Cabinet

28 January 2025

2024/25 Financial Monitoring – Forecast Position as at Quarter 3

Recommendations

That Cabinet:

1. notes the forecast net service overspend of £6.567m (1.6%) 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 £9.803m (61%), and the consequent shortfall against the target;

3. notes the forecast controllable capital spend for 2024/25 of £169.172m;

4. notes and approves the movement in the forecast spend on the capital programme of £13.447m from 2024/25 into future years;

5. notes the new S106 developer funding that is being utilised within the capital programme; and

6. approves the transfer of £0.472m from the Schools Absence Insurance Equalisation Reserve to the Schools Liability Reserve as detailed in Section 7.

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 3 £m	Quarter 2 £m	Change from Q2
Approved Budget	402.338	401.898	0.440
Net forecast	441.743	443.499	(1.756)
Net overspend	**39.405**	**41.601**	**(2.196)**
Reasons for, and resourcing of, the overspend:			
• Investment Funds variance: spend to be financed from approved Investment Funds allocations	1.760	1.707	(0.053)
• Net Movement (to)/from Earmarked Reserves: spend to be financed from other Earmarked Reserves not currently included in the Approved Budget	4.722	7.745	(3.023)
• DSG variance: deficit of **£44.356m** partially offset by £18m provision in the approved budget	26.356	22.662	3.694
Residual service variance	**6.567**	**9.487**	**(2.920)**
Net overspend	**39.405**	**41.601**	**(2.196)**

2.1. The headline forecast overspend is £39.405m in 2024/25. However, one-off, specific funding has been set aside in the Medium-Term Financial Strategy (MTFS) to meet £6.482m of these costs and £26.356m will be met by the DSG Statutory Override. Once this funding is taken into account the adjusted position is a residual overspend of **£6.567m (1.6% 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 1.6% is within 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 which were considered by Corporate Board in 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 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 decision will be needed 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 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 £44m 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 £3.69m since Q2. 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 and therefore urgency that it is beyond this Council's ability to solve without national support and policy change. The Provisional Settlement did not provide significant clarity, simply stating that the government 'will work with the sector on a way forward and intends to set out plans for reforming the SEND system in further detail next year. This will include details of how the government will support local authorities to deal with their historic and accruing deficits and any transition period from the current SEND system to the reformed system. This will inform any decision to remove the statutory override.'

- **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 £13.5m). Thanks to a strong collective approach across all services, the Quarter 3 position shows that £15.7m against the targeted £12m spending reduction is now being forecast, 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, maintaining financial discipline within the 2025/26 Budget and MTFS is essential. 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 on a longer-term basis. So, continuing to manage as far as possible within existing budget allocations and delivering against approved savings plans in 2024/25 will help to ensure financial resilience moving into 2025/26.

2.6. The Chancellor's Autumn Budget, the 2025/26 Local Government Finance Policy Statement and the provisional 2025/26 Local Government Finance Settlement gave us more clarity on the available resources and potential policy changes to fund and address these sustained pressures. An update on the latest position for the 2025/26 Budget and MTFS is included elsewhere on today's agenda. In terms of future funding, there are some concerns about the forthcoming Local Government funding reform which the Ministry of Housing Communities & Local Government has put out for consultation. This is an external risk to the 2026/27 MTFS and the County Council will be engaging in the consultation process along with other external parties to ensure all of the issues for Warwickshire, and Local Government in general, are highlighted.

Dedicated Schools Grant

2.7. The largest financial risk to the Council is the growing DSG High Needs Block deficit which exceeds the Council's ability to fund on a sustainable basis. The 2024/25 Q3 Dedicated Schools Grant (DSG) forecast is a £44.355m overspend across the four blocks, a £3.69m increase in the quarter. Within this there is a £45.217m High Needs block deficit, giving a forecast cumulative High Needs DSG deficit of £84.705m by the end of this financial year. £57.488m has been set aside in reserves to offset medium-term financial risks, including £18.000m set aside in the 2024/25 budget. This leaves a shortfall of £27.217m 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 to offset the growing deficit position. However, with such a significant annual deficit, the shortfall will increase substantially and rapidly unless and until Government resets the SEND system sustainably, and reimburses Councils for cumulative deficits that have arisen entirely due to Government policy and funding decisions, and the long-term failure to address these systemic weaknesses and pressures.

