

Cabinet

14 November 2024

2024/25 Financial Monitoring – Forecast Position as at Quarter 2

Recommendations

That Cabinet:

1. notes the forecast net residual service overspend of £9.487m (2.4%) that would need to be funded from reserves at the end of 2024/25;
2. notes the forecast delivery of savings for 2024/25 of £9.529m (59%), and the consequent shortfall against the target;
3. notes the forecast capital spend for 2023/24 of £176.138m;
4. notes and approves the movement in the forecast spend on the capital programme of £12.776m from 2024/25 into future years; and
5. approves the transfer of £4.885m from the Revolving Fund to the Revenue Investment Fund as detailed in Section 6.

1. Purpose of the report

- 1.1. This report outlines the forecast financial position of the organisation at the end of 2024/25, based on the information known at the end of the second quarter.
- 1.2. The current analysis includes:
 - capital and revenue financial performance;
 - explanations for variations, any mitigating actions and an assessment of any impacts on service delivery

2. Summary

Revenue Forecast Summary

	Quarter 2 £m	Quarter 1 £m	Change from Q1
Approved Budget	401.898	401.448	0.450
Net forecast as at Quarter 1	443.499	448.905	(5.406)
Net overspend	41.601	47.457	(5.856)
Reason for, and resourcing, of the overspend			
• Investment Funds variance: spend to be financed from approved Investment Funds allocations	1.827	2.451	(0.624)
• Net Movement (to)/from Earmarked Reserves: spend to be financed from other Earmarked Reserves not currently included in the Approved Budget	7.625	2.099	5.526
• DSG variance: deficit of £40.662m partially offset by £18m provision in the approved budget	22.662	15.909	6.753
Residual service variance	9.487	26.998	(17.511)
Net overspend	41.601	47.457	(5.856)

- 2.1. The headline forecast overspend is £41.601m in 2024/25. However, one-off, specific funding has been set aside in the Medium-Term Financial Strategy (MTFS) to meet £9.452m of these costs and £22.662m will be met by the DSG Statutory Override. Once this funding is taken into account the adjusted position is a residual overspend of £9.487m (2.4% of the net revenue budget) which, if unchanged by the end of the financial year through mitigating actions, will be funded from the Short-Term Financial Risk Reserve. The variance in the net revenue budget at 2.4% is above the +/- 2% target set as part of the performance management framework.
- 2.2. The Council is continuing to face sharp and unsustainable increases in demand and costs across our children and adults social care services, special educational needs and disabilities, and home to school transport, which are posing significant medium-term financial risk to the Council. These reflect national pressures and urgently require national solutions.
- 2.3. For further details on the reasons and impacts of the forecast revenue spend please refer to Section 4.

Financial Recovery Strategy

- 2.4. Facing such significant cost pressures from within services and the Dedicated Schools Grant, any well-run organisation would put in place a mitigation strategy to bear down on costs. Based on the indicative 2023/24 outturn, Corporate Board had previously agreed a contingency plan, including a trigger point for implementing spending controls. The Q1 forecast outturn was materially above that trigger point,

and so immediate action was taken in-year to mitigate the pressures ahead of the 2025/26 MTFS refresh. The mitigation strategy is fourfold:

Reducing the forecast overspends in the four key areas and make sure they don't grow (excluding SEND these services account for 71% of budgets). All areas forecasting overspends at Q1 were asked to prepare and submit Financial Recovery Plans by 31 August. These were summarised and presented to Corporate Board on the 3rd of September. The effects for 2024/25 are now reflected in the forecasts, where appropriate.

- **Identifying reserves and contingencies to partially offset the overspend in 2024/25.** Work has been completed by Finance, who undertook a full review of available reserves, to identify any one-off resources which can be used to mitigate the in-year overspend. Any unplanned use of reserves reduces medium-term financial resilience and can only be used as a one-off mitigation. The outcome of the work has identified a potential approximately £2m that can be released from the reserves to contribute as a one-off mitigation against the 2024/25 financial position or to be added to the Medium Term Financial Contingency reserve to support delivery of the MTFS. A view will be made at a later stage on whether to utilise these reserves in year if required or exploring further as part of the MTFS and Budget setting for 2025/26. Through the *Budget & Policy Framework - Reserves Strategy* approved annually as part of Budget Setting in February, reporting on each reserve and seeking approval for any variations or to create a new reserve will form part of the quarterly monitoring reports to Cabinet. As such any recommendation on their utilisation may be brought to Cabinet as part of the future quarterly monitoring reports.
- **No longer provide £ for £ for the High Needs Block deficit beyond the £18m set aside in the 2024/25 budget resolution.** The in-year forecast DSG deficit stands at £41m in 2024/25, of which £18m is provided for in the approved budget. It is a matter of significant concern that this has increased by £6.75m since Q1. The decision to cease providing for the deficit above the 2024/25 budget allocation means relying on the DSG Statutory Override which is available until March 2026. Until there is a national solution to the Special Educational Needs and Disabilities (SEND) system, this is the most significant risk to the Council's financial resilience and sustainability and is of such a scale that it is beyond this Council's ability to solve without national support and policy change.
- **Spending controls implemented for the rest of the financial year with a £12m expenditure reduction target (2% of the net revenue budget).** The primary goal of the spending control target is to top-up the Short-Term Financial Risk Reserve to c£9m (slightly lower than the current balance of £12m). Thanks to a strong one Council approach across all services, the Period 6 position shows that £13.5m against the targeted £12m spending reduction is now being

forecasted, but this position could deteriorate depending on whether service forecasts hold good. Please see **Appendix A** for details of the underspends/cost reductions for each service.

- 2.5. Within this context, preparatory work for the 2025/26 MTFS is essential with the process having commenced through the 2025/26 MTFS Refresh report to July Cabinet. Regardless of the mitigations, largely one-off, that have been put in place to manage the overspend in 2024/25, pressures are likely to be sustained and so we will need meaningful and realistic savings options from services as part of the 2025/26 MTFS refresh process.
- 2.6. The Chancellor's Spending Review and Autumn Budget will give us more clarity on the available resources and potential policy changes to fund and address these pressures as we make our preparations through the autumn and winter for setting the 2025/26 Budget in February 2025.

