Cabinet

15 June 2023

Financial Outturn Report 2022/23

Recommendations

That Cabinet:

1) note the net spend in 2022/23 and the consequent revenue overspend for the organisation at the end of the year;

2) note the explanations and mitigating actions for variations to budgets, and the implications for the Medium-Term Financial Strategy, as set out in Appendix A;

3) approve the retention of the surplus of £1.234m in the DSG Deficit Offset Reserve until there is greater certainty about the longer-term direction of travel of spend in Special Educational Needs and Disabilities, as set out in paragraph 2.7;

4) note the delivery of £9.579m (93.5%) savings in 2022/23, a shortfall of £0.665m against the target, as set out in Section 4;

5) approve the drawdown of £0.920m from Externally Earmarked Reserves and Directorate Risk Reserves to support the delivery of the Council Plan in 2023/24, as outlined in paragraph 6.5 and Appendix C;

6) approve the drawdown of £7.624m from the Revenue Investment Funds to support the delivery of the Council Plan in 2023/24 and 2024/25, as outlined in Section 5 and Appendix D;

7) approve the approach to making good the Communities Directorate Risk Reserve at the end of 2022/23 and for 2023/24 as set out in paragraphs 6.9 to 6.11;

8) note the capital spend in 2022/23 of £117.352m; and

9) approve the reprofiling of £2.094m Services capital spend from 2022/23 into future years.

1. Purpose of the report

1.1. The purpose of this report is to provide an analysis and commentary on the financial position of the organisation at the end of the 2022/23 financial year, including:

- revenue and capital performance for financial year 2022/23;
- explanations and mitigating actions for longer-term pressures;
- saving achievements over the course of the financial year; and
- the resulting reserves position as of 1 April 2023.

2. Summary

2.1. 2022/23 has been a challenging financial year for the Council. We have experienced a period of significant economic uncertainty, with higher than expected levels of inflation and interest rates that have resulted in additional in-year costs, and we have continued to face increases in demand across our children's and adults social care services and for home to school transport. The tightening of the labour market has also impacted the Council workforce and created additional financial pressures.

2.2. In addition, we have stepped up to support our communities through the cost-of-living crisis and have continued to help Ukrainians through the Homes for Ukraine scheme. We have received significant and very welcome additional funding from the Government to help us support our communities and to enable the organisation to deliver vital services.

2.3. The financial outturn position reflects these additional pressures which have led to the organisation overspending, albeit within the +/-2% variance target to which the Council operates. Despite the overspend the organisation has worked tirelessly to control spending, this can be seen by the negligible movement in the forecast - of £0.420m - from Q3 to outturn, in Directorates' direct spending, as shown in the last column of Table 3. Our money market investments have performed more strongly than expected, partially offsetting the many financial pressures, as a result of effective investment strategy and rising interest rates in the latter part of the year.

2.4. The Council has ended 2022/23 with a revenue overspend of £8.920m. However, specific funding had been set aside in the Medium-Term Financial Strategy (MTFS) to meet the £5.062m of the overspend. Once this funding is taken into account, the residual net overspend is £3.858m (1.1% of the net revenue budget), which will be funded from Directorate and the General Risk Reserves set aside to cover any such residual overspends.

2.5. The variance in the net revenue budget at +1.1% is within the +/- 2% target set as part of the performance management framework and is within acceptable parameters for an authority of the size and complexity of the County Council. It reflects the positive and proactive financial management activity that has taken place throughout the year.

Table 1: Revenue Spend Summary

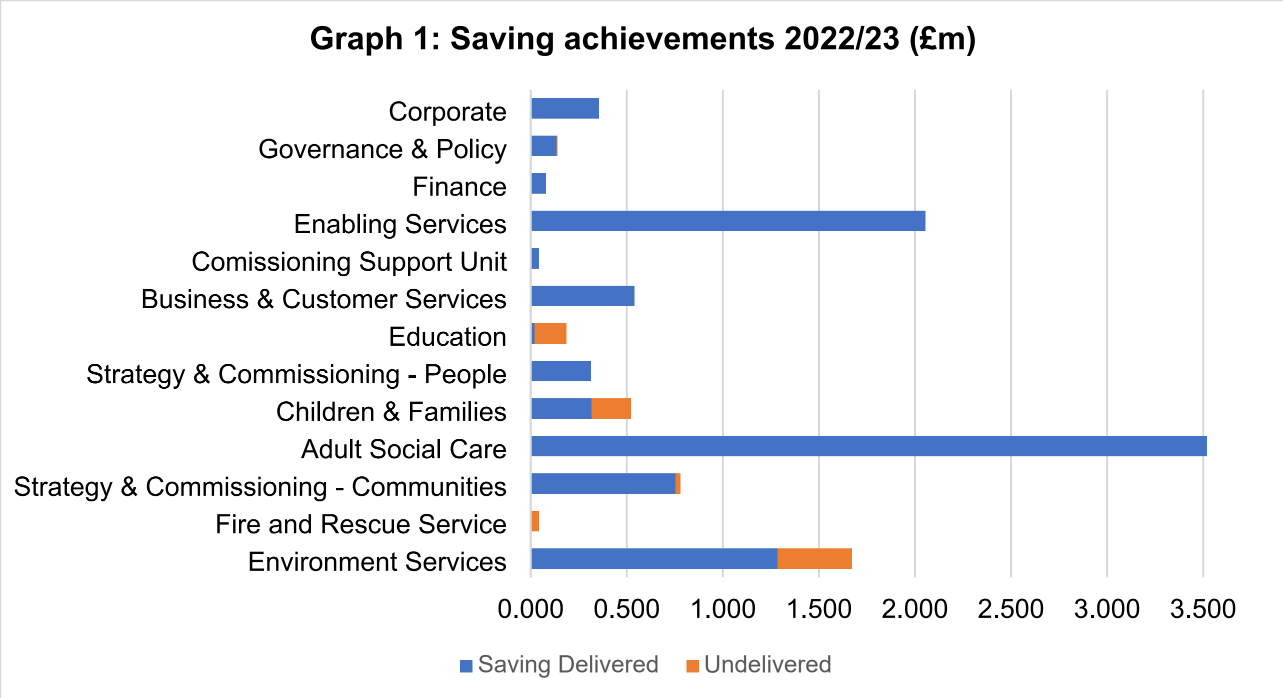
	Actual £m	Previous Forecast £m	Change from Previous Forecast £m
Approved Budget	355.759	358.211	(2.452)
Net spending as at outturn and forecast as at Quarter 3	364.679	371.622	(6.943)
Net overspend	**8.920**	**13.411**	**(4.491)**
Reason for, and resourcing, of the overspend			
• **Covid variance:** covid-related spend fully funded by covid grants carried forward from previous years	3.953	5.195	(1.242)
• **Investment Funds variance**: reprofiling into future years and/or reduced spend of drawdowns from the Investment Funds	(6.090)	(2.773)	(3.317)
• **DSG variance:** deficit to be offset against the DSG contingency reserve	3.930	4.493	(0.563)
• **Movement to/from Earmarked Reserves:** spend to be financed from other Earmarked Reserves	3.269	(0.193)	3.462
• **Residual service overspend to be funded from Directorate and General Risk Reserves**	**3.858**	**6.689**	**(2.831)**
Net overspend	**8.920**	**13.411**	**(4.491)**

KEY	
⇩	Represents an improvement in the service variance since the previous period.
⇧	Represents a worsening of the service variance since the previous period.

2.6. The Dedicated Schools Grant (DSG) ended the financial year with a revenue overspend of £3.930m, within this there was an in-year £4.436m High Needs deficit. This means the cumulative High Needs DSG deficit has now reached £20.416m. The DSG Deficit Offset Reserve is currently £21.650m, which means there is £1.234m more in the reserve than the current cumulative deficit.