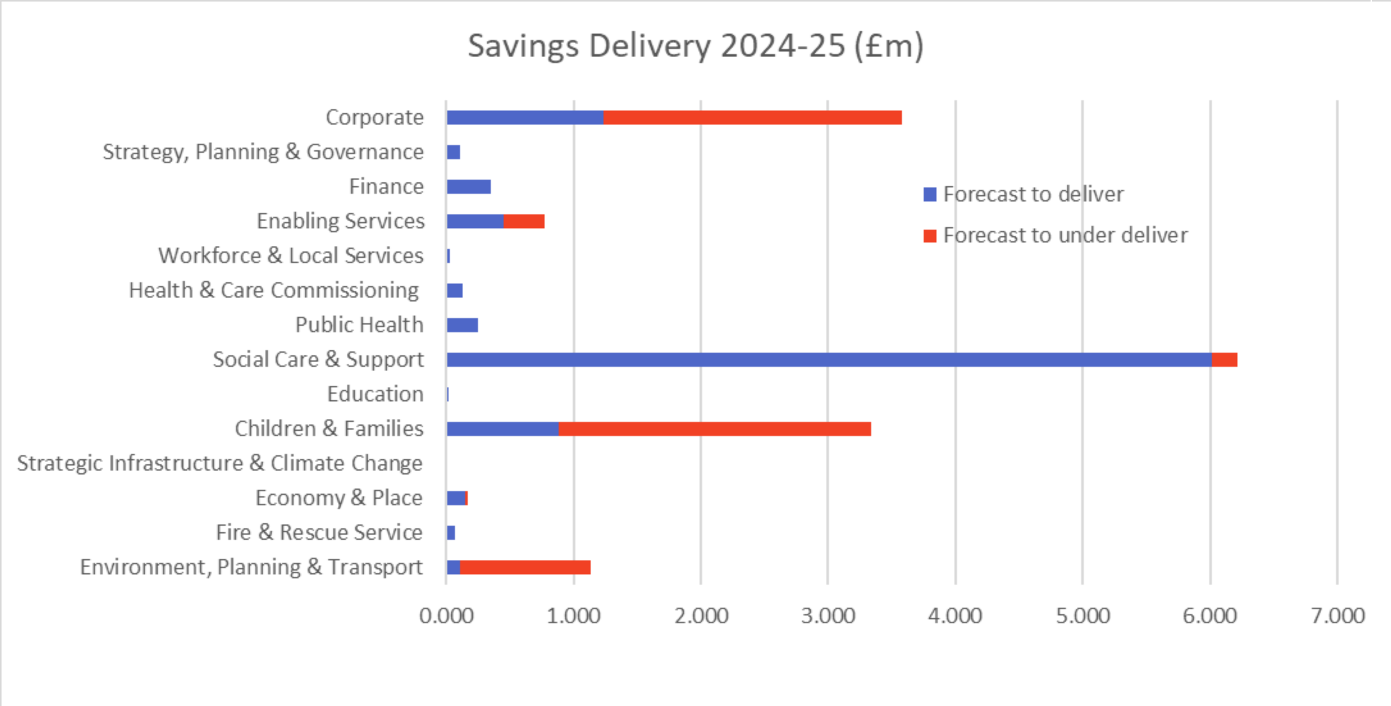
2.8. The statutory override was introduced by the previous Government in 2020, allowing Local Authorities to exclude any deficits on their DSG spending from their main revenue budgets. This is an extremely unusual accounting mechanism, which originally covered the three financial years 2020/21 to 2022/23 but was then extended until March 2026. The override was always likely to lead to the current national situation. While significant additional funding has been made available for 2025/26 through the provisional settlement, it covers a small proportion of the recurrent deficit.

2.9. Given the size of some authorities' DSG deficits and other pressures on councils' reserves, the Department for Education 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. It also means that stated reserves do not actually exist in full given the net impact of a negative reserve on balances held.

2.10. It is unclear at this point what will happen in practice when the statutory override ends. An Isos Partnership Report from earlier this year, commissioned by the County Councils Network, powerfully sets out the unsustainable SEND system both in terms of outcomes and finance, and recommends far-reaching national reforms to reset the system. A report by the National Audit Office in October 2024 made it clear that the current system of funding special educational needs is financially unsustainable. In addition to this the Institute of Fiscal Studies released a report on the 10th December 2024 entitled "Spending on special educational needs in England: something has to change". It is clear, that this funding issue has become an urgent matter for the Government to resolve.

Savings Delivery Summary

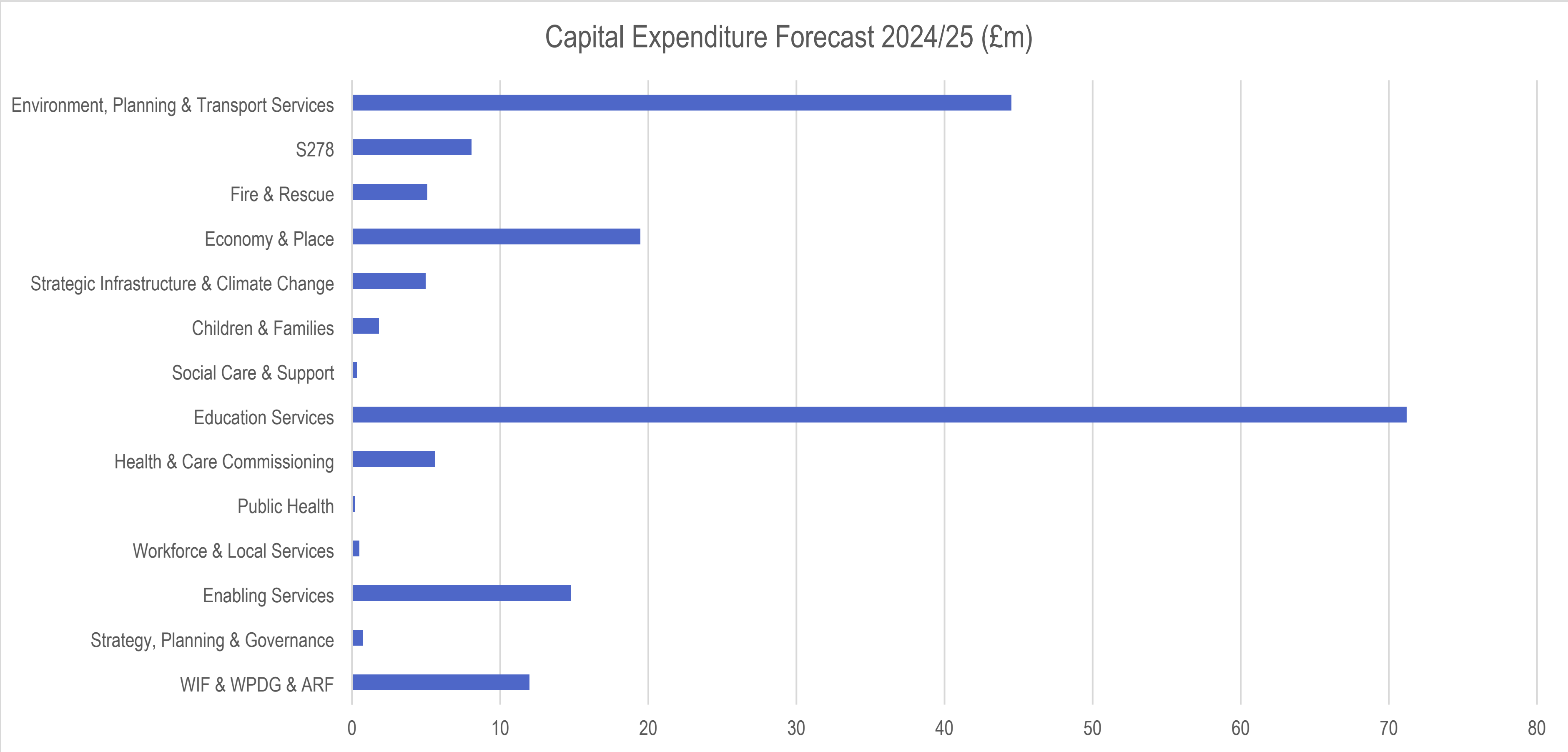
2.11. The savings plan for 2024/25 requires the delivery of £16.177m of savings, accumulated from 48 individual saving initiatives. At Q3, £9.803m (61%) is forecast to be delivered in line with the plan, with £6.374m (39%) forecast not to be delivered, this is reflected in the Q3 revenue forecasts and is largely due to service pressures causing overspends. For details on saving performance please refer to Section 5.