Dedicated Schools Grant

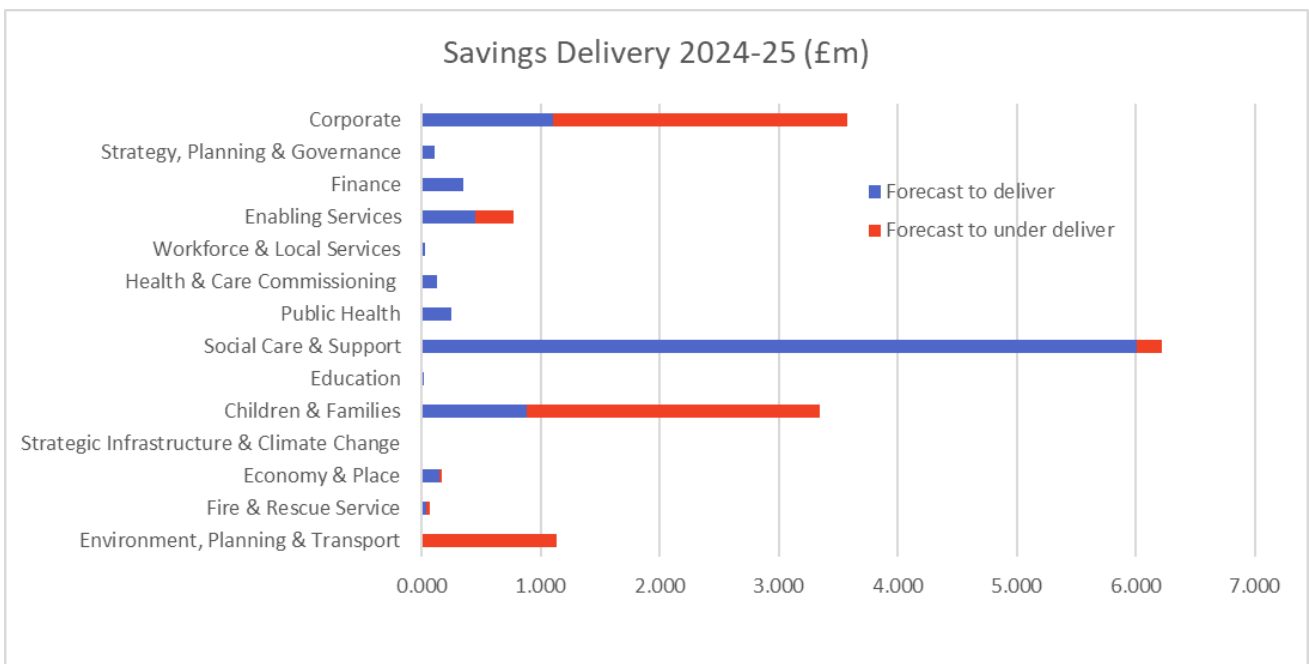
- 2.7. The largest financial risk to the Council is the growing DSG High Needs deficit which the Council is no longer able to provide for on a sustainable basis. The 2024/25 Q2 Dedicated Schools Grant (DSG) forecast is a £40.661m overspend across the four blocks, a £6.75m increase in the quarter. Within this there is a £41.556m High Needs block deficit, giving a forecast cumulative High Needs DSG deficit of £81.044m by the end of this financial year. £57.488m has been set aside in reserves to offset the DSG High Needs deficit, including the £18.000m provision set aside in the 2024/25 budget. This leaves a shortfall of £23.556m in year which is the element of the deficit which is not currently covered by reserves requiring the Council for the first time to rely on the 'DSG Statutory Override'. WCC has so far not relied on this override, having prudently set aside sufficient reserves to offset the growing deficit position. However, with such a significant annual deficit, the shortfall will increase significantly and rapidly unless and until Government resets the SEND system sustainably, and reimburses Councils for cumulative deficits that have arisen due to Government policy and funding decisions.
- 2.8. The statutory override was introduced by the Government in 2020, allowing Local Authorities to exclude any deficits on their DSG spending from their main revenue budgets. This new accounting mechanism, originally covered the three financial years 2020/21 to 2022/23 but was then extended until March 2026.
- 2.9. Given the size of some authorities' DSG deficits and other pressures on councils' reserves, the Government recognised that funding these from main revenue budgets could cause councils to make spending reductions in other services that they would not otherwise make. Therefore, the accounting rules were changed to make it clear that a DSG deficit must not be charged against the general fund and instead charged to a separate reserve used solely for the purpose of recognising deficits until March

2026, which ensures Council resources are 'protected' from these deficits until a national solution is found. However, there are still financial impacts of this 'protection' as it creates cashflow risk, accelerates the requirement for external borrowing and reduces returns on cash balances.

2.10. It is unclear at this point what will happen in practice when the statutory override ends. A ISOS Partnership Report from earlier this year, commissioned by the County Councils Network and Local Government Association powerfully sets out the unsustainable SEND system, both in terms of outcomes and finance, and recommends national reforms to reset the system. In October the National Audit Office reported that, while there is currently no identified solution which can be implemented quickly, the Department for Education is working with HM Treasury and the Ministry of Housing, Communities and Local Government to develop a longer-term solution.

Savings Delivery Summary

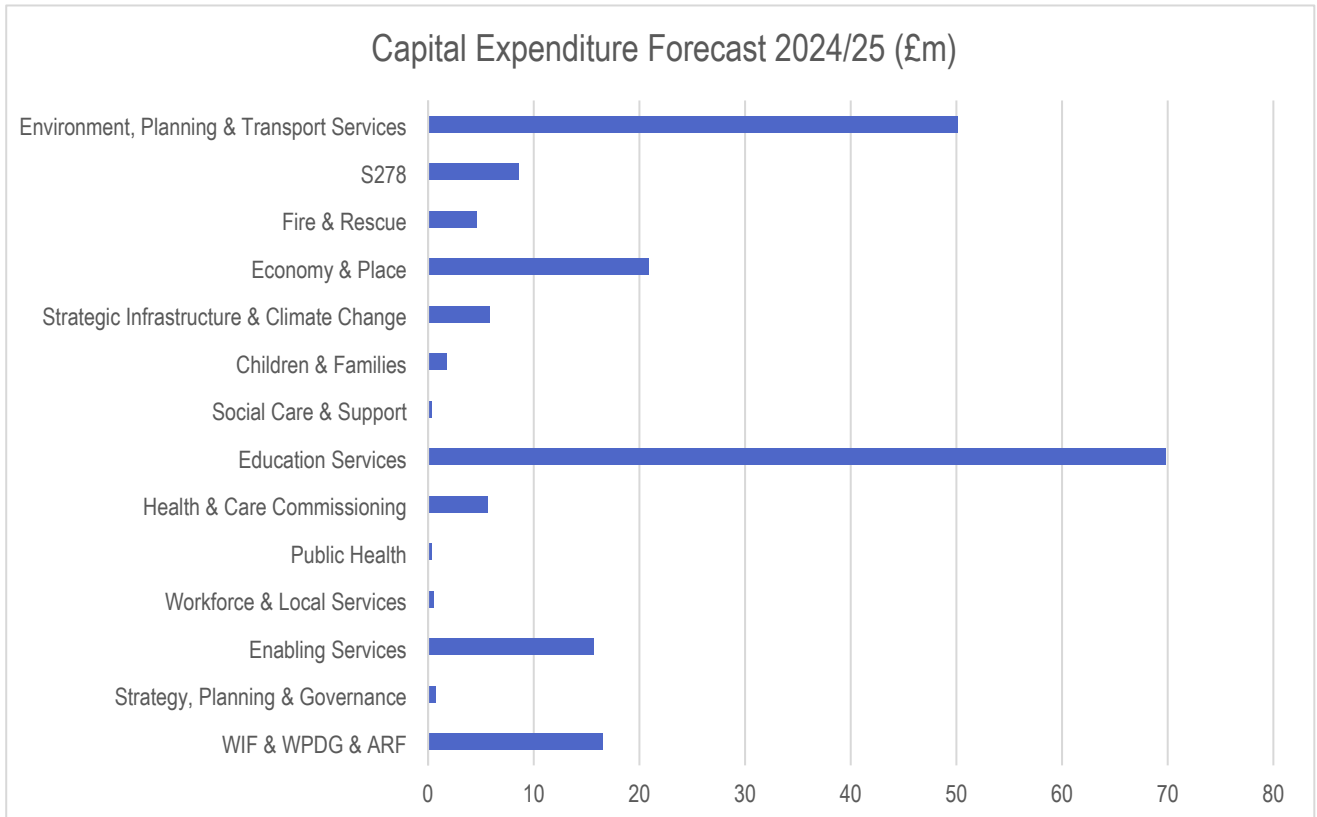
2.11. The savings plan for 2024/25 requires the delivery of £16.177m of savings, accumulated from 48 individual saving initiatives. At Q2, £9.529m (59%) is forecast to be delivered in line with the plan, with £6.648m (41%) forecast not to be delivered, this is reflected in the Q2 revenue forecasts and is largely due to service pressures causing overspends. For details on saving performance please refer to Section 5.