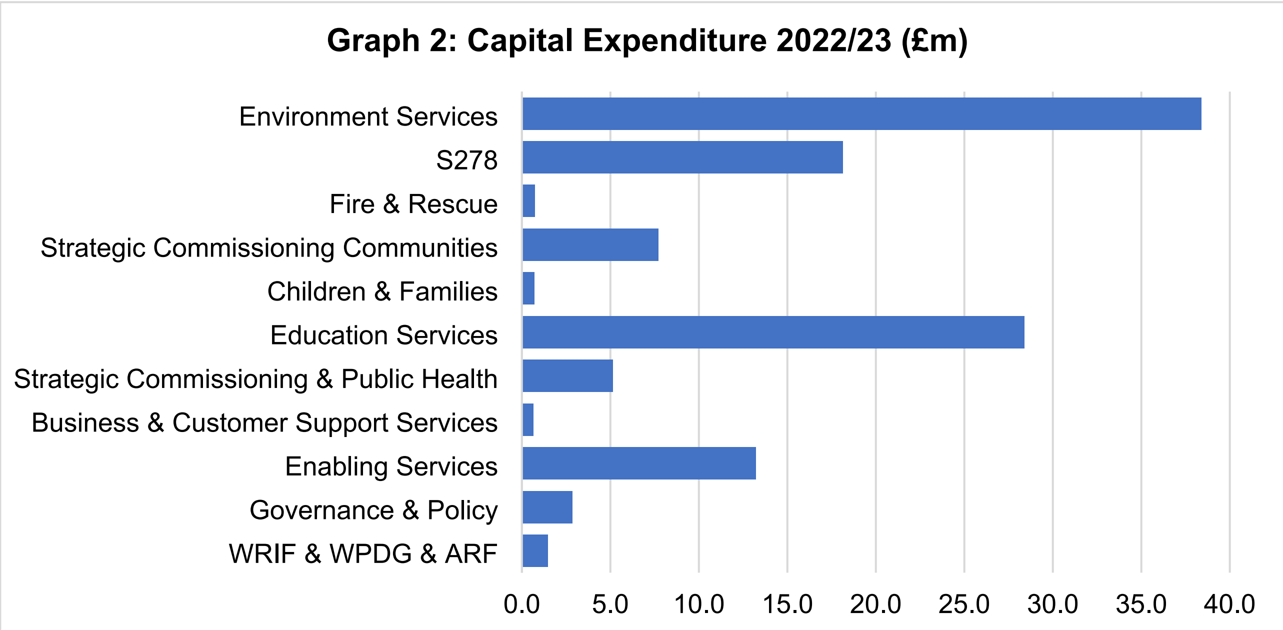
2.7. In the 2022/23 quarterly financial monitoring reports to Cabinet, it had been recommended to transfer any surplus at the end of the year to the Available for Use Reserve to increase the funding available to support the MTFS in future years. However, given that the number of Education Health Care Plans (EHCP) are expected to increase in 2023/24 and the ongoing demand in Independent Special Schools are adding to the level of uncertainty within the DSG, Corporate Board recommends that the £1.234m is retained in the reserve to offset future year pressures until there is greater certainty about the longer-term financial stability of the Special Educational Needs and Disabilities (SEND) service. This position will be kept under close review and any of the DSG reserve that can be released will be recommended as part of the MTFS refresh. Further information on the DSG can be found in paragraph 3.3 and Appendix A.

2.8. **Savings Achievement Summary**
The savings plan for 2022/23 required the delivery of £10.244m of savings, accumulated from 54 individual saving initiatives. At outturn £9.574m (93.5%) has been delivered in line with the plan, with £0.670m (6.5%) unachieved in year. In the challenging financial circumstances facing the Council, this is a strong level of performance. For details on saving performance please refer to Section 4.



2.9. **Capital Forecast Summary**

The controllable capital spend for 2022/23 was £97.740m. A further £18.143m was spent on schemes funded by S278 developer contributions where the timing is not directly controllable by the Council. In addition, £1.469m was spent on economic growth-related activity through the Warwickshire Recovery and Investment Fund (WRIF) and Warwickshire Property and Development Group (WPDG). When combined these give a total capital spend for the year of £117.352m.



*WRIF (Warwickshire Recovery Investment fund), WPDG (Warwickshire Property Development Group), ARF (Asset Replacement Fund)

2.10. **Covid Summary**

In 2022/23 Covid expenditure to mitigate the on-going impact of the Pandemic was monitored against the resources carried forward from Covid-support Government grants received in previous financial years. Of the £5.437m approved Covid-19 spend, £3.952m relates to spend in 2022/23 and £1.485m is committed in 2023/24 (see **Appendix E**).

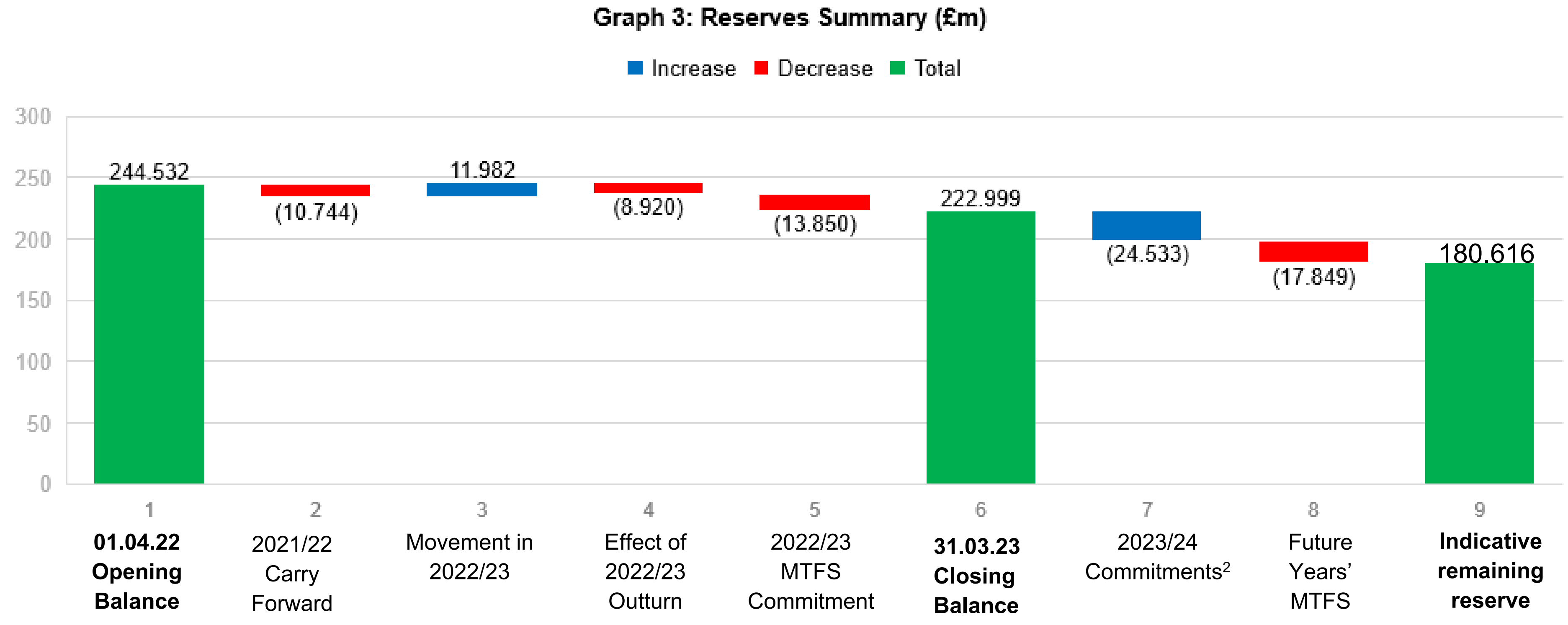
The flexibility to carry forward ring-fenced Covid-19 resources into future years follows a change in the guidance of the Covid Outbreak Management Fund (COMF) announced by the UK Health Security Agency which now allows local authorities to carry forward funding into 2023/24. This means we can carry forward £1.485m to spend on Covid-19 related issues into 2023/24 rather than having to return the funding to the Government.