Capital Forecast Summary

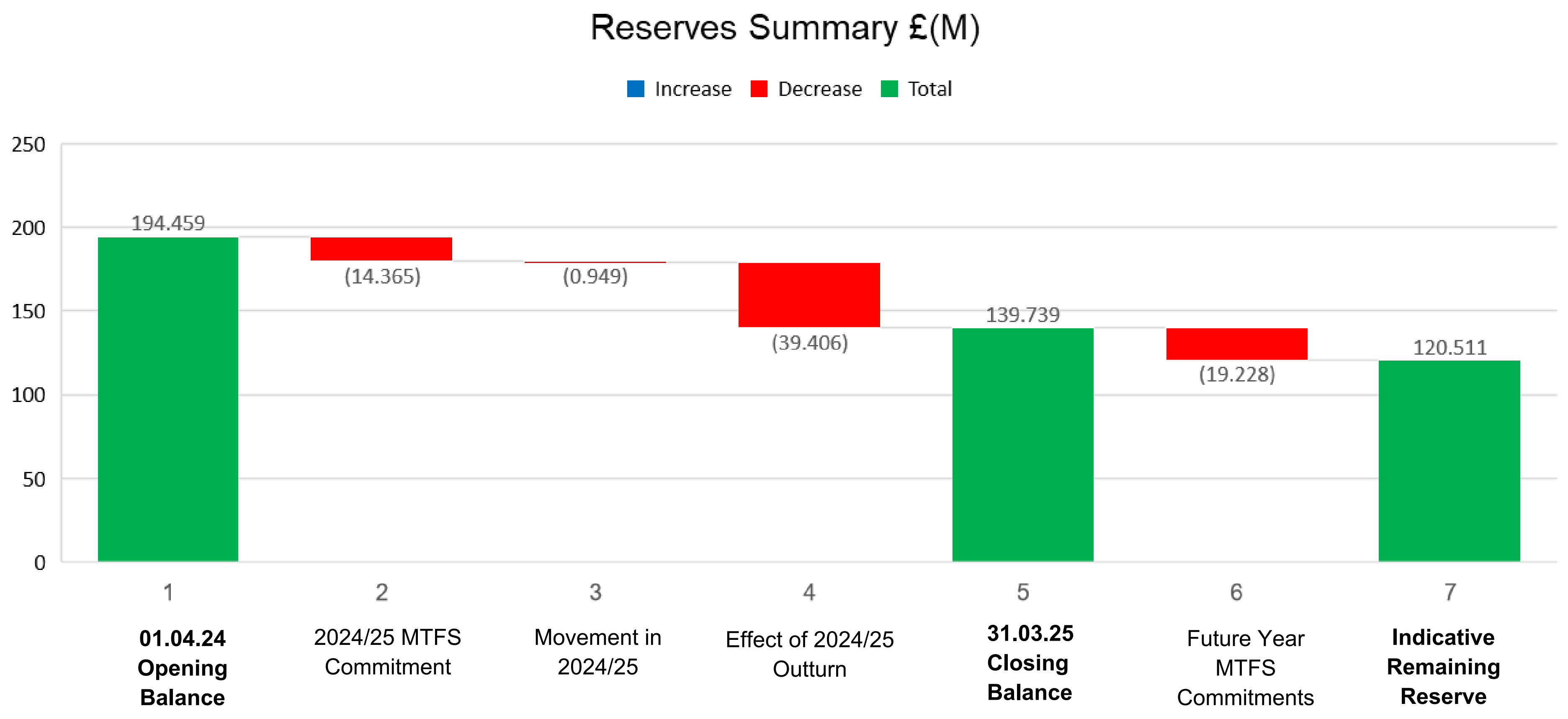
2.12. The controllable capital spend for 2024/25 is forecast to be £169.172m. A further £8.054m is forecast to be spent on schemes funded by S278 developer contributions where the timing is not directly controllable by the Council. In addition, £11.990m is forecast to be spent on economic growth-related 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 £189.216m. Members are advised that the above does not take account of the Council's exempt decision of 17 December 2024 in relation to the A46 Stoneleigh Scheme.