Capital Forecast Summary

2.12. The controllable capital spend for 2024/25 is forecast to be £176.138m. A further £8.556m was spent on schemes funded by S278 developer contributions where the timing is not directly controllable by the Council. In addition, £16.492m is forecast to be spent on economic growth-related activity through the Warwickshire Investment Fund (WIF) and Warwickshire Property and Development Group (WPDG). When combined these give a total forecast capital spend for the year of £201.186m.

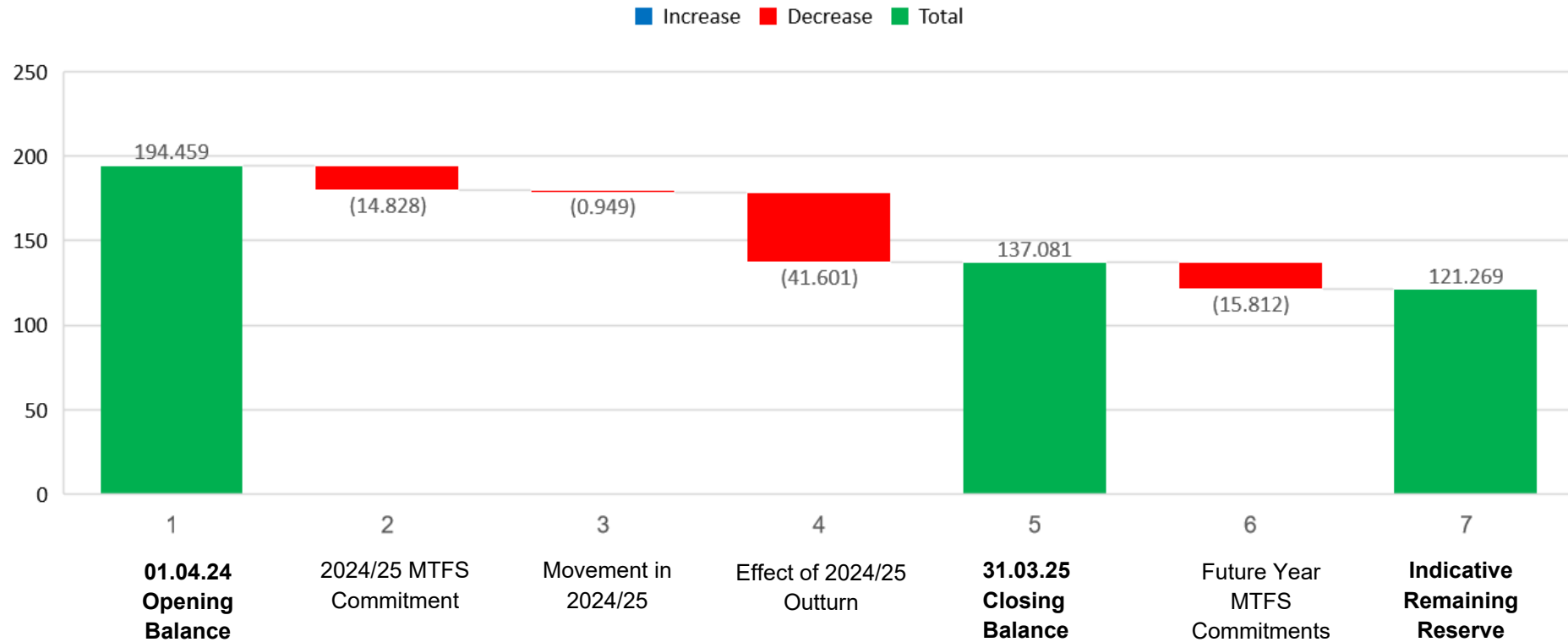
Graph 2: Capital Expenditure 2024/25 (£m)



*WIF (Warwickshire Investment Fund), WPDG (Warwickshire Property and Development Group), ARF (Asset Replacement Fund)

Reserves Summary¹

Reserves Summary £(M)



2.13. The level of reserves at the start of 2024/25 was £194.459m. The forecast spend in this report and indicative future use of reserves to support the MTFS indicate reserves will reduce by £73.190m over the period of the MTFS to £121.269m. The future MTFS commitments are subject to change as a result of the on-going refresh of the Medium-Term Financial Strategy. The current minimum prudent level of reserves for the council is £26.0m based on the annual general reserves risk assessment approved as part of the budget.