Table 2: Covid Summary

Covid Budget Position	Q3 Forecast £m	Actual £m
Covid Grants Ringfenced	(3.353)	(3.353)
Covid Grants Un-ringfenced	(11.046)	(11.046)
Available Covid reserves as of 31st March 2022	(14.399)	(14.399)
Covid Related Spend:		
Covid Grants Ringfenced	2.925	2.602
Covid Grants Un-ringfenced	4.562	1.350
Less: Committed Covid Spend for 2023/24	0.431	1.485
Approved Covid Spend for 2022/23 & 2023/24	7.918	5.437
Reserve Review: Transfer to Available for Use Reserve	(5.981)	(8.462)
Total un-allocated funding as at 31st March	(0.500)	(0.500)

Moving forward Corporate Board are recommending that from 2023/24 Covid-related activity forms part of the overall service and financial management of the Authority. Subject to retaining a contingency of £0.500m this means that £8.462m of un-ringfenced Covid funds can be consolidated as part of the 'Available for Use' reserve to support the MTFS and the delivery of the Council Plan and the initiatives already planned to support Covid recovery.

2.11. **Reserves Summary**[1]



The impact of the outturn on 31 March 2023 will be a decrease in the overall reserves held by the Council over the 2022/23 financial year of £21.533m, taking the total reserve balance to £222.999m. This is planned to reduce by a further £42.383m by the end of the MTFS period. The future MTFS commitments are subject to change as part of the annual refresh of the Strategy.

[1] Variations in reserves through the year - red indicates use of reserves and blue indicates an increase in reserves

[2] 2023/24 Commitments include MTFS allocations and 2022/23 carry forward and drawdown requests

3. Revenue overview

Table 3: Revenue 2022/23 outturn by service[2]

Service Area	Approved Budget	Actual Spend	(Under) /Overspend	% Change from Budget	Change from Q3 forecast	Represented by: Investment Funds	Impact on Earmarked Reserves	Covid Impact	Remaining Service Variance	% Change from Approved Budget	Remaining Service Change from Q3 forecast
	£m	£m	**£m**		£m	£m	£m	£m	£m		£m
Communities											
Environment Services	50.140	56.704	**6.564**	**13.1%**	(0.448)	(0.045)	(0.098)	0.015	6.692	**13.3%**	(0.295)
Fire & Rescue	24.076	23.746	**(0.330)**	**(1.4%)**	(0.411)	(0.073)	(0.116)	0.000	(0.141)	**(0.6%)**	(0.190)
Strategic Commissioner for Communities	26.812	24.185	**(2.627)**	**(9.8%)**	(2.378)	(0.637)	0.092	0.069	(2.151)	**(8.0%)**	(1.620)
Subtotal Communities	**101.028**	**104.635**	3.607	3.6%	**(3.237)**	(0.755)	(0.122)	0.084	4.400	4.4%	**(2.105)**
People											
Social Care & Support	184.791	190.624	**5.833**	**3.2%**	3.351	(0.064)	3.250	0.000	2.647	**1.4%**	1.309
Children & Families	85.460	88.037	**2.577**	**3.0%**	0.813	(0.446)	(0.568)	0.274	3.317	**3.9%**	2.279
Strategic Commissioner for People	36.777	37.848	**1.071**	**2.9%**	(2.055)	(0.175)	(0.088)	2.723	(1.389)	**(3.8%)**	(0.727)
Education Services - Non-DSG	10.576	9.574	**(1.002)**	**(9.5%)**	(1.288)	(0.856)	0.059	0.112	(0.317)	**(3.0%)**	(0.701)
Subtotal People	**317.604**	**326.083**	8.479	2.7%	**0.821**	(1.541)	2.653	3.109	4.258	1.3%	**2.160**
Resources											
Business and Customer Services	20.740	20.881	**0.141**	**0.7%**	(0.395)	(0.260)	(0.028)	0.395	0.034	**0.2%**	(0.156)
Commissioning Support Unit	7.063	6.316	**(0.747)**	**(10.6%)**	0.265	(0.228)	0.000	0.101	(0.620)	**(8.8%)**	(0.096)
Enabling Services	29.044	26.212	**(2.832)**	**(9.8%)**	(0.708)	(2.590)	0.124	0.000	(0.366)	**(1.3%)**	(0.207)
Finance	6.660	6.320	**(0.340)**	**(5.1%)**	(0.326)	(0.293)	0.068	0.030	(0.145)	**(2.2%)**	(0.083)
Governance & Policy	3.972	2.915	**(1.057)**	**(26.6%)**	0.055	(0.055)	0.030	0.022	(1.054)	**(26.5%)**	0.067
Subtotal Resources	**67.479**	**62.644**	(4.835)	(7.2%)	**(1.109)**	(3.426)	0.194	0.548	(2.151)	(3.2%)	**(0.475)**
Subtotal Directorates	**486.111**	**493.362**	7.251	1.5%	**(3.525)**	(5.722)	2.725	3.741	6.507	1.3%	**(0.420)**
Corporate Services and DSG											
Corporate Services & Resourcing	(131.422)	(136.360)	**(4.938)**	**3.8%**	(3.080)	(0.368)	(2.133)	0.212	(2.649)	**2.0%**	(2.411)
DSG expenditure (Education spending)	247.762	251.692	**3.930**	**1.6%**	(0.563)	0.000	3.930	0.000	0.000	**0.0%**	0.000
DSG income	(246.692)	(246.692)	**0.000**	**0.0%**	0.000	0.000	0.000	0.000	0.000	**0.0%**	0.000
School spend extra to DSG allocation	0.000	2.677	**2.677**	**-**	2.677	0.000	2.677	0.000	0.000	**0.0%**	0.000
Subtotal Corporate Services and DSG	**(130.352)**	**(128.683)**	1.669	(1.3%)	**(0.966)**	(0.368)	6.383	0.212	(2.649)	2.0%	**(2.411)**
Total	**355.759**	**364.679**	8.920	2.5%	**(4.491)**	(6.090)	9.108	3.953	3.858	1.1%	**(2.831)**

[2] The movement from net overspend of £8.920m to the remaining service variance of £3.858m is shown in more detail in table 1.

3.1. The final outturn position is set out in Table 3 shows a total overspend of £8.920m representing 2.5% of the Council's net revenue budget. This is a decrease of £4.491m from the forecast outturn reported in January. The remainder of the section sets out the material aspects of the overspend, with further detail in **Appendix A**.

3.2. **Covid (£3.953m)**

Table 3 shows the Covid spend by each Service on the approved initiatives to manage the long-term impact of the Pandemic. Any residual cost resulting from Covid (such as ongoing changes to demand or services), over and above these projects, is now reported as part of the 'Remaining Service Variance' in the table and Services are required to manage these costs within their approved budget. At the end of the financial year this approach has not caused any material unmanageable pressures.

The approved Covid projects are funded from government grants received in previous financial years. At the end of the financial year there is £0.500m in the un-ringfenced Covid reserve which is uncommitted.

3.3. **Dedicated Schools Grant (DSG)**

The net overspend on the DSG in 2022/23 was £3.930m, split over four blocks – schools, early years, high needs and central services. Table 4 shows the DSG outturn position across these four blocks with a detailed analysis of the DSG variance is provided in Appendix A. Overspends in DSG funded services cannot be made good by applying other Council resources and the blocks cannot cross-subsidise each other.

Table 4: DSG Outturn position

DSG block	Effect of Outturn 2022/23 £m	Reserve Position as at 1 April 2023 £m
Schools Block	(£0.103)	(£0.494)
Early Years Block	(£0.408)	(£3.341)
High Needs Block	£4.436	£20.416
Central Services Block	£0.005	(£0.484)
Total	**3.930**	**16.097**

Within the overall £3.930m overspend there was a £4.436m High Needs block overspend in 2022/23. The significant overspends are in Independent Special Schools with a £3.710m overspend due to a 10% increase in demand for use of provision and £1.729m for the provision of top ups of teacher's pay and pension payments to special schools. The elements of the budget that are overspending include those subject to interventions by the SEND & Inclusion Change programme (SICP). The over-arching aim of the programme is to reduce high costs volumes while increasing lower costs areas of service.