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



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

Reserves Summary[1]



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 £73.948m over the period of the MTFS to £120.511m. The future MTFS commitments are subject to change as a result of the ongoing refresh of the Medium-Term Financial Strategy.

[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 Q2 forecast	Represented by:			% change from Approved Budget	Remaining Service Variance
						Investment Funds	Impact on Earmarked Reserves	Remaining Service Variance		Change from Q2 forecast
	£m	£m	£m		£m	£m	£m	£m		£m
Communities										
Environment, Planning & Transport	73.038	79.450	6.412	**8.8%**	(0.733)	(0.034)	(0.044)	6.490	**8.9%**	(0.570)
Fire & Rescue	25.732	27.222	1.490	**5.8%**	(0.099)	1.407	0.260	(0.177)	**(0.7%)**	(0.209)
Economy & Place	24.029	24.562	0.533	**2.2%**	0.315	(0.047)	0.655	(0.075)	**(0.3%)**	0.292
Strategic Infrastructure & Climate Change	1.863	0.957	(0.906)	**(48.6%)**	0.015	(0.002)	0.000	(0.904)	**(48.5%)**	0.017
Subtotal Communities	**124.662**	**132.191**	**7.529**	**6.0%**	**(0.502)**	**1.324**	**0.871**	**5.334**	**4.3%**	**(0.470)**
Social Care and Health										
Social Care and Support	212.321	229.008	16.687	**7.9%**	(0.608)	(0.035)	1.982	14.740	**6.9%**	(0.719)
Public Health	24.681	24.894	0.213	**0.9%**	(0.141)	0.000	0.020	0.193	**0.8%**	(0.042)
Health & Care Commissioning	11.991	12.289	0.298	**2.5%**	0.279	0.000	0.671	(0.373)	**(3.1%)**	0.280
Subtotal Social Care and Health	**248.993**	**266.191**	**17.198**	**6.9%**	**(0.470)**	**(0.035)**	**2.673**	**14.560**	**5.8%**	**(0.481)**
Children and Young People										
Children & Families	105.116	111.376	6.260	**6.0%**	(0.517)	0.000	(1.317)	7.577	**7.2%**	1.948
Education Services - Non-DSG	10.886	10.475	(0.411)	**(3.8%)**	(0.730)	0.000	(0.101)	(0.310)	**(2.8%)**	(0.489)
Subtotal Children and Young People	**116.002**	**121.851**	**5.849**	**5.0%**	**(1.247)**	**0.000**	**(1.418)**	**7.267**	**6.3%**	**1.459**
Resources										
Enabling Services	29.272	29.578	0.306	**1.0%**	0.091	0.529	0.031	(0.254)	**(0.9%)**	0.016
Finance	16.313	15.492	(0.821)	**(5.0%)**	(0.441)	0.000	0.108	(0.929)	**(5.7%)**	(0.398)
Strategy, Planning & Governance	7.885	7.156	(0.729)	**(9.2%)**	(0.338)	(0.058)	(0.073)	(0.598)	**(7.6%)**	(0.219)
Workforce and Local Services	11.582	10.854	(0.728)	**(6.3%)**	(0.109)	0.000	0.023	(0.751)	**(6.5%)**	(0.069)
Subtotal Resources	**65.052**	**63.080**	**(1.972)**	**(3.0%)**	**(0.797)**	**0.471**	**0.089**	**(2.532)**	**(3.9%)**	**(0.670)**
Subtotal Directorates	**554.709**	**583.313**	**28.604**	**5.2%**	**(3.016)**	**1.760**	**2.215**	**24.629**	**4.4%**	**(0.162)**
Corporate Services and DSG										
Corporate Services & Resourcing	(152.371)	(185.926)	(33.555)	**22.0%**	(2.874)	0.000	(15.493)	(18.062)	**11.9%**	(2.758)
DSG expenditure (Education Spending)	294.917	341.631	46.714	**15.8%**	3.750	0.000	46.714	0.000	**0.0%**	0.000
DSG income	(294.917)	(297.275)	(2.358)	**0.8%**	(0.056)	0.000	(2.358)	0.000	**0.0%**	0.000
Subtotal Corporate Services and DSG	**(152.371)**	**(141.570)**	**10.801**	**(7.1%)**	**0.820**	**0.000**	**28.863**	**(18.062)**	**11.9%**	**(2.758)**
Total	**402.338**	**441.743**	**39.405**	**9.8%**	**(2.196)**	**1.760**	**31.078**	**6.567**	**1.6%**	**(2.920)**

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 £39.405m representing 9.8% of the Council's net revenue budget. After the planned application of one-off reserves, the remaining service variance is £6.567m representing 1.6% 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 national policy changes 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 supposed 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;
- ongoing pressures on both mainstream and SEND Home to School Transport, although forecasts seem to have stabilised since Q2; 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 £76.1m; 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 Q3 overspend is £39.4m.

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

iv.) **Education Services - Dedicated Schools Grant (DSG)**

The forecast £44.355m overspend consists of the following variances:

DSG block	Current year forecast variance as at Q3 2024/25 £m	Cumulative forecast variance as at Q3 £m
Schools Block	(0.232)	(1.521)
Early Years Block	(0.441)	(5.059)
High Needs Block	45.217	84.705
Central Services Block	(0.189)	(0.556)
Total	**44.355**	**77.569**

The most significant element is the forecast overspend of £45.217m on the DSG High Needs Block (HNB). This is a 56% overspend on the HNB budget allocation of £80.153m. This overspend consists of the anticipated Delivering Best Value (DBV) budgeted overspend of £17.900m and a further £27.317m service overspend which is being offset by a school block contribution of £2.283m. The material overspends include £9.497m in mainstream school Education, Health and Care Plan (EHCP) top-ups, £3.678m overspend in Special school EHCP top-ups, a £10.909m overspend on independent school places, a £4.068m overspend on alternative provision and a £1.554m overspend on Post-16 provision.