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

3. Revenue Forecast by Service

Service Area	Approved Budget	Service Forecast	(Under) /Over spend	% Change from Budget	Change from Q1 forecast	Represented by:			% change from Approved Budget	Remaining Service Variance
						Investment Funds	Impact on Earmarked Reserves	Remaining Service Variance		Change from Q1 forecast
	£m	£m	£m		£m	£m	£m	£m	£m	
Communities										
Environment, Planning & Transport	72.421	79.566	7.145	9.9%	(1.565)	(0.034)	0.119	7.060	9.7%	(1.430)
Fire & Rescue	25.624	27.213	1.589	6.2%	1.056	1.409	0.148	0.032	0.1%	(0.191)
Economy & Place	23.700	23.918	0.218	0.9%	(0.940)	(0.047)	0.633	(0.367)	(1.5%)	(1.247)
Strategic Infrastructure & Climate Change	1.828	0.907	(0.921)	(50.4%)	(0.576)	0.000	0.000	(0.921)	(50.4%)	(0.576)
Subtotal Communities	123.573	131.604	8.031	6.5%	(2.025)	1.328	0.900	5.804	4.7%	(3.444)
Social Care and Health										
Social Care and Support	211.260	228.555	17.295	8.2%	1.297	(0.035)	1.871	15.459	7.3%	0.268
Health & Care Commissioning	11.839	12.278	0.439	3.7%	(0.027)	0.000	0.770	(0.331)	(2.8%)	(0.159)
Public Health	24.616	24.550	(0.066)	(0.3%)	(0.170)	0.000	0.021	(0.087)	(0.4%)	(0.173)
Subtotal Social Care and Health	247.715	265.383	17.668	7.1%	1.100	(0.035)	2.662	15.041	6.1%	(0.064)
Children and Young People										
Children & Families	103.759	110.536	6.777	6.5%	(5.353)	0.000	1.148	5.629	5.4%	(4.736)
Education Services - Non-DSG	10.712	11.031	0.319	3.0%	(0.506)	0.000	0.141	0.179	1.7%	(0.402)
Subtotal Children and Young People	114.471	121.567	7.096	6.2%	(5.859)	0.000	1.289	5.808	5.1%	(5.138)
Resources										
Enabling Services	28.621	28.836	0.215	0.8%	0.196	0.473	0.011	(0.270)	(0.9%)	0.044
Finance	15.622	15.242	(0.380)	(2.4%)	(0.394)	0.000	0.151	(0.531)	(3.4%)	(0.526)
Strategy, Planning & Governance	7.187	6.796	(0.391)	(5.4%)	(0.051)	(0.059)	0.047	(0.379)	(5.3%)	0.081
Workforce and Local Services	11.055	10.436	(0.619)	(5.6%)	(0.532)	0.000	0.062	(0.682)	(6.2%)	(0.549)
Subtotal Resources	62.485	61.310	(1.175)	(1.9%)	(0.781)	0.414	0.271	(1.862)	(3.0%)	(0.950)
Subtotal Directorates	548.244	579.864	31.620	5.8%	(7.565)	1.707	5.122	24.791	4.5%	(9.596)
Corporate Services and DSG										
Corporate Services & Resourcing	(146.346)	(177.027)	(30.681)	21.0%	(5.044)	0.000	(15.377)	(15.304)	10.5%	(7.915)
DSG expenditure (Education Spending)	294.943	337.907	42.964	14.6%	9.055	0.000	42.964	0.000	0.0%	0.000
DSG income	(294.943)	(297.245)	(2.302)	0.8%	(2.302)	0.000	(2.302)	0.000	0.0%	0.000
Subtotal Corporate Services and DSG	(146.346)	(136.365)	9.981	(6.8%)	1.709	0.000	25.285	(15.304)	10.5%	(7.915)
Total	401.898	443.499	41.601	10.4%	(5.856)	1.707	30.407	9.487	2.4%	(17.511)

4. Revenue overview

- 4.1. The forecast outturn position is set out in the table in Section 3 above and shows a total forecast overspend of £41.601m representing 10.4% of the Council's net revenue budget. After the planned application of one-off reserves, the remaining service variance is £9.487m representing 2.4% of the net revenue budget.
- 4.2. The key drivers causing this position are national ones which we are seeing play out locally, and urgently need fundamental action from Government as well as those local actions which can partially mitigate the impacts. The underlying themes continuing from previous years, despite significant budget allocations to all four areas, are:
- a continuation of the increase in volume and complexity of demand for services in the Children & Young People and Social Care & Health Directorates;
 - market failure, in the form of excessive costs for placements, lack of capacity both for specialist placements and staffing;
 - a further increase in the already substantial gap between the fixed levels of grants provided by Central Government and the growing spending need in the services the grants are intended to fund, particularly in relation to the High Needs Dedicated Schools Grant for children and young people with Special Educational Needs and Disabilities, which remains materially underfunded for the level of demand/cost in the system, as shown by the recent CCN report on SEND referenced in paragraph **2.10** above; and
 - against such demand and system pressures, challenges in terms of the organisation's capacity to deliver and maintain all of its change programmes, associated savings plan delivery and managing in-year mitigation activity.
- 4.3. The impact of these on WCC's financial position largely consists of four main overspending areas, further details of these can be found in paragraph 4.5 below:
- Social Care and Support;
 - Children and Families;
 - Dedicated Schools Grant (DSG) High Needs Block; and
 - Home to School Transport.
- 4.4. The total overspend from these areas is £74.2m; in the budget set in February 2024, allocations of £51.7m were assigned to these four budgets, of which £20.4m was time-limited (mainly DSG); factoring in Treasury Management benefits and other underspends generated across the organisation, the Q2 overspend is £41.6m.

4.5. The material aspects of the overspend at a service level are set out below. Further detail can be found in **Appendix A**:

i.) Education Services - Dedicated Schools Grant (DSG)

The forecast £40.661m overspend consists of the following variances:

DSG block	Current year forecast variance as at Q2 2024/25 £m	Cumulative forecast variance as at Q2 £m
Schools Block	(0.198)	(1.487)
Early Years Block	(0.361)	(4.979)
High Needs Block	41.556	81.044
Central Services Block	(0.336)	(0.703)
Total	40.661	73.875

The most significant element is the forecast overspend of £41.556m on the DSG High Needs Block (HNB). This is a 52% overspend on the HNB budget allocation of £80.207m. This overspend consists of the anticipated Delivering Best Value (DBV) budgeted overspend of £17.900m and a further £25.894m service overspend which is being offset by a school block contribution of £2.283m. The material overspends include £7.506m in mainstream school Education, Health and Care Plan (EHCP) top-ups, £3.267m overspend in Special school EHCP top-ups, a £10.854m overspend on independent school places, a £3.278m overspend on alternative provision and a £0.378m overspend on Post-16 provision.

The Council has participated in the DfE’s Delivering Better Value programme. Independent experts commissioned by the DfE concluded that even if the Council implemented every possible mitigating action, we could not balance the high needs budget or generate sufficient underspends to repay the cumulative deficit which by the end of the decade will otherwise reach entirely unsustainable levels. This requires urgent national action, as set out in the recent CCN report on the SEND system. As set out in the Council Section 151 Officer’s Section 25 Statement in the 2024/25 budget resolution, the failure to reset the SEND system on a sustainable basis is a fundamental risk to the Council’s medium-term financial sustainability.

Strategic response – Continuation of the Education Transformation Programme, planned capital investment in SEND Resource Provision and focus on SENDAR, use of the DSG Statutory Override above resources set aside in the budget.

ii.) Environment, Planning & Transport remaining service overspend of £7.027m

The primary reasons for this forecast overspend are Home to School SEND transport forecasting to overspend by £4.720m and mainstream transport forecasting to overspend by £3.288m. These overspends are despite an additional budget allocation in 2024/25 of £8.942m to cover inflation, increased contract costs and increased demand across both SEND and Mainstream services. The overspends are offset by a small forecast underspend of £0.205m on Children in Care transport and

£0.215m on temporary salary costs, where additional staff were needed to manage demand at the start of the new academic year.