When added to overspends in previous years the £4.436m High Needs block overspend means the Council now has a cumulative High Needs DSG deficit of £20.416m. The DSG Deficit Offset Reserve is currently £21.650m, which means there is excess funding set aside in the reserve of £1.234m at the end of the financial year, as set out in paragraph 2.7 it is recommended this remains in the reserve. The High Needs Block remains the key area of concern. The repeated annual overspend reflects the structural deficit in funding for this service, which is a national problem.

3.4. **Maintained Schools – outturn position after the DSG allocation**
The Council's accounts include a £2.677m overspend by maintained schools from their delegated budgets. The decisions on the use of this funding are for the individual schools concerned and the County Council cannot make any decisions as to how this funding is used, therefore the schools' forecast position is not included in the quarterly monitoring reports. However, for completeness of the outturn position and alignment to the Statement of Accounts maintained schools are included. The overspend will be funded from the School Balances earmarked reserve, which is accumulated from underspends in previous years and set aside by schools.

3.5. **Environment Services remaining service overspend of £6.692m (a decrease from Q3 of £0.295m)**
The primary driver of this overspend is home to school transport. SEND transport overspent by £3.967m and with mainstream transport overspending by £2.998m. Throughout 2022/23 home to school transport has seen ongoing volatility, with increases in the cost for hire of transport vehicles and bus pass demand on commercial routes. The Summer term total average cost of SEND transport was £55,000 per day, this has increased through the Autumn term to £72,000 per day, an increase of £17,000 per day. On a more positive note, since Q3 the combined home to school transport overspend has only increased by £0.165m reflecting the on-going work to better understand and control the drivers behind the increased spend.

The ongoing financial risk and uncertainty of home to school transport service provision being deliverable within the approved budget, makes this one of the biggest financial risks for 2023/24. The 2023/24 budget for Home to School transport has been set at £30.1m which is an increase of £6.8m compared to 2022/23. Some of this funding has been used to recruit to three new roles who will provide more active management of, and insight into, home to school transport provision. In addition, the cross-party member working group as decided by Cabinet in February 2023, will provide additional oversight and challenge to the delivery of the planned savings through demand management and cost reductions in future years.

3.6. **Social Care and Support remaining service overspend of £2.647m (an increase from Q3 of £1.309m)**
There are significant over- and underspends within the headline overspend, primarily due to:

- older people budgets which overspent by £2.725m, an increase of £1.956m from Q3, driven by rising costs in residential, nursing and domiciliary care, the increased use of spot purchases for residential packages and the increased cost and volume of direct payments;
- Services for those with disabilities aged 0-24 (previously Children with Disabilities), overspent by £1.646m, due to ongoing difficulties of placing young people in suitable alternative accommodation, where weekly costs are dependent on individual need and type of provision in a market where there is

insufficient supply of places nationally. The service has increased from one to three intensive high-cost spot contracts to provide care where residential care or alternative solutions are not appropriate. The lack of supply of suitable accommodation in the market is reflected in the position that, if residential care was an option, the cost avoidance would bring the service to an underspend position;

- services for those with disabilities aged 25-64 overspent by £1.786m, an increase of £1.019m from Q3, this is driven by rising demand for residential care, supported living, direct payments and specialist college placements, partially offset by increased client contributions;
- mental health services overspent by £1.507m due to the rising demand for supported living and residential care across the County;
- integrated care services underspent by £1.493m due to procurement taking longer than originally anticipated and recruitment challenges the service is experiencing; and
- the Assistant Director’s centralised budget underspent by £3.819m, an increase of £2.974m from Q3 due to additional Adult Social Care Discharge funding from Government of £2.1m to meet the additional costs of discharging individuals from hospital and £1.5m funding to increase the rates paid to providers of adult social care following the Fair Cost of Care exercise.

3.7. **Children and Families remaining service overspend of £3.317m (an increase of £2.279m from Q3)**

Despite the areas of overspend, in summary, the direction of travel is more positive and in line with the investment in staff and early intervention reducing demand on costly placements, making permanent the successful changes introduced through the Children’s Transforming programme. There are some significant pressure points around leaving care as well as continued reliance on costly agency staff.

The significant under and overspends are:

- the additional cost of agency social workers who have been required to cover vacancies;
- the rising cost of residential children's home placements with the average cost of children's home placements now £4,833 per child per week, this is £277 a week higher than the budgeted target rate;
- the cost of short-term specialist care has moved significantly since Q3 from £0.960m overspent to £2.191m overspent, an increase of £1.231m, this is due to the unpredictability of placement timings, managing crisis and the intensity of care;
- an offsetting underspend of £2.293m within the Assistant Director’s budget due to reduced legal charges and a salaries underspend; and
- a saving of £1.417m from the ability to spread the Service’s overheads across a wider cost base following the receipt of additional Government grants.

The investment in staffing through the Sustainability Plan is critical to maintain the model that has successfully achieved the reductions in unit cost and placement numbers. Recruitment of additional staff will be required to support delivery of the Service’s Sustainability Plan and demand management reductions built into the Medium-Term Financial Strategy.

3.8. **Governance and Policy remaining service underspend of £1.054m (a decrease of £0.067m from Q3)**
The underspend is primarily due to new legal contracts for external work being successfully secured. The service has seen demand for external work increased in the latter half of the year with new unanticipated work being requested by other local authorities, particularly around child protection.

3.9. **Strategic Commissioning for Communities remaining service underspend of £2.151m (an increase of £1.620m from Q3)**
The service has seen a significant underspend generated over the year, primarily in waste management (an underspend of £2.995m). This has been driven by a reduction in waste tonnages largely linked to the new collection service introduced across Warwick and Stratford-upon-Avon Districts. Following the level of underspend, the service will review their budgets in early 2023/24, with the outcome from this review feeding into the 2024/25 MTFS refresh. This underspend is offset by an overspend in civil parking enforcement as a result of additional contract costs to recruit patrol officers into posts and an under achievement of parking income, due to the continuing difficulties in recruiting patrol officers meaning less penalties were issued.

3.10. **Strategic Commissioning for People remaining service underspend of £1.389m (an increase of £0.727m from Q3)**
The underspend within People Strategy and Commissioning is largely due the Department of Health taking responsibility for funding water fluoridisation, the Coventry and Warwickshire Integrated Care Board meeting the cost of salary increases for 2022/23 for staff employed under Agenda for Change employment contracts, a reduction in demand for some public health services and staffing underspends. The impact of the funding changes on the MTFS will be reviewed over the next few months.

4. Savings Performance

4.1. To achieve a balanced budget in 2022/23 required the delivery of £10.244m savings. Despite the challenging year Services have delivered £9.579m (93%) of the planned savings, leaving a £0.665m shortfall. The table below provides a summary of the actual delivery against the targeted savings, performance against individual saving targets can be found in Annexes A to M.