The Council has participated in the Department for Education's (DfE) 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 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 Special Educational Needs and Disabilities Assessment & Review Service (SENDAR), use of the DSG Statutory Override above resources set aside in the budget.

v.) **Environment, Planning & Transport remaining service overspend of £6.490m**

The primary reasons for this forecast overspend are Home to School transport forecasting to overspend by £8.368m. This comprises of £2.989m overspend on Mainstream Transport, £5.047m on SEN Transport and £0.332m on Children in Care transport. 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 partially offset by forecast underspends of £0.302m on Concessionary transport; £0.667m from funds being released in line with spending controls; £0.734m from County Highways due to underspends on utility prices on street lighting; £0.571m as a result of statutory charges within Network Management and £0.133m due to in year staff vacancies and increased income.

Home to Schools Transport forecasts are based on actual spend to date, plus the projected cost of contracts for the rest of the year, including an element of growth. This is adjusted to reflect that some contracts will terminate before the end of the year, and not all transport will run on every day. While the service has given an assurance that these assumptions are reasonable, there remains a risk that the outturn position could be higher by up to £0.5m if all current contracts are delivered in full.

The service is seeking to mitigate the level of overspend, however without fundamental changes to national and local 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 are driving the overspend along with challenges arising from pressures on 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.

vi.) **Social Care and Support remaining service overspend of £14.740m**

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+ (£6.626m), the Older People service (£5.246m) and Mental Health services (£2.483m).

Disabilities 25+
The £6.626m pressure in Disabilities 25+ is across all areas of care although greatest in supported living (£4.163m) and residential care (£1.274m).

The remaining overspend of £1.189m is due to pressures in domiciliary care, day care, offset by underspends elsewhere.

Older People
The £5.426m pressure is across all areas of care although greatest in nursing (£2.771m), domiciliary care (£1.553m) and residential care (£0.861m).

The remaining overspend of £0.297m is due mainly to pressures in extra care housing.

Mental Health
Mental Health is forecasting an overspend of £2.483m, 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 (£1.267m), residential care (£0.619m), domiciliary care (£0.325m) and nursing (£0.194m).

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.

vii.) **Children and Families remaining service overspend of £7.577m**

Children in Care Placements account for £5.482m of the forecast overspend, with £6.507m attributable to Residential Care and all other placements forecasting an underspend of £1.025m. There is a predicted increase in demand of 20% 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 £1.283m which is mostly due to staffing. The opening of children's homes is progressing although places created to date are not yet 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 6 children placed out of a possible 11 available spaces.

Agency Staffing expenditure is forecasting a £1.143m overspend. 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 slipped slightly.

Establishment staffing is forecast to overspend by £2.234m. 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 restructure to deliver the Families First for Children initiative, designed to transform children's social care by shifting focus from crisis intervention to early support.

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.

viii.) **Corporate Services remaining service underspend of £18.062m (11.9% of approved budget)**

The forecast underspend within Corporate Services is helping offset the significant overspends set out above. This is predominantly due to temporary savings of £10.520m 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 £6.567m. Medium Term Financial Planning assumes interest rates will return to lower levels to reflect the previous 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 combination of 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 £1.786m 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 as well as updating the pay award forecast to reflect the recent Green Book pay award settlement resulting in a £2.184m underspend against this budget in 2024/25 but which will be required in future years.

ix.) **Traded Services**

The Council's traded services have a collective gross surplus target of £3.230m for 2024/25 before overheads are applied and at Q3 are forecasting a gross surplus of £3.608m which exceeds the overall target by £0.378m. This is an improved position on Q2 where services were forecasting to moderately exceed the overall target by £0.016m. 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 Q3 £9.803m (61%) is forecast as on target to be delivered this financial year, leaving a significant shortfall of £6.374m (39%).

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 £m	Forecast delivery £m	N° of Schemes	Forecast under-delivery £m	N° of Schemes
Environment, Planning & Transport	1.133	0.109	2	1.024	1
Fire and Rescue Service	0.071	0.071	1		
Economy & Place	0.174	0.149	3	0.025	1
Strategic Infrastructure and Climate Change					
Communities Directorate	**1.378**	**0.329**	**6**	**1.049**	**2**
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	1.239	6	2.340	1
Total	**16.177**	**9.803**	**38**	**6.374**	**10**

5.3. Of the savings forecast not expected to deliver, 81% is attributable to schemes where services are struggling to deliver the planned reductions in demand through service re-design. The other 19% is attributable to schemes where income streams have not increased as planned or due to insufficient cost reduction from third party contracts.