The service is seeking to mitigate the level of overspend, however, without fundamental changes to home to transport policy, there is limited ability to impact the numbers accessing Home to School transport. Work is ongoing through the improvement project workstreams to improve procurement, reduce costs and improve the efficiency of the service through route reviews, data cleansing and changing the admissions process. However, the extremely high levels of demand for SEND is driving the overspend along with challenges with the volume and sufficiency of school places. As a result, process and procurement efficiencies are only likely to mitigate the current pressures. Costs per journey in 2024/25 have remained reasonably stable and operator costs have shown a slight decline, indicating that improvement project workstreams are beginning to have an impact, for example through access to more accurate data and route reviews to improve the efficiency of journeys.

Strategic response – Progression of the Home to School change programme, identification of benefits from Resource Provision capital investment in SEND, and improvements in data quality and integration between systems to inform planning.

iii.) **Social Care and Support remaining service overspend of £15.459m**

The service overspend is driven by an increase in the volume of packages of care, and to a lesser extent, increases in the average cost per unit of care. This overspend is on top of a 2024/25 budget allocation for increasing demand of £8.066m. The service also received further allocations of £17.932m to cover price inflation, increased provider costs (primarily due to the national living wage), and additional hospital discharge costs.

The most significant overspends are attributable to Disabilities 25+ (£7.068m), the Older People service (£6.111m) and Mental Health services (£2.536m).

Disabilities 25+

The £7.068m pressure in Disabilities 25+ is across all areas of care although greatest in supported living (£3.179m) and residential care (£1.474m).

The remaining overspend of £2.415m is due to pressures in domiciliary care, day care, night support and to a lesser degree direct payments.

Older People

The £6.111m pressure is across all areas of care although greatest in nursing (£3.078m), domiciliary care (£1.553m) and residential care (£0.842m).

The remaining overspend of £0.639m is due mainly to pressures in extra care housing and direct payments.

Mental Health

Mental Health is forecasting an overspend of £2.536m, 13% above budget. The volume of packages of care within Mental Health Services is 19% above the level which was affordable and within budget.

The overspend is mostly within supported living (£1.363m), residential care (£0.526m), domiciliary care (£0.421m) and nursing (£0.227m).

Strategic response - Innovation and Improvement Programme and financial recovery plan, including a range of activities to reduce care placement costs, reliance on agency workers and spend in specific areas of focus.

iv.) Children and Families remaining service overspend of £5.629m

Children in Care Placements account for £3.812m of the forecast overspend, with £5.190m attributable to Residential Care and all other placements forecasting an underspend of £1.378m. There is a predicted increase in demand of 15% coupled with an 8.1% increase in unit cost from 2023/24. Fortnightly residential placement meetings are held for each individual child to try and mitigate this rising trend.

Warwickshire Children's Homes are forecasting an overspend of £1.562m which is mostly due to staffing. The opening of children's homes is progressing although places created to date are still not fully utilised and a fourth home is still to be purchased. Plans to move children from residential care to these homes is reviewed fortnightly with an emphasis on attaining an occupancy level of at least 75% to break even. There are currently 5 children placed out of a possible 11/15 places available.

Agency Staffing expenditure is forecast to be £1.384m overspent. Control measures to limit the number and length of contracts have been put in place to ensure that only the most essential spend is being incurred but plans have slightly slipped.

Establishment staffing is forecasted to overspend by £2.492m. This is predominately due to teams holding fewer vacancies, staff being at the top of their pay scales, maternity cover, and a number of unbudgeted staff over establishment to cover increases in demand. Future forecasts may shift slightly as the service implements its Family First restructure.

Strategic response – Reducing costs of residential care by fully utilising and investing in WCC's Children's Homes, implementing the Pathfinder Programme to rebalance children's social care away from costly crisis intervention to effective early support, further work on the Continuous Improvement Programme and spending controls already implemented in service.

v.) Corporate Services remaining service underspend of £15.304m (10.5% of approved budget)

The forecast underspend within Corporate Services is contributing towards offsetting the significant overspends above. This is predominantly due to temporary savings of £10.680m as a result of higher returns on our cash balances and investments as interest rates have remained higher for longer than anticipated. This surplus will partially offset the overspends being forecast by services this year, reducing the remaining service variance to a net overspend of £9.487m. Medium Term Financial Planning is based on interest rates returning to lower levels to reflect the reduction in CPI inflation, therefore this funding cannot be relied on to support the on-going impact of the service overspends in 2025/26 or beyond.

This is coupled with a reduction of Minimum Revenue Provision of £1.240m due to the pace of the capital programme and a temporary reduction in the requirement for external borrowing.

Additional benefit from Warwickshire's participation in the Coventry & Warwickshire Business Rates Pool is generating income from business rates growth of £1.821m which would normally be passed over to the Ministry of Housing, Communities and Local Government, but is allowed to be kept by the Council via the pooling mechanism. The additional income will only arise for as long as business rates pools exist, this is subject to national policy and future reforms to local government funding.

As identified in the Financial Recovery Strategy, the £1m provision for in-year pressures has also been applied in the forecast.

vi.) Traded Services

The Council's traded services have a collective gross surplus target of £3.232m for 2024/25 before overheads are applied and at Q2 are forecasting a gross surplus of £3.248m which moderately exceeds the overall target by £0.016m. This is an improved position on Q1 where services were forecasting a moderate shortfall. There are a small number of services with large variances (both under and over target) and these continue to be regularly monitored by the Commercial Delivery Group to ensure the focus is on improving the financial position both by year end and into future years.

5. Savings Performance

- 5.1. Performance against individual saving targets can be found in Annexes A to N of Appendix D. The table below provides a summary. The savings target for 2024/25 is £16.177m; at Q2 £9.529m (59%) is forecast as on target to be delivered this financial year, leaving a significant shortfall of £6.648m (41%).
- 5.2. The Council has a successful track record of delivering savings. In 2023/24, despite challenges, the Council delivered 85% of its savings plan, totalling £12.846m. With continued high levels of increased demand for our services, maintaining this level of delivery is becoming increasingly challenging.

