ensure the overall 4-year programme to 2023/24 is on track to complete the objectives and fully utilise the DfE grant. The overall planned budget is fully committed over the re-phased life of the programme.

Key variances to note are as follows:

Children's Placements

- It is recognised that in addition to addressing the increasing number of Children in Care, the 'Placement Mix' is key to bringing down this overspend, with the need for the balance between internal and external (including residential) placements to be re-addressed to make an impact on the overspend. A number of initiatives are being progressed including new methods of recruiting and retaining internal foster carers, The WCC Children's Home (with plans to pursue funding for potential further homes), Early Help wrap around services to Children in Need Families, as well as wrap around support to foster carers to assist in stepdown from Residential.
- Despite an increase of budget compared to last financial year of £4.221m, Residential Care is forecasting a £2.762m overspend. The increase in forecasted weeks in 2021/22 compared to 2020/21 is 477 weeks (+21%). In addition, the current net average weekly cost is £4,524 per placement (compared to £3,989 in 2020/21) - an increase of £535 per week (+13%). The average full-time yearly unit cost is now £0.236m per placement - an increase of £0.028m from 2020/21.
- Activity levels within external foster care continue to increase as the new financial year begins. But the budget was increased by £1.499m for 2021/22 so overall there is a small overspend of £0.102m.
- Internal foster care continues the trend of last year and has seen an overall decrease in numbers this financial year. There has been a decrease in budget of £0.415m compared to 2020/21, but there is still a forecast underspend of £0.265m.

Leaving Care – Accommodation

Leaving care accommodation is currently showing a modest underspend of £0.222m. Demand and costs will continue to be closely monitored throughout the year.

Staffing

- There continue to be significant variances covering both direct staff and agency staff budgets – which are forecasting a combined overspend of £2.017m against a budget of circa £30m (note this excludes staffing budgets included elsewhere such as Asylum, Priority Families, Section 31, Covid and Children Transformation Fund).
- The Children & Families strategic workforce review has reviewed a number of strategies to encourage recruitment and retention of social workers which are being progressed. For example, the strategies include improved career pathways; and a commission with an organisation to recruit 40 permanent social workers to reduce agency costs. With current high demand, caseloads and turnover, staffing costs will continue to require close monitoring and review.
- Corporate Board approved a C&F report in April 2021 which estimated the circa £2m staffing pressure this financial year due to the need to revise structures and career pathways in order to recruit more effectively. These changes are part of a longer-term strategy to manage other costs within the service, including those that are demand led and agency related costs. As such the April 2021 report did not anticipate an ongoing pressure of £2m; but this will need to be reviewed and confirmed as part of the MTFS refresh process.

Other

- The forecast for legal costs is a £0.250m overspend due to monthly legal Service Level Agreement & disbursement costs consistently exceeding £0.250m per month. This correlates to the increase in demand and activity across C&F; but to mitigate this, the service are reviewing the workflow to Legal Services.

- There is a part year underspend of £0.435m from the soon to be opened WCC Children's home. This is partly due to the home not opening until Q3 as well as a reduced expected cost of the staffing model.
- Other underspends offsetting the overspends include underspends for USAC grant related services (due to recent day rate increases in Home Office grant) of £0.355m; Children in Need allowances underspend of £0.084m and a one-off ACE related underspend of £0.082m.

Strategic Commissioner for People, overspend of £5.756m including £6.407m Covid pressures

The Quarter 1 forecast for Strategy & Commissioning is an overspend of £5.756m. After taking account of Covid costs of £6.406m; the underspend of £0.159m on projects delivered through Investment Funds; and a net transfer from earmarked reserves of £0.085m, there is a remaining service underspend of £0.577m, 1.6% of the Service budget.

The Covid-19 forecast of £6.407m relates to:

- £4.535m Covid related activity funded from the Contain Outbreak Management Fund (which includes grants for businesses to ensure Covid measures are in place; funds to improve ventilation in schools, support for Covid related contract delivery and a number of Public Health related measures).
- £1.871m Covid related activity funded from non-COMF grants to WCC (which includes Mental Health and Community related projects

The underspend of £0.159m on Investment Funded projects relates to two projects where Covid has resulted in delays which have meant a re-phasing of some of the project activity into future years.

The underlying underspend for the People Strategy and Commissioning Service is £0.577m and relates predominantly to the Domestic Abuse grant. This grant was received at short notice and requires appropriate planning time to ensure robust targeting of the funds and a realistic spend profile. It is currently anticipated that £0.523m, which is approximately 50% of the 2021/22 allocation, will be required in future years and Members are asked to approve the creation of an earmarked reserve for this purpose (see the recommendations in the body of the report).

3. <u>Resources Directorate</u>

Business and Customer Services £3.883m overspend including £2.986m Covid pressures

After taking account of Covid related pressures of £2.986m; and the impact of earmarked reserves the remaining service variance is an overspend of £0.904m which represents a 20.4% variance against the approved budget.

The Covid pressures include

- £1.553m additional welfare support
- £0.341m Backward Contact Tracing Team
- £0.310m Staffing/Agency Costs
- £0.259m Welfare and Critically Extremely Vulnerable (CEV) Support

- £0.219m income losses in Heritage & Environment.

The remaining service variance of £0.904m is the result of an increase in staffing and employee costs, with the majority of this within the Business Support area where there have been increases in demand particularly in relation to Adults and Children & Families where the service budget has not been increased to reflect substantial increases in front-line service budgets and it is proving difficult to manage costs within the previous budgeted level. It is also possible that further analysis of the forecast spend, which is currently being undertaken, may highlight some costs that should be treated as Covid related or awaiting funding from other service areas.