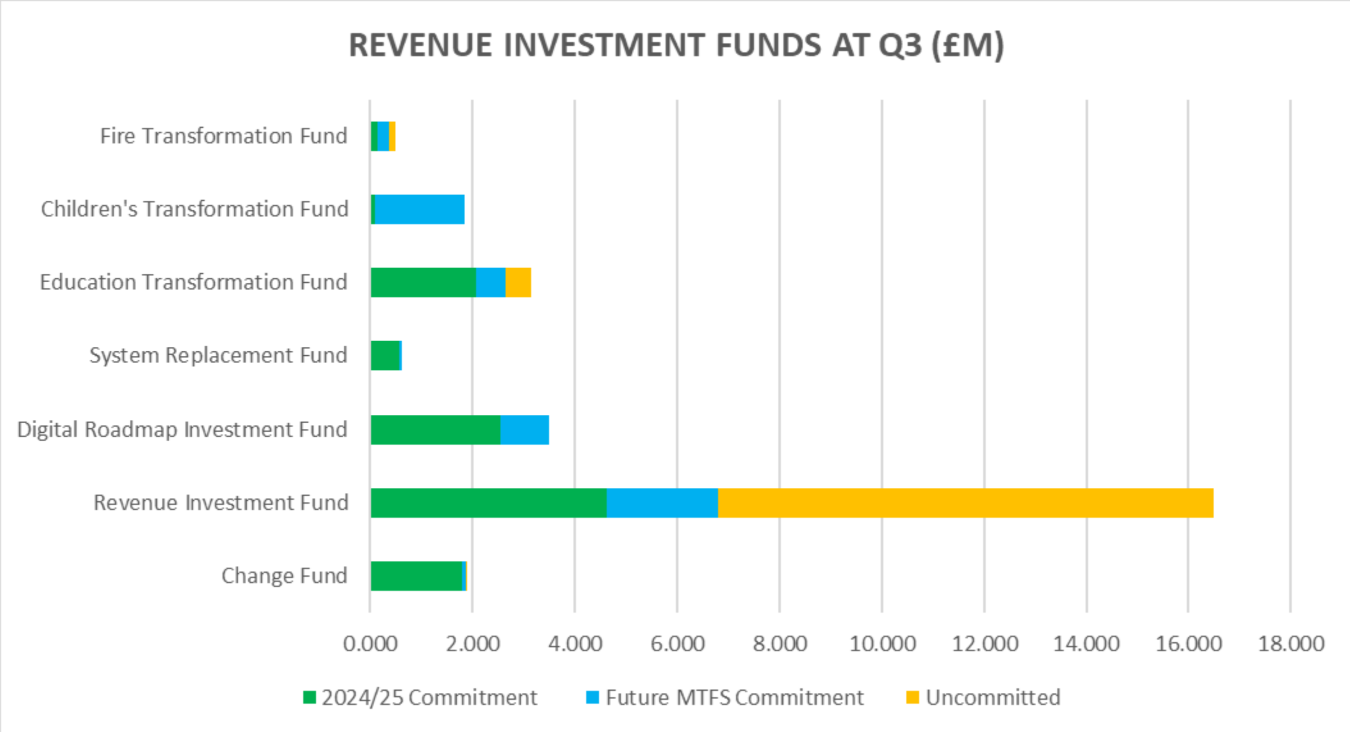
5.4. Environment, Planning and Transport and Children and Families are responsible for £3.485m (55%) of the shortfall. As outlined in Section 4 of this report, both areas have seen a significant increase in demand for their services. This is directly impacting on their capacity to deliver the planned 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, offset by the over-achievement of the service's income target by £3.356m as a direct result of rapidly increasing demand. Without the over-achievement of this income target, the forecast overspend for the service would be significantly higher and savings required for long-term financial sustainability remain to be delivered. Corporate Services also reflects £2.340m (37%) of the shortfall due to the delayed income expected to be realised from WPDG against the MTFS target. This is forecast to be recovered in future years as WPDG and Develop Warwickshire activity accelerates following some initial delays to individual schemes which have been outside the company’s 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 at a level that makes this extremely challenging. Where improvements cannot be identified to support future savings, this creates a budget pressure in future years’ MTFS but the process of refreshing the MTFS annually seeks to take such issues into account.

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.

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 two revenue investment funds starting from April 2024; £11.490m for a single Revenue Investment Fund (RIF) and £5m for a Revolving Fund specifically to resource invest-to-save projects. At Q2, Cabinet agreed the transfer of the Revolving Fund to the Revenue Investment Fund. The funding is intended to resource projects across the whole of the MTFS period, of which £9.701m remains uncommitted. 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 Client Record & Information Systems (Social Care & Education) programme (CRISP) 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 £4.616m for 2024/25 and £2.172m 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 E in this report.

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)	-	-	(44.355)	(77.569)	-	(77.569)
Medium Term Financial Risk Reserve	39.488	-	-	18.000	57.488	-	57.488
Other Schools Reserves	18.108	-	-	(0.108)	18.000	-	18.000
Externally Earmarked Reserves	8.425	-	(0.069)	(0.953)	7.403	-	7.403
Internal policy/projects	12.240	3.662	9.565	(1.659)	23.808	(8.860)	14.948
Corporate Investment Funds	27.944	(2.826)	(7.866)	(1.145)	16.107	(5.757)	10.350
Volatility reserves	55.846	0.278	(2.579)	(2.619)	50.926	-	50.926
Management of Financial Risk	39.712	(0.227)	-	(6.567)	32.918	-	32.918
Available to Use Reserve	25.910	(15.252)	-	-	10.658	(4.611)	6.047
Total	**194.459**	**(14.365)**	**(0.949)**	**(39.406)**	**139.739**	**(19.228)**	**120.511**

7.1. As at Q3 we are forecasting to use £54.720m of reserves to support spending in 2024/25, this is £26.359m more than in 2023/24. The use of reserves is made up of the following:

- fund the impact of the Q3 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 Q3 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 £6.918m 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. This is an improved position from Q2 due to the positive impact 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 reserves appropriately managed over the medium-term, it is critical that Services continue to identify solutions to mitigate the current year overspend.