Table 5: Savings performance

	No. of Savings Options	Saving Delivered £m	Saving Not Delivered £m
Savings target achieved/overachieved	47	9.249	-
Savings target partially achieved	3	0.330	0.080
No saving delivered against target	4	-	0.585
Total	**54**	**9.579**	**0.665**

4.2. Table 6 details those savings which were not achieved in 2022/23.

Table 6: Summary of savings not fully achieved in 2022/23

Description	Target £m	Outturn £m	Reason for variance and associated management action
Education - Reduction in staffing budgets through recognising natural underspends from staff turnover.	0.100	-	Although work is still progressing to achieve these savings, they are now planned for 2023-24+, the under-achievement in 2022-23 has been offset by other one-off savings.
Environment Services - SEND Home to school transport	0.386	-	There is significant overspend on home to school transport driven primarily by inflationary pressures. The 2023/24 budget for Home to School transport takes account of the non-delivery of this saving.
Strategic Commissioning for Communities - Maximising income from the provision of road safety advice.	0.100	0.075	Saving have been partially achieved this year due to fewer requests for audits.
Children & Families - Maximise income and contributions to care packages	0.300	0.250	Service has delivered 83% of the target with 17% not deliverable from Education Safeguarding training.
Children & Families - Reductions in staff travel, room hire, client travel and expenses from new ways of working post-Covid.	0.056	-	This has not been achieved at outturn the service have an overspend of £0.132m.
Governance and Policy - Reduction in the cost of printing because of moving to paper free meetings.	0.010	0.005	Take up of paper free meetings at outturn was approximately 50%.
Fire and Rescue Service - Review of services purchased from third parties	0.043	-	Not achieved because of the delay in successfully siting the Minerva hot fire unit meaning a greater use of external training facilities than planned. The saving will be delivered once the in-house training facility is up and running.
	0.995	0.330	

4.3. Social Care and Support Services within adults are reporting full achievement of their planned savings. Two of their plans have proved to be unachievable, however, the Service has identified alternative ways of delivering the saving in year. The undeliverable savings relating to reducing third party spend (£0.228m) and the redesign of the commissioning approach for younger adults (£0.300m) have been replaced by the growth in client contribution income.

5. Corporate Revenue Investment Funds

5.1. At the beginning of 2022/23 there was £31.530m in the Corporate Revenue Investment Funds. During the year £11.427m was allocated to projects of which a total of £6.088m (53%) had not been spent by the end of the year. The reasons are the underspend are:

- £0.420m was due to 11 projects being completed for a lower cost than anticipated when they were approved, this funding has been returned to the Revenue Investment Fund and is available for allocation to new initiatives;

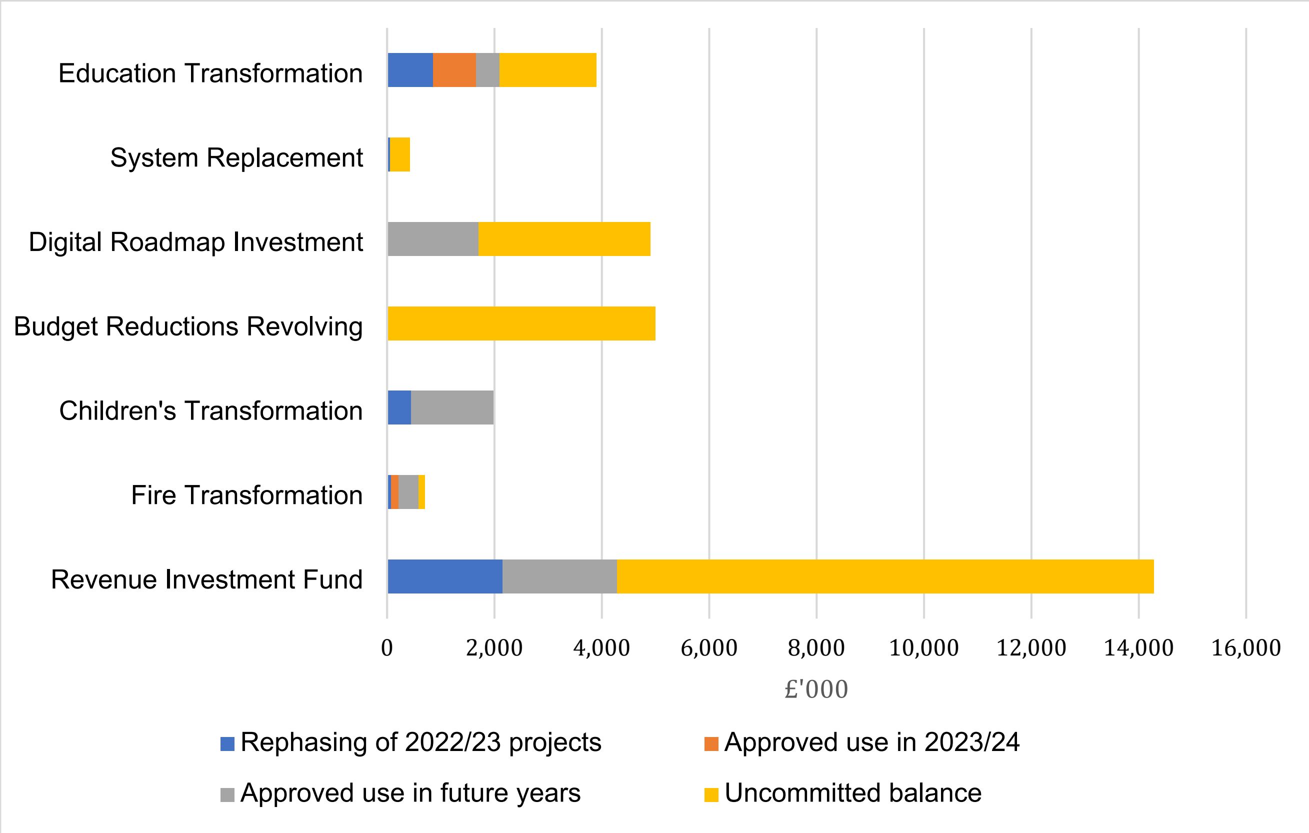
- £1.708m related to the underspend on the Digital Roadmap where progress has been paused to understand the Adult Social Care requirements before proceeding, rather than develop one system that the reforms could duplicate;
- £0.368m is the in-year underspend on the System Replacement Fund, which will be held to provide capacity to update and replace the Council's core IT systems; and
- the £3.592m remaining underspend relates to 35 projects that have been delayed and Services are requesting permission to reprofile the funding into 2023/24 to complete the projects. The key themes causing delays are difficulties in recruitment and capacity issues from unexpected competing demands arising due to cost living and inflation pressures which has meant some projects have had to be deprioritised. All the projects will still be delivered with no material change in cost, although the benefits of the projects will be realised slightly later than the original timeframe.

5.2. Cabinet is recommended to approve the drawdown of the £3.592m not spent in 2022/23 from the Corporate Revenue Investment Funds plus a further £4.031m of funding for investment in 2023/24 that had previously been approved. This means a total investment of £7.624m in 2023/24 to support the delivery of the Council Plan. **Appendix D** provides a breakdown of the request by project and Service.

5.3. Graph 4 shows the level of funding in each of the investment funds at the end of the financial year. As at the 31 March 2023 there is £26.192m in the Corporate Revenue Investment Funds, of this £17.206m is uncommitted and available for future invest-to-save initiatives and to support the delivery of the Council Plan.

5.4. In 2022/23 the Revenue Investment Fund (one of the corporate funds) was paused to new applications to make sure the Council could retain higher levels of reserves at a time of rising inflation and economic uncertainty. During the year, there were high priority exceptions, with two projects approved: £0.140m to establish a tree nursery in support of Warwickshire's 2030 Climate Change tree planting pledge and a £1.0m funding package aimed at alleviating cost-of-living pressures recognising the significant economic challenges impacting on residents, communities and businesses. On 1 May 2023, the Revenue Investment Fund was re-opened for new applications. As before new investments will be looking to make a step change towards the delivery of the Council Plan and Integrated Delivery Plan.

Graph 4: Corporate Revenue Investment Funds at 31March 2023



5.5. The end of the financial year there was £8.466m remaining in the Revenue Investment Fund. Since then, £1.320m for the Social Fabric Fund was approved by Cabinet in April 2023, leaving £7.146m still uncommitted and available for allocation over the five years of the MTFS. The 2023/24 budget resolution stated that where our finances allowed the Fund would be topped up to provide additional investment capacity to support the delivery of the Council Plan and the Integrated Delivery Plan. With the outturn position being more favourable than the Q3 monitoring position, it provides the opportunity to reallocate some of the increase in the Available for Use reserve top up the Revenue Investment Fund so there is £10.0m available for allocation (£2m a year)..