Please note that within Business Support there was also a ‘one-off’ budget allocation of £0.600m made to allow additional time for MTFS savings to be made. This will be removed in 2022/23 and, combined with the £0.904m remaining service pressure, presents a financial risk that requires careful management. Discussions are underway with the service to establish the drivers behind the forecast and what actions are necessary to plan for and address the required reductions in expenditure.

Commissioning Support Unit £6.607m overspend including £7.009m Covid pressures
After taking account of Covid related pressures of £7.009m; and the impact of Investment/Transformation funds the remaining service variance is an overspend of £0.044.

The Covid related expenditure includes £5.228m COMF funding to be spent in 2021/22 still to be allocated and £1.657m for Covid Community Testing.

There is currently a forecast of £0.445m in relation to transformation projects where expenditure is due to be rephased into 2022/23 due to more realistic timescales and implementation dates being assigned to the projects.

Enabling Services £1.600m underspend including £0.075m Covid pressures
The forecast Covid pressures relates to agency staff costs to support the work on reinstatement of buildings. These pressures are over and above the Covid budget that was set for Enabling Services in February 2021, as the service refines the reinstatement plan in accordance with ever-changing guidelines.

There is net drawdown from reserves forecast in relation to the graduate programme. There is £0.502m of transformation funding which due to current demands on the service is unlikely to be spent this year. The reasons are primarily Covid related – where projects were slowed or delayed due to the impact of Covid on capacity and/or activity.

This leaves a service-related underspend of £1.228m which comprises of the following:
- £0.386m underspend across Property Services – mainly due to over recovery of income, which is likely to be one off; and some staffing underspends
- £0.032m underspend across HR Enabling mainly from staffing
- £0.094m net underspend across Digital and ICT (£0.456m staffing underspends offsetting overspends of £0.362m related to Software and Licensing costs; the recurrent nature of each requires further analysis in order to establish any long-term impact)
- £0.711m underspend across ICT Strategy and Commissioning – £0.074m in year staff underspends and £0.637m one-off underspends from ICT project activity being limited

whilst staff continue to work from home. The Service is currently developing proposals for utilising this underspend to fund elements of the Digital Roadmap.

Finance Service £0.066m overspend including £0.126m COVID pressures
After taking account of Covid related pressures of £0.126m; and the impact of earmarked reserves, the remaining service variance is an underspend of £0.041.

Governance and Policy £1.364m overspend including £0.486m Covid pressures
The Covid pressures relate to employee costs, printing and advertising within Communications, costs of re-instatement of face-to-face Council meetings and additional staffing.

The remaining service forecast overspend predominantly comprises:

- £0.521m of historic savings which date back to 2017/18 and are no longer achievable within the strategic asset management service.
- £0.304m Legal Services increased spending on agency staff for backfill and decreased external income. Further review of this pressure is necessary in order to establish if there is a long-term impact and what mitigating actions are required to manage this pressure.

4. Corporate Services and Resourcing

Of the £16.093m Other Services underspend £14.249m is Covid related.

The Covid element consists of £14.911m of Covid income offsetting Covid spend reported across the services combined with a further £0.652m of Covid expenditure relating to £0.199m increased Coroner costs; and £0.450m additional cost incurred by Educaterers.

The non-Covid underspend of £1.844m is largely caused by the forecast underspend on the capital contingency through the effective management of how we finance the capital programme (£1.241m) and higher than budgeted grant income, with £0.357m relating to the Public Health Grant and £0.142m to the Fire Pensions Grant.

APPENDIX B:

Commentary on service capital forecasts

The main reasons for the £27.698m movement to future years in the quarter compared to the approved budget are set out below. These delays on projects mean the expected benefits of the schemes will not be realised to the original time frame.

36% of the £27,698m delay is related to projects funded by S278 developer contributions. The timing of these schemes is largely outside of the control of WCC therefore they are excluded from the analyses below, but details of these schemes can be found in Annexes A to M.

Environment Services – £7.799 million delay caused by:

- £2.268m Bermuda Connectivity Project – delivery of this scheme has now started on-site. The re-profiled expenditure is reflecting the contractor's current planned delivery.
- £1.482m Historic Bridge Maintenance Programme – 2 accidents caused major delays to the programme as repairs were required to be carried out urgently resulting in re-programming of planned maintenance work. The availability of specialist materials to repair historic bridges lead to further delays as well as adverse weather conditions (too much rain) impacting on the timescales.
- £1.317m A444 Corridor improvements Phase 2 – Design issues and embargo to work around the Hospital due to Covid caused the delay. Based on the current position construction is not likely to be undertaken until 2022.
- £1.000m A46 Stoneleigh Junction Improvement – Poor weather in May 2021 has slowed progress on weather critical earthworks. This slower progress than forecast on the earthworks is reflected in reduced forecast spend pushing £1m from 2021/22 to 2022/23. Where this is a WCC risk under the contract it can be managed from the risk allowance within the overall scheme budget.
- £0.900m A47 Hinckley Road Corridor Scheme – The scope of this project hanged to include an off-road cycleway. Expenditure has been re-profiled to allow time to carry out the necessary re-design of the road layout.
- The remainder relates to delays over multiple projects, further details can be found in the annexes.

Fire and Rescue – £2.187 million delay caused by:

- Fire and Rescue HQ Leamington Spa – the project currently on hold, subject to the re-assessment of Fire HQ needs in the future.

Strategic Commissioning for Communities - £7.613 million delay caused by:

- £5,844m Emscote Road Corridor Improvements Scheme – In light of resource availability and priorities during Covid the construction phase of this project has been delayed until 2022/23.
- £1,447m A446 Stonebridge junction improvements – The project has been reprofiled to ensure alignment with the Greenman Crossing works which will need to precede. Both design and construction work now expected to be completed in future years.
- The remainder relates to lots of delays over multiple projects, further details can be found in the annexes.