7.4. One significant pressure on reserves is the cost of meeting school deficits where a school is subject to an academy order. In these instances, the school must join a sponsoring academy trust, and the local authority is liable for meeting the cost of any outstanding deficit balances on transfer. In order to ensure there is sufficient resource set aside to meet such costs, it is recommended that £0.472m is transferred from the Schools Absence Insurance Equalisation Reserve to the Schools Liability Reserve, in order to top up the funding that is available. However, although a new Bill sets out that there will be no *automatic* forced academisation for “failing” local authority schools and that this will instead become a discretionary power, the Council still requires sufficient funds to deal with current and potential future orders.

8. Capital

8.1. The forecast 2024/25 capital expenditure directly controllable by the Authority is £169.172m. The Q3 forecast capital position represents a decrease of £13.447m in anticipated spend compared to the current approved controllable capital programme budget of £182.620m. The changes to forecasts consist of new schemes, budget reprofiles, net underspends and delays. Additionally, there was a decrease of £0.612m in S278 schemes spending in 2024/25. Anticipated allocations for Warwickshire Property and Development Group (WPDG), Warwickshire Investment Fund (WIF) and Asset Replacement Fund schemes has reduced from £16.189m to £11.990m.

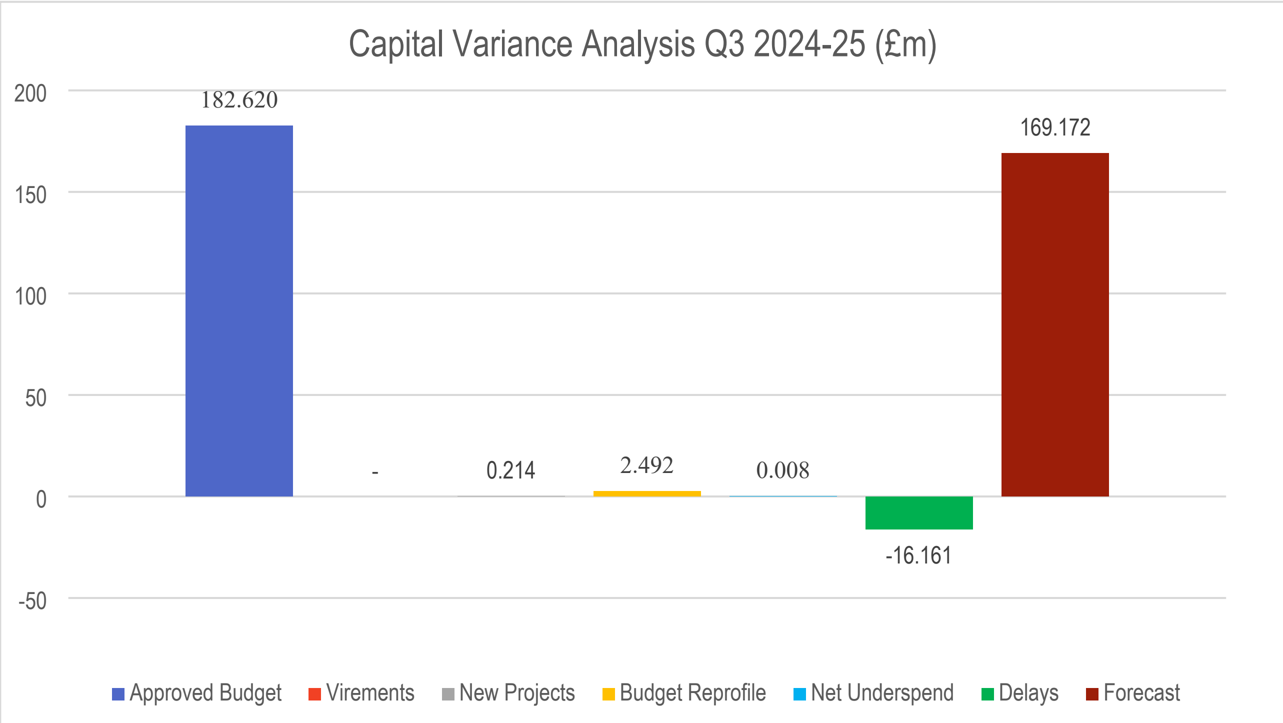
8.2. The 2024/25 forecast against budget by each Service is set out in Table C1 below.

Table C1: Capital Variance Analysis Q3c

	2024/25			% Variance
	Approved Budget £m	Forecast £m	Variance £m	£m
Environment, Planning & Transport Services	47.070	44.523	-2.548	-5%
Fire and Rescue	4.971	5.075	0.104	2%
Economy & Place	21.009	19.453	-1.556	-7%
Strategic Infrastructure & Climate Change	5.863	4.971	-0.892	-15%
Communities	**78.913**	**74.021**	**-4.892**	**-6%**
Children and Families	1.790	1.802	0.012	1%
Education Services	78.784	71.200	-7.584	-10%
Children & Young People	**80.573**	**73.002**	**-7.572**	**-9%**
Social Care & Support	0.313	0.313	0.000	0%
Health & Care Commissioning	5.593	5.593	0.000	0%
Public Health	0.303	0.212	-0.091	-30%
Social Care & Health	**6.210**	**6.119**	**-0.091**	**-1%**
Workforce & Local Services	0.503	0.503	0.000	0%
Enabling Services	15.672	14.779	-0.893	-6%
Strategy, Planning & Governance	0.750	0.750	0.000	0%
Resources	**16.925**	**16.032**	**-0.893**	**-5%**
Controllable capital programme	**182.620**	**169.172**	**-13.447**	**-7%**
Corporate: WPDG / WIF / ARF	16.190	11.990	-4.200	-26%
WCC Capital Programme	**198.810**	**181.162**	**-17.647**	**-9%**
S278 funded schemes	8.666	8.054	-0.612	-7%
Total Capital Expenditure	**207.476**	**189.216**	**-18.260**	**-9%**

8.3. Graph C2 below explains the changes between the 2024/25 approved controllable capital programme budget of £182.620m and the forecast spend of £169.172m.