6. Reserves

6.1. At the start of the 2022/23 financial year the Council's reserves were £244.532m. After the approved changes to reserves in year and the impact of the overall revenue overspend the level of reserves reduced by £21.532m to £222.999m. The position is summarised in the Table 7.

6.2. The main reasons for the £6.945m increase in reserves between Q3 and the end of the financial year are:

- £4.491m reduction in the gross overspend as shown in Appendix A;
- £3.000m additional BCF grant set aside in the People Directorate Risk Reserve for use in future years; and

£0.546m is the total reduction in the Service Realignment and Investment fund reserves relating to approved spend in 2022/23

Table 7: Movement of reserves from Q3 to Outturn

	Reserves at 1 April 2022	Q3 Forecast Movement in year	Q3 Forecast Reserves	Movement since Q3 Forecast	Reserves at 31 March 2023	2023-28 Planned Use	Remaining Reserves
	£m	£m	£m	£m	£m	£m	£m
DSG Deficit	(11.097)	(5.563)	(16.660)	0.563	(16.097)	0.000	(16.097)
Other Schools Reserves	37.650	7.940	45.590	(2.727)	42.863	0.000	42.863
Covid Reserves	14.399	(11.177)	3.222	(1.237)	1.985	(1.485)	0.500
Revenue Investment Funds	31.530	(8.426)	23.104	3.088	26.192	(5.703)	20.488
Other Earmarked Reserves	81.638	(0.151)	81.487	1.249	82.736	2.258	84.994
Risk and General Reserves	37.056	(3.275)	33.781	1.010	34.791	1.687	36.477
Available to Use Reserve	53.355	(7.825)	45.531	5.000	50.530	(39.140)	11.391
Total	**244.532**	**(28.477)**	**216.055**	**6.945**	**222.999**	**(42.383)**	**180.616**

6.3. The figures in Table 7 also reflect the previously approved realignment of reserves, following the annual reserves review as approved by Cabinet in the Q3 monitoring report.

6.4. Within earmarked reserves there are several reserves that have not been drawn upon or added to in 2022/23 and in some cases in previous years too. Corporate Board has commissioned a review of the reserves to be carried out over the summer months to ensure that we are not holding resource without due purpose. The outcomes from this work will feed into the MTFS 2024-29 refresh.

Request to drawdown from reserves

6.5. Services have requested approval to drawdown £0.920m of reserves to support the delivery of the Council Plan in 2023/24 and 2024/25. The £0.920m is made up of six different requests, four of the requests totalling £0.647m are seeking to rephase some of the services 2022/23 core revenue resources into future years for spend against a specific project or initiative.

6.6. The other two requests totalling £0.274m are seeking to drawdown funding from externally earmarked reserves, where the planned spend is in line with the conditions associated with the funding

6.7. The individual requests, and planned use of the funds are listed in **Appendix C** and summarised in the table below alongside the Services 2022/23 remaining service variance position, and the impact the on the directorate risk and external earmarked reserves. Cabinet is recommended to approve these requests.

Table 8: Drawdown request and reserve impact

No.	Service	2022/23 Outturn Residual Over/(Under) Spend £m	Drawdown Request £m
1	Strategy & Commissioning - Communities	(2.151)	0.068
1	Fire & Rescue	(0.141)	0.108
1	Strategy & Commissioning – People	(1.389)	0.163
1	Commissioning Support Unit	(0.620)	0.308
4	***Impact on Directorate Risk Reserves***		***0.647***
1	Strategy & Commissioning – People	n/a	0.155
1	Children & Families	n/a	0.118
2	***Impact on External Earmarked Reserves***		***0.273***
6	***Total Impact on Reserves***		***0.920***

Risk Reserves

6.8. Table 9 below shows the level of Directorate risk reserves as of 31 March 2023, including the impact of the drawdown request as outlined in Table 8. The outturn position means the Communities Risk Reserve ended the financial year overdrawn by £1.824m. The overdrawn position increased to £2.000m when the rephasing of 2022/23 time-limited projects is taken into account.

Table 9: Directorate risk reserves and proposal for 2023/24

	Balance as at 31/03/23 £m	Rephasing of 2022/23 time-limited projects £m	Adjustment to remove overdrawn & right size reserve £m	Adjusted closing balance £m	Risk Reserve Proposal 2023/24 %	Risk Reserve Proposal 2023/24 Total Risk Reserve £m
Communities	(1.824)	(0.176)	2.000	-	2.0%	2.105
People	7.401	(0.163)	-	7.238	2.3%	7.238
Resources	3.213	(0.308)	(1.771)	1.134	2.0%	1.134
Total	**8.790**	**(0.647)**	**(0.229)**	**8.372**		**10.447**

6.9. As overdrawn reserves are not permitted, as part of approving the outturn report agreement is required as to how to make good the 2022/23 £2.000m deficit reserve. The Reserves Strategy, approved by Council in February 2023 sets out the maximum level of each reserve, which for Communities and People Directorates is 3% of their revenue budget and 2% for Resources Directorate. At 31 March 2023, their underspend means Resources Directorate has a risk reserve of £3.213m, equivalent to 3.8% and above the maximum level set out in the Reserves Strategy. Removing the 'excess' Resources Directorate Risk Reserve and using this to help bring the Communities Directorate Risk Reserve back into balance means only the remaining £0.229m needs to be transferred from the 'Available for Use' reserve. This recommendation provides a solution to make good the Communities Directorate Risk Reserve at the end of 2022/23 and resets the Resources Directorate Risk Reserve with the Reserves Strategy from start of 2023/24.

6.10. The £2.000m allocation to make good the Communities Directorate Risk Reserve would still leave the Directorate with no risk reserve in 2023/24. The ongoing financial risk and uncertainty surrounding the sustainability of the home to school transport budget is likely to continue in 2023/24. Therefore, to ensure the Council maintains its financial sustainability and effectively manages the financial risks it is facing, additional resources need to be set aside to cover the risk of overspending in Communities Directorate in 2023/24.

6.11. On the basis that the figures in the Reserves Strategy are 'maximums', Corporate Board recommend that Cabinet set aside £2.105m from the Available for Use reserve to provide a level of cover for a 2% Communities Risk Reserve in 2023/24. This would:

- give the Communities Directorate some level of risk reserve to manage budget volatility in 2023/24; and
- avoid the need for the Strategic Director for Resources to materially increase the minimum level of General Reserves for 2023/24 to provide cover for the risk of services overspending, as this risk will continue to be covered primarily through the Directorate Risk Reserves.

Available to Use Reserve

6.12. The MTFS approved by full Council in February 2023 retained an unallocated Available to Use reserve of £10.350m, this was based on the forecast impact of outturn as at Q3. The actual impact of outturn has resulted in a smaller overspend than the Q3 estimate, and along with the consolidation of the remaining un-ringfenced Covid-19 grant into general resources has increased the reserve by £6.446m to £16.796m at the end of 2022/23. The recommendations set out in this report would use £5.405m of this reserve and would leave £11.391m available to support the 2024/25 MTFS refresh, an increase of £1.041m from the February 2023 position.

7. Capital

7.1. As part of the budget resolution in February 2022 Council approved a total capital budget of £250.115m for 2022/23 and controllable capital payments of £124.764m. The actual capital spend in 2022/23 was £117.352m and the actual controllable capital payments made by the Council were £97.740m.