Service	Savings Target	Forecast delivery	N° of Schemes	Forecast under-delivery	N° of Schemes
	£m	£m		£m	
Environment, Planning & Transport	1.133	0.000	0	1.133	3
Fire and Rescue Service	0.071	0.039	0	0.032	1
Economy & Place	0.174	0.149	3	0.025	1
Strategic Infrastructure and Climate Change					
Communities Directorate	1.378	0.188	3	1.190	5
Social Care and Support	6.216	6.012	4	0.204	3
Health & Care Commissioning	0.131	0.131	2		
Public Health	0.250	0.250	1		
Social Care and Health	6.597	6.393	7	0.204	3
Children & Families	3.342	0.881	5	2.461	2
Education	0.020	0.020	2		
Children and Young People	3.362	0.901	7	2.461	2
Workforce & Local Services	0.032	0.032	2		
Enabling Services	0.775	0.455	5	0.320	2
Finance	0.348	0.348	2		
Strategy, Planning & Governance	0.106	0.106	3		
Resources Directorate	1.261	0.941	12	0.320	2
Corporate	3.579	1.106	6	2.473	1
Total	16.177	9.529	35	6.648	13

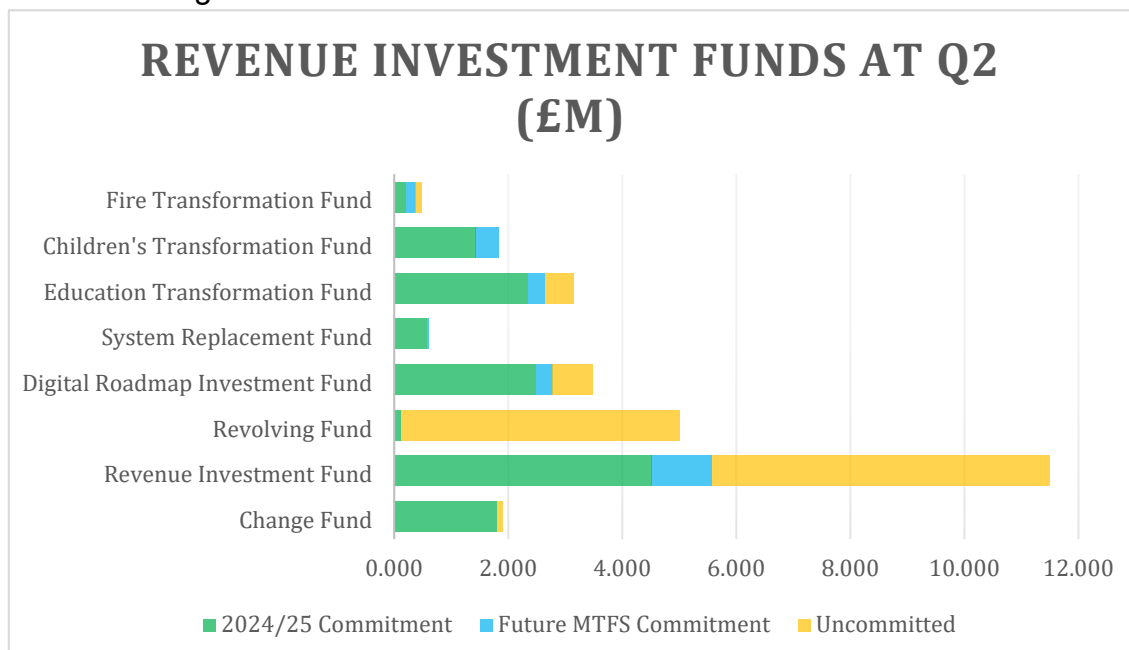
- 5.3. Of the savings forecast not expected to deliver, 78% is attributable to schemes where services are struggling to deliver the planned reductions in demand through service re-design. The other 22% is attributable to schemes where income streams have not increased as planned or due to insufficient cost reduction from third party contracts.
- 5.4. Environment, Planning and Transport and Children and Families are responsible for £3.689m (55%) of the shortfall. As outlined in Section 4 of this report, both areas have seen a significant increase in demand for their services. This is directly impacting on their capacity to deliver the planned savings with limited scope within these services

to identify alternative saving options. The net under-delivery of savings in Social Care and Support is £0.204m, which includes £3.560m under delivery of targets, these are offset by an over-achievement client income of £3.356m. Without this over-achievement of client income, the forecast overspend for the service would be significantly higher. Corporate Services also reflects £2.473m (37%) of the shortfall due to the delayed income expected to be realised from WPDG against the MTFS target. This is planned to be made up in future years as WPDG and Develop Warwickshire activity accelerates following some initial delays to individual schemes which have been outside the companies' control. The impact of the shortfall against the revenue budget will be temporarily funded from the Commercial Risk Reserve, as intended and as reported to Cabinet in March 2024 as part of approving WPDG's 2024 Business Plan.

- 5.5. The budget resolution makes clear the expectation that where services are unable to achieve savings, they find alternative savings, which is being actively pursued. However, pressures in some services are so high that this may prove extremely challenging or indeed impossible. Where improvements cannot be identified to support future savings, this creates a budget pressure in future years' MTFS.
- 5.6. The pressures being faced this year mean that the MTFS will need to be recalibrated and refocused to ensure that the organisation stays on a sustainable path over the medium-term. Finding solutions to deliver the required additional savings to meet the increasing demand for our statutory services will require increasingly difficult decisions to be taken, given the backdrop of demand and cost pressures, and until greater certainty over the long-term direction of national policy is clarified by the new government.

6. Revenue Investment Funds

6.1. The remaining balances of each of the Revenue Investment Funds are shown below:



6.2. In the 2024/25 budget resolution, Council agreed to the continuation of the two corporate revenue investment funds starting from April 2024; £11.490m for a single Revenue Investment Fund (RIF), of which £5.915m remains uncommitted and £5m for a Revolving Fund specifically to resource invest-to-save projects. The funding is intended to resource projects across the whole of the MTFS period. As part of the spending controls implemented at the end of Q1, access to the Revenue Investment Funds was temporarily paused, other than for the CRISP programme or where the bid will directly enable in year or MTFS savings, for at least the remainder of this financial year.

6.3. Funding of £4.659m for 2024/25 and £1.056m for future years have been committed against the Revenue Investment Fund to deliver a wide range of projects. Performance against individual projects are listed in Annexes A to M of Appendix D in this report.

6.4. As part of the financial recovery strategy and due to the Revolving Fund continuing to remain underutilised, it is proposed that the remaining £4.885m in the Revolving Fund is transferred to the Revenue Investment Fund.

7. Reserves

Reserve	Opening Balance 01/04/2024	24/25 MTFS Commitment	Movement in year	Outturn Impact	Indicative Closing Balance 31/03/2025	MTFS Allocation 2025-2029	Indicative Balance at 31/03/2030
	£m	£m	£m	£m	£m	£m	£m
DSG Deficit (inc Early Years, Schools, High Needs)	(33.214)	-	-	(40.661)	(73.875)	-	(73.875)
Medium Term Financial Risk Reserve	39.488	-	-	18.000	57.488	-	57.488
Other Schools Reserves	18.108	-	-	(0.151)	17.957	-	17.957
Externally Earmarked Reserves	8.425	-	(0.069)	(2.279)	6.077	-	6.077
Internal policy/projects	12.240	3.662	9.565	(1.538)	23.929	(8.851)	15.078
Corporate Investment Funds	27.944	(2.842)	(7.866)	(2.657)	14.579	(2.350)	12.229
Volatility reserves	55.846	0.278	(2.579)	(2.828)	50.717	-	50.717
Management of Financial Risk	39.712	(0.227)	-	(9.487)	29.998	-	29.998
Available to Use Reserve	25.910	(15.699)	-	-	10.211	(4.611)	5.600
Total	194.459	(14.828)	(0.949)	(41.601)	137.081	(15.812)	121.269

7.1. As at Q2 we are forecasting to use £57.378m of reserves to support spending in 2024/25, this is £29.017m more than in 2023/24. The use of reserves is made up of the following:

- fund the impact of the Q2 overspend;
- approved carry forwards;
- funding for investment and transformation projects;
- the transfer of the agreed revenue contribution to support the MediumTerm Financial Risk reserve as approved by Council; and
- the use of £3.399m in 2024/25 to fund time-limited costs and budget allocations to accommodate the differences in timing between spending need and ongoing resource through delivery of savings and/or income and as agreed in the MTFS approved as part of the budget in February 2024.