Graph C2: Capital Variance Analysis Q3



* 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 £13.669m (£16.161m less £2.492m) 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 £0.214m 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 E**.

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

Service	Approved budget 2024-25	New projects at Q3	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	47.070	0.096	0.000	0.608	-3.251	44.522	-6.89%
Fire and Rescue	4.971	0.000	0.004	0.100	0.000	5.075	0.00%
Economy & Place	21.010	0.004	0.000	0.069	-1.629	19.454	-7.75%
Strategic Infrastructure & Climate Change	5.863	0.000	0.000	0.000	-0.892	4.971	-15.21%
Children & Families	1.790	0.000	0.008	0.005	0.000	1.802	0.00%
Education Services	78.784	-0.036	-0.004	1.660	-9.316	71.089	-11.83%
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	-0.091	0.212	-30.03%
Workforce & Local Services	0.503	0.000	0.000	0.000	0.000	0.503	0.00%
Enabling Services	15.672	0.150	0.000	0.051	-0.982	14.891	-6.21%
Strategy, Planning & Governance	0.750	0.000	0.000	0.000	0.000	0.750	0.00%
Services Capital Programme	**182.620**	**0.214**	**0.008**	**2.492**	**-16.161**	**169.172**	**-8.84%**
Corporate (WPDG & WIF & ARF)	16.189	0.000	0.000	0.000	-4.200	11.989	-25.94%
WCC Capital Programme	**198.810**	**0.214**	**0.008**	**2.492**	**-20.361**	**181.162**	**-10.23%**
S278 Developer Funded Schemes	8.666	0.032	0.140	0.000	-0.784	8.054	-8.87%
Total Capital Expenditure	**207.476**	**0.246**	**0.148**	**2.492**	**-21.145**	**189.216**	**-10.17%**

8.7. The approved Capital Investment Fund (CIF) balance, which is not included in the above figures, is £81.467m as at 31 December 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 Environment, Planning & Transport Service are due to newly approved projects that have not yet been updated for in the budgets due to timing. The most significant of these is £0.682m of received S106 for the A47 Hinckley Road Corridor Scheme. In addition to this there are some revenue contributions to capital and new small grants.

Table C4: Total all years' capital programme.

	All Years			
	Approved Budget £m	Forecast £m	Variance £m	% Variance £m
Environment, Planning & Transport Services	123.275	124.217	0.942	1%
Fire and Rescue	5.331	5.335	0.004	0%
Economy & Place	44.351	44.476	0.124	0%
Strategic Infrastructure & Climate Change	34.790	34.726	-0.065	0%
Communities	**207.748**	**208.753**	**1.005**	**0%**
Children and Families	1.989	1.989	0.000	0%
Education Services	143.319	143.287	-0.032	0%
Children & Young People	**145.308**	**145.276**	**-0.032**	**0%**
Social Care & Support	0.313	0.313	0.000	0%
Health & Care Commissioning	5.593	5.593	0.000	0%
Public Health	0.303	0.303	0.000	0%
Social Care & Health	**6.210**	**6.210**	**0.000**	**0%**
Workforce & Local Services	0.503	0.503	0.000	0%
Enabling Services	17.313	17.351	0.038	0%
Strategy, Planning & Governance	0.750	0.750	0.000	0%
Resources	**18.565**	**18.604**	**0.038**	**0%**
Controllable capital programme	**377.830**	**378.842**	**1.012**	**0%**
Corporate: WPDG / WIF / ARF	159.306	159.306	0.000	0%
WCC Capital Programme	**537.136**	**538.148**	**1.012**	**0%**
S278 funded schemes	17.587	19.879	2.292	13%
Total Capital Expenditure	**554.723**	**558.027**	**3.304**	**1%**

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 budget £m	2024/25 forecast £m	2025/26 budget £m	2025/26 forecast £m	2026/27 and later budget £m	2026/27 and later forecast £m
Corporate Borrowing	44.277	51.691	114.620	110.906	85.728	74.933
Grants and Contributions	156.932	132.705	66.301	85.403	11.065	17.436
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	2.677	5.019	4.641	13.227	21.816
Revenue	1.080	1.232	-	0.100	-	-
Total	**207.476**	**189.216**	**190.892**	**203.624**	**156.355**	**165.187**

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 borrowing is shown as a form of financing in this graph 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.

8.15. To improve the formal approval process and documentation around the use of Education S106 funding there is a new section in Appendix D which details the usage and the projects which resources have been applied to. This quarter the amount is £0.473m.

9. Financial Implications

9.1. The report outlines the forecast financial position of the Authority at 2024/25 Quarter 3. 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 two key financial issues are firstly in continuing to manage and reduce the in-year forecast overspend through the mitigation strategy set out in this report and, secondly, 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
Appendix E – S106 Capital allocations

Contact Information

Report Authors	Andrew Harper, Head of Strategic Finance; Andrewharper@warwickshire.gov.uk Liz Firmstone, Head of Operational Finance; lizfirmstone@warwickshire.gov.uk Lisa Fynn, Finance Manager – Financial Strategy lisafynn@warwickshire.gov.uk
Director	Purnima Kandula, Director of Finance; Purnimakandula@warwickshire.gov.uk
Executive Director	Rob Powell, Executive Director for Resources robpowell@warwickshire.gov.uk
Portfolio Holder	Cllr Peter Butlin, Deputy Leader and Portfolio Holder for Finance and Property; cllrbutlin@warwickshire.gov.uk

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