7.2. A reconciliation of the approved budget for 2022/23 and the controllable capital payments is shown in Table 10.

Table 10: Capital budget to outturn position

	Capital Budget 2022/23
	£m
Council Resolution February 2022	250.115
Unallocated Capital Investment Fund	(30.613)
Warwickshire Recovery and Investment Fund (WRIF), and Warwickshire Property and Development Group (WPDG) and Asset Replacement Fund (ARF)	(38.643)
Education basic needs funding (unallocated)	(9.624)
Capital maintenance allocations	(29.016)
2021/22 Quarter 3 approved capital programme (including S278, excluding WRIF, WPDG and ARF)	**142.219**
Re-profiling, new schemes, and delays at 2021/22 outturn	(17.455)
Opening capital programme for 2022-23	**124.764**
Re-profiling, new schemes, and delays at Q1	4.424
Re-profiling, new schemes, and delays at Q2	(15.140)
Re-profiling, new schemes, and delays at Q3	(14.214)
Re-profiling, new schemes, and delays at Q4	(2.094)
Capital programme delivered at outturn 2022-23 (including S278, excluding WRIF, WPDG and ARF)	**97.740**

7.3. The outturn position represents a decrease of £2.094m in spend compared to the Quarter 3 forecast reported in January 2023. The changes to forecasts have been split below in paragraph 7.6 between new schemes, budget reprofiles, net underspends and delays. Additionally, there was £18.413m of S278 schemes spending in 2022/23 and £1.469m of spend on WPDG, WRIF and Asset Replacement Fund schemes.

7.4. The Capital Investment Fund (CIF) balance which is not included in the above figures is £90.257m over the five years of the MTFS.

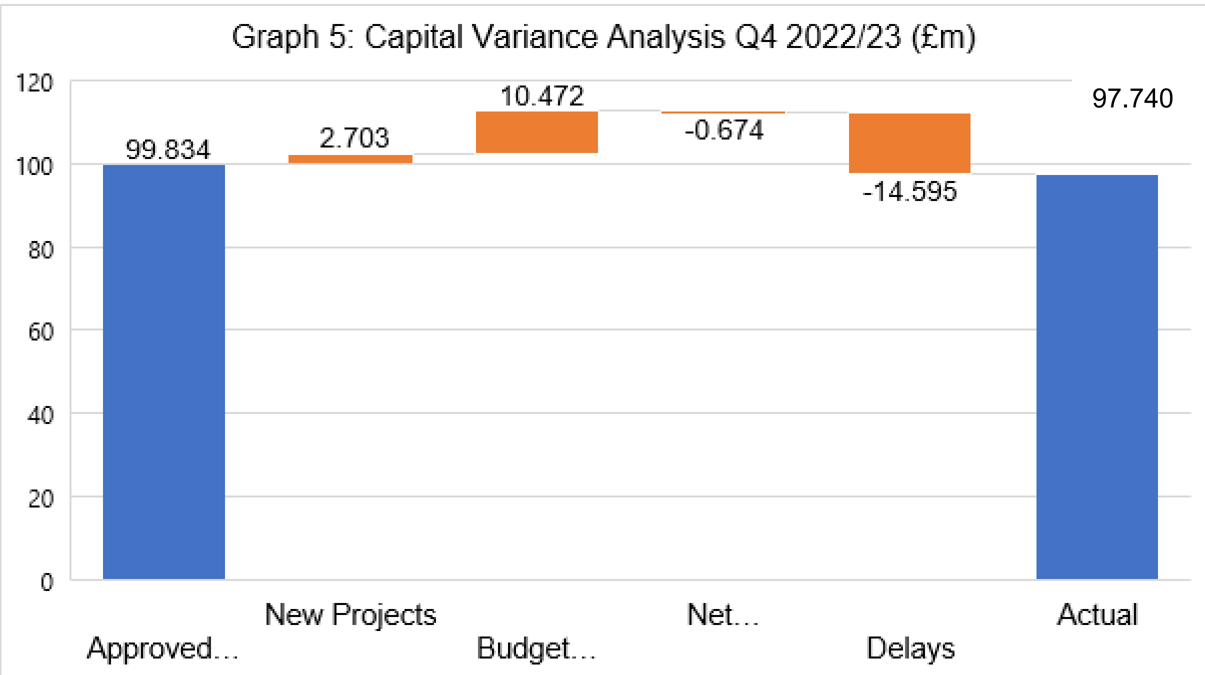
Capital Forecast by Service

7.5. The actual of 2022/23 capital payments directly controllable by the Authority of £97.740m excludes the spend on s278 developer schemes of £18.143m and corporate allocations for WPDG, WRIF and ARF (Asset Replacement Fund) of £1.469m. These elements are excluded from the headline figures as the timing of the spend is not directly controllable by the Council. If these are included the total 2022/23 capital expenditure is £117.352m. The detail by Service is set out in Table 11.

Table 11: Capital Variance Analysis

	2022/23			2023/24 to 2026/27			
	Approved Budget (after Q3) £m	Actual £m	Variance £m	Approved Budget £m	Actual £m	Variance £m	Total Variance £m
Environment Services	39.382	38.385	(0.997)	104.982	130.796	25.814	24.817
Fire and Rescue	2.232	0.732	(1.500)	3.767	4.387	0.620	(0.880)
SC for Communities	7.939	7.716	(0.222)	46.927	48.629	1.703	1.480
Communities	**49.553**	**46.834**	**(2.719)**	**155.675**	**183.812**	**28.137**	**25.417**
Children and Families	1.887	0.696	(1.191)	0.795	2.326	1.532	0.340
Education Services	25.148	28.377	3.229	113.109	129.436	16.326	19.555
Social Care & Support	-	-	-	0.313	0.313	-	-
SC for People & Public Health	5.149	5.125	(0.024)	0.721	5.870	5.149	5.125
People	**32.184**	**34.198**	**2.014**	**114.938**	**137.945**	**23.007**	**25.021**
Business and Customer Support	0.911	0.660	(0.251)	0.591	0.847	0.256	0.005
Enabling Services	13.935	13.210	(0.725)	7.228	21.270	14.042	13.317
Governance & Policy	3.250	2.839	(0.411)	3.197	4.133	0.936	0.525
Resources	**18.097**	**16.710**	**(1.387)**	**11.016**	**26.250**	**15.234**	**13.847**
Controllable capital programme	**99.834**	**97.740**	**(2.094)**	**281.629**	**348.007**	**66.378**	**64.286**
Corporate: WPDG / WRIF / ARF	7.602	1.469	(6.133)	256.998	207.587	(49.411)	(55.544)
WCC Capital Programme	**107.436**	**99.211**	**(8.225)**	**538.627**	**555.594**	**16.967**	**8.742**
S278 funded schemes	15.429	18.143	2.714	46.357	53.375	7.018	9.732
Total Capital Expenditure	**122.866**	**117.352**	**(5.514)**	**584.984**	**608.969**	**23.986**	**18.472**

7.6. At Quarter 3 the controllable capital budget for 2022/23 was reset to £99.834m, as approved by Cabinet in January 2023. Graph 5 explains the changes between the approved budget and the actual spend of £97.740m.
* The figures in the graph above exclude S278 and Corporate Schemes.



7.7. The movement from forecast at Q3 to outturn actuals shows the changes in capital programme spend, made up of:

- Reprofiled and delayed projects – these are schemes where the project timeline has been reprofiled or there has been a delay in the time scale for delivery. The project is still being delivered and with no material change in cost, but the benefits of projects will not be realised in the timeframe originally anticipated. The net position is that there is £2.094m of project expenditure which has been reprofiled into future years, and work is ongoing to make estimates of planned delivery more realistic to ensure reprofiling only occurs where delays are uncontrollable. The key reasons for the current delays are provided in **Appendix B** of this report and they include availability of contractors and materials, project reviews and redesigns due to inflationary pressures and longer than anticipated procurement and planning processes.

- 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 processes, with financing made available from Capital Investment Fund or funded by third parties.

- Projects with Increased Spend – these are schemes where project costs have risen above the level previously expected and additional funding has been 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 increased grants. In many cases 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 borrow less to fund capital spend in the future.

7.8. Adding £2.703m new projects to the capital programme in 2022/23 requires that an equivalent amount of additional funding has also been identified.

7.9. Table 12 provides a summary of the 2022/23 capital spend by service. Further detail is provided in **Annexes A to M**.

7.10. Funding inflationary pressures on capital schemes was considered by Cabinet and Council in September and a new Inflation Contingency Fund was established (funded from the Capital Investment Fund) to manage the impact of inflation. The new Fund contained £15m funding and allocations totalling £4.218m have been made to date by the Strategic Director for Resources in consultation with the Portfolio Holder for Finance and Property.