- 7.2. Based on the Q2 forecast, without mitigating action, the £13.485m remaining balance in the Short-Term Financial Risk Reserve (contained within the Management of Financial Risk reserves in the table above) will be reduced to £3.998m by the end of the financial year. To make good this position, the Financial Recovery Plan, including the spending controls target, will ensure this reserve is topped up to an acceptable level by the end of 2024/25 to provide continued resilience for setting and managing the 2025/26 budget.
- 7.3. The impact of the current forecast revenue position will be a reduction in reserves by a net £9.487m. This is a hugely improved position from the Q1 forecast due to the success of the financial recovery strategy. Continued use of a high level of reserves to mitigate unplanned overspends is not sustainable. Whilst currently our reserves remain robust, with the planned use of reserve appropriate and managed over the medium-term, it is critical that Services continue to identify solutions to mitigate the current year overspend.
- 7.4. As part of the MTFS refresh a detailed reserves review will take place working jointly with Directorate and Service Leadership Teams with the aim to identify reserve balances that can be released to support the MTFS and the Council Plan.

8. Capital

8.1. The forecast 2024/25 capital expenditure directly controllable by the Authority is £176.138m. The Q1 forecast capital position represents an increase of £2.410m in anticipated spend compared to the current approved controllable capital programme budget of £173.728m. The changes to forecasts consist of new schemes, budget reprofiles, net underspends and delays. Additionally, there was an increase of £1.634m in S278 schemes spending in 2024/25. Anticipated allocations for WPDG, WIF and Asset Replacement Fund schemes has reduced from £40.754m to £16.492m.

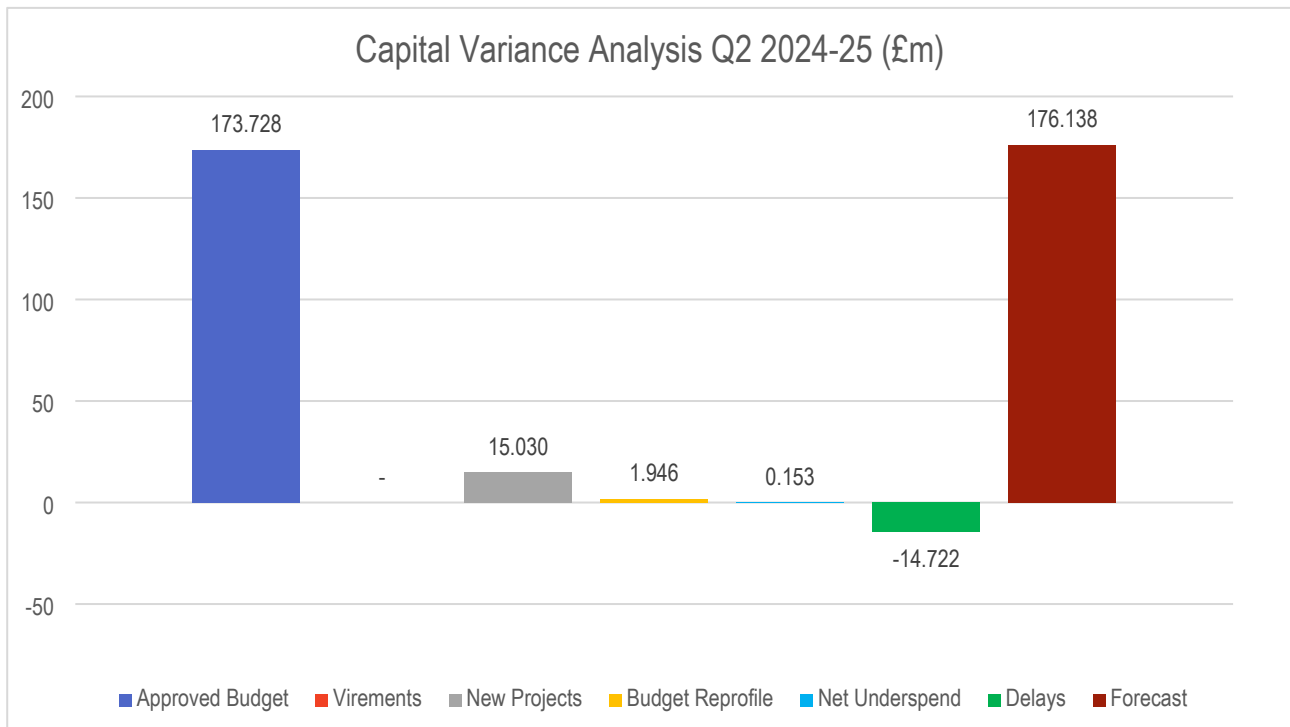
8.2. The 2024/25 forecast against budget by each Service is set out in Table C1 below.

Table C1: Capital Variance Analysis Q2

	2024/25		
	Approved Budget £m	Forecast £m	Variance £m
Environment, Planning & Transport Services	50.708	50.132	-0.575
Fire and Rescue	4.524	4.573	0.049
Economy & Place	12.018	20.891	8.872
Strategic Infrastructure & Climate Change	5.306	5.863	0.557
Communities	72.556	81.459	8.903
Children and Families	1.890	1.790	-0.100
Education Services	76.110	69.804	-6.306
Children & Young People	78.000	71.593	-6.406
Social Care & Support	0.313	0.313	0.000
Health & Care Commissioning	5.593	5.593	0.000
Public Health	0.303	0.303	0.000
Social Care & Health	6.209	6.209	0.000
Workforce & Local Services	0.503	0.503	0.000
Enabling Services	15.711	15.624	-0.086
Strategy, Planning & Governance	0.750	0.750	0.000
Resources	16.963	16.877	-0.086
Controllable capital programme	173.728	176.138	2.410
Corporate: WPDG / WIF / ARF	40.754	16.492	-24.263
WCC Capital Programme	214.482	192.630	-21.852
S278 funded schemes	6.922	8.556	1.634
Total Capital Expenditure	221.404	201.186	-20.219

8.3. Table C1 explains the changes between the 2024/25 approved controllable capital programme budget of £173.728m and the forecast spend of £176.138m.