Table 12: Capital 2022/23 outturn by service

Service	Approved 2022-23 capital programme at Q4 £m	New projects in year £m	Net over / underspend £m	Total capital programme £m	Budget Reprofile £m	Delays £m	Actual In year capital spend £m	% Of delays
Environment Services	39.382	(0.439)		38.943	2.735	(3.295)	38.383	-8.5%
Fire and Rescue	2.232	0.030	(0.550)	1.712	(0.092)	(0.887)	0.733	-51.8%
Strategic Commissioning for Communities	7.939		(0.120)	7.819	2.025	(2.131)	7.713	-27.3%
Children & Families	1.887	0.049	(0.004)	1.932	0.002	(1.239)	0.695	-64.1%
Education Services	25.148			25.148	5.295	(4.814)	25.629	-19.1%
Social Care & Support	0.000	2.749		2.749			2.749	0.0%
Strategic Commissioning for People & Public Health	5.149			5.149		(0.024)	5.125	-0.5%
Business and Customer Support	0.911			0.911		(0.251)	0.660	-27.6%
Enabling Services	13.935	0.329		14.264	0.034	(1.088)	13.210	-7.6%
Governance and Policy	3.250	(0.015)		3.235	0.473	(0.868)	2.840	-26.8%
Services Capital Programme	**99.834**	**2.703**	**(0.674)**	**101.862**	**10.472**	**(14.597)**	**97.740**	**-14.3%**
Corporate (WPDG & WRIF)	7.602	0.000		7.602		(6.133)	1.469	-80.7%
WCC Capital Programme	**107.436**	**2.703**	**(0.674)**	**109.464**	**10.472**	**(20.730)**	**99.209**	**-18.9%**
S278 Developer Funded Schemes	15.429	1.831	(0.043)	17.217	2.736	(1.806)	18.147	-10.5%
Total Capital Expenditure	**122.866**	**4.534**	**(0.717)**	**126.681**	**13.208**	**(22.536)**	**117.352**	**-17.8%**

7.11. In addition, where schemes are in the early stages of design and costing there is a risk that project costs have significantly risen due to inflation. This may mean in some cases the original scheme is not likely to be achievable within the current approved funding envelope. Decisions about whether to proceed or if the projects should be scaled back or aborted will form part of the development of the Capital Investment Fund pipeline as part of the 2024/25 MTFS Refresh. Any abortive costs on discontinued schemes would need to be funded from revenue resources.

Capital Financing

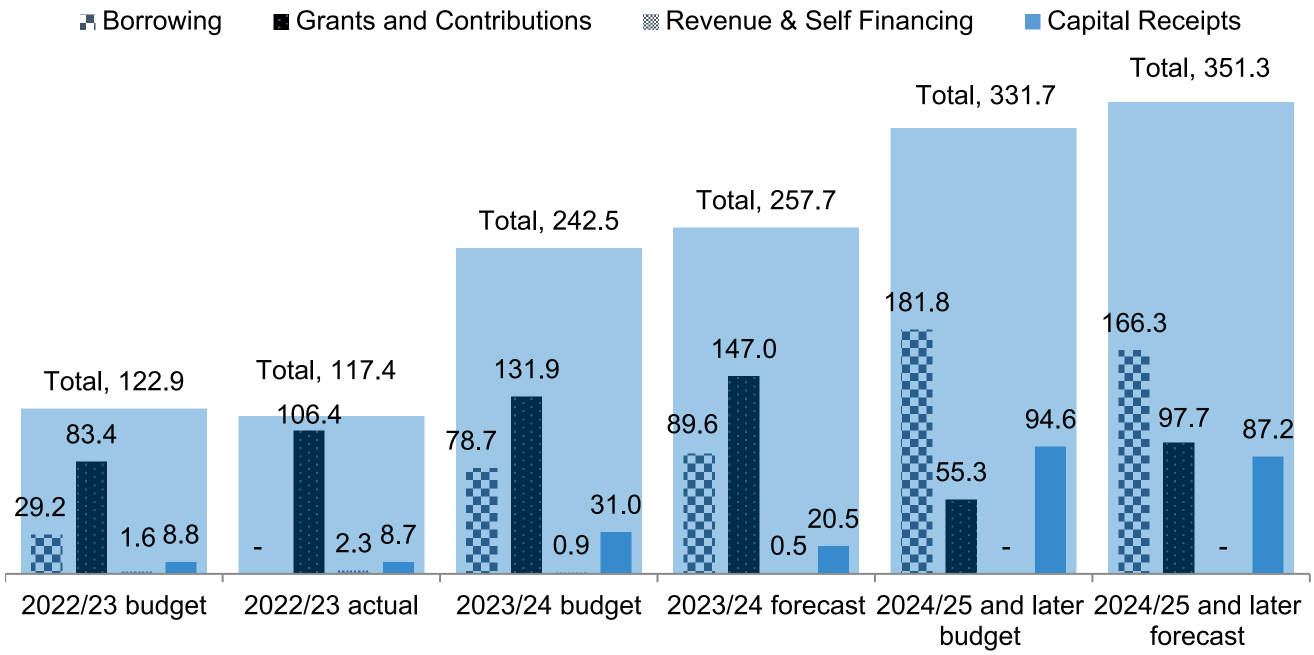
7.12. Local authorities are required to consider their gross capital spend and how it is financed separately. This is because where allowed, at a whole Council level, it is more cost effective to make use of any external capital resources (primarily government grants and capital receipts) before taking out additional borrowing. The approach delays the time when an authority needs to take out additional borrowing and avoids the impact of additional borrowing costs (interest and the provision for principal repayments) on the revenue budget. For forecasting purposes, we accurately reflect how individual schemes are being financed so that the CFR (Capital Financing Requirement) and MRP (Minimum Revenue Provision, the technical name for the provision for principal repayments) prudently reflect and provide for the repayment of debt.

7.13. The most significant variable in financing the capital expenditure is forecasting the timing of the delivery of capital receipts. Capital receipts, including from the sale of County Council assets and the repayment of WPDG and WRIF loans, are 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.

7.14. The timing of when additional borrowing is taken out will depend on the Authority's overall cash position which may provide an opportunity to 'internally' 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.

7.15. Graph 6 and Table 13 below provide further detail on how the approved 2022/23 capital programme and 2022-27 Capital MTFS are currently planned to be financed.

Graph 6: Estimated Financing to 2024/25 & Later Years (£m)



Note: 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).

Table 13: Capital Resourcing Requirement

	2022/23 budget £'000	2022/23 actual £'000	2023/24 budget £'000	2023/24 forecast £'000	2024/25 and later budget £'000	2024/25 and later forecast £'000
Corporate Borrowing	29.170	-	78.746	89.649	181.812	166.344
Self-financed Borrowing	1.094	-	0.552	0.119	-	-
Grants and Contributions	83.359	106.425	131.882	147.031	55.337	97.740
Capital Receipts	5.301	5.186	3.984	3.489	4.128	0.346
Capital Receipts - WRIF	-	-	12.462	4.474	53.127	51.166
Capital Receipts - WPDG	-	-	14.532	12.541	37.311	35.688
Capital Receipts Reserve	3.479	3.479	-	-	-	-
Revenue	0.463	2.262	0.320	0.382	-	-
Total	**122.866**	**117.352**	**242.478**	**257.685**	**331.715**	**351.284**

* *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 2022/23. There are no additional financial implications to those detailed in the main body of the report.

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 Outturn Variances
Appendix B: Commentary on Service Capital Outturn Variances
Appendix C: Requested Drawdowns from Externally Earmarked and Directorate Risk Reserves
Appendix D: Requested Corporate Revenue Investment Fund Allocations
Appendix E: Requested 2023/24 Use of Covid-19 Reserves
Appendix F: Service level narrative, reserves, and saving

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