Graph C2: Capital Variance Analysis Q2



* The figures in the graph above exclude S278 and Corporate Schemes.

8.4. The movement from approved budget after outturn 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 £12.776m (£14.722m less £1.946m) 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 C** 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 the 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 grant funding or additional developer contributions

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.

8.5. The net increase of new projects to the capital programme of £15.030m in 2024/25 requires that an equivalent amount of additional funding has also been identified.

8.6. Table C3 provides a summary of the 2024/25 capital spend by service. Further detail is provided in **Appendix C and D**.

Table C3: Comparison of approved budget to forecast for 2024/25 capital spend by service

Service	Approved budget 2024-25	New projects at Q1	Net over / underspend forecast	Budget Reprofile in year	Delays expected	Forecast In year capital spend	% of delays
	£m	£m	£m	£m	£m	£m	
	A	B	C	D	E	F=Sum(A:E)	G= E/Sum(A:C)
Environment, Planning & Transport Services	50.708	0.000	0.359	0.961	-2.458	49.571	-4.81%
Fire and Rescue	4.524	0.045	0.000	0.000	0.000	4.569	0.00%
Economy & Place	12.018	10.902	-0.117	0.291	-1.641	21.452	-7.20%
Strategic Infrastructure & Climate Change	5.306	0.000	0.000	0.557	0.000	5.863	0.00%
Children & Families	1.890	0.000	0.000	0.000	-0.100	1.790	-5.29%
Education Services	76.110	4.083	0.013	0.121	-10.523	69.804	-13.12%
Social Care	0.313	0.000	0.000	0.000	0.000	0.313	0.00%
Health & Care Commissioning	5.593	0.000	0.000	0.000	0.000	5.593	0.00%
Public Health	0.303	0.000	0.000	0.000	0.000	0.303	0.00%
Workforce & Local Services	0.503	0.000	0.000	0.000	0.000	0.503	0.00%
Enabling Services	15.710	0.000	-0.102	0.016	0.000	15.624	0.00%
Strategy, Planning & Governance	0.750	0.000	0.000	0.000	0.000	0.750	0.00%
Services Capital Programme	173.728	15.030	0.153	1.946	-14.722	176.138	-7.79%

Corporate (WPDG & WIF & ARF)	40.754	0.000	0.000	0.000	-24.263	16.492	-59.53%
WCC Capital Programme	214.482	15.030	0.153	1.946	-38.985	192.630	-16.97%
S278 Developer Funded Schemes	6.922	0.000	1.794	0.000	-0.160	8.556	-1.84%
Total Capital Expenditure	221.404	15.030	1.947	1.946	-39.145	201.186	-16.42%

- 8.7. The Capital Investment Fund (CIF) balance, which is not included in the above figures, is £81.515m as at 30 September 2024 over the five years of the MTFS.
- 8.8. 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 what can be afforded within the capital programme will form part of the development of the Capital Investment Fund pipeline as part of the 2025/26 MTFS Refresh. Any abortive costs would need to be funded from revenue resources.
- 8.9. The total all years' capital programme is shown in Table C4 below. The main service variances that relate to Economy and Place and Educations Services are due to newly approved projects that have not yet been updated for in the budgets due to timing. These new projects are for The Zebra Scheme (£13.864m), Callendar Farm (£16.5m), Shipston (£2.188m) and Houlton School (£1.660m).

Table C4: Total all years' capital programme

	All Years		
	Approved Budget	Forecast	Variance
	£m	£m	£m
Environment, Planning & Transport Services	126.953	127.873	0.920
Fire and Rescue	4.524	4.573	0.049
Economy & Place	28.684	42.699	14.015
Strategic Infrastructure & Climate Change	34.790	34.790	-0.000
Communities	194.951	209.935	14.984
Children and Families	1.989	1.989	0.000
Education Services	121.609	141.862	20.253
Children & Young People	123.598	143.851	20.253
Social Care & Support	0.313	0.313	0.000
Health & Care Commissioning	5.593	5.593	0.000
Public Health	0.303	0.303	0.000

Social Care & Health	6.209	6.209	0.000
Workforce & Local Services	0.503	0.503	0.000
Enabling Services	17.367	17.265	-0.102
Strategy, Planning & Governance	0.750	0.750	0.000
Resources	18.620	18.518	-0.102
Controllable capital programme	343.379	378.514	35.135
Corporate: WPDG / WIF / ARF	159.608	159.608	-0.000
WCC Capital Programme	502.986	538.121	35.135
S278 funded schemes	11.246	13.360	2.114
Total Capital Expenditure	514.232	551.482	37.249

Capital Financing

- 8.10. 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.
- 8.11. 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 WIF 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 externally sooner than expected.
- 8.12. The timing of when additional borrowing is taken out will depend on the Authority's overall cash position which may provide an opportunity to borrow internally 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.
- 8.13. Table C5 below provide further detail on how the approved 2024/25 capital programme and 2024-29 Capital MTFs are currently planned to be financed.

Table C5: Capital Financing

	2024/25	2024/25	2025/26	2025/26	2026/27	2026/27
	budget	forecast	budget	forecast	and later budget	and later forecast
	£m	£m	£m	£m	£m	£m
Corporate Borrowing	74.843	63.678	108.413	104.152	52.400	72.594
Grants and Contributions	140.634	133.372	54.212	81.411	8.269	12.155
Capital Receipts	3.016	0.813	0.552	2.467	0.336	0.878
Capital Receipts - WIF	-	0.098	4.400	0.106	46.000	50.124
Capital Receipts - WPDG	2.170	2.155	5.019	4.414	13.227	21.994
Revenue	0.741	1.070	-	-	-	-
Total	221.404	201.186	172.596	192.550	120.231	157.745

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

8.14. The borrowing figure shown is the gap between our spending and the funding available to us, which is called the CFR (Capital Financing Requirement). The Council manages cash as a whole, so even where corporate borrowing is shown as a form of financing it does not mean new external borrowing will be necessary straightaway. In the short-term it may be more cost effective to use our cash balances, but it is a measure of the borrowing that will be needed over the medium to long-term. Our borrowing is compliant with the Prudential Code, and we assess our level of borrowing against comparator councils in formulating the annual capital strategy.

9. Financial Implications

9.1. The report outlines the forecast financial position of the Authority at 2024/25 Quarter 2. There are no additional financial implications to those detailed in the main body of the report. The report sets out how the Council's risk reserves will be used to fund the forecast overspend in 2024/25 and outlines the mitigating actions to bring the forecast overspend down.

9.2. The key financial issues are in continuing to manage and reduce the in-year forecast overspend through the mitigation strategy set out in this report and 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.

10. Environmental Implications

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

11. Background Papers

11.1. None.

Appendices

Appendix A – Commentary on service revenue forecasts

Appendix B – Line charts for Service Revenue Forecasts

Appendix C – Commentary on service capital forecasts

Appendix D – Service level reserves, savings and forecasts

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