

Cabinet

10 September 2020

2020/21 Quarter 1 Budget Monitoring Report

Recommendations

Cabinet are recommended to:

- a) Note the forecast overspend of £3.364m for the 2020/21 financial year on the Council's revenue budget.
- b) Note there is a forecast under-delivery of the 2020/21 savings requirement to the value of £2.995m.
- c) Approve the transfer of £8.000m revenue underspend in Corporate Services to reserves to provide some capacity to phase the need to deliver additional savings to balance the Medium Term Financial Strategy.
- d) Note the increases to the approved 2020/21 capital programme of £37.370m since the programme was last reported in March 2020, as part of approved changes totalling £53.900m to the cost and funding of schemes across the length of the programme.
- e) Approve the carry forward of the reprofiled spend on the capital programme of £23.710m in 2020/21 into future years.

1. Purpose of the Report

- 1.1 This report outlines forecast financial position of the organisation at the end of 2020/21 based on the information known at the end of the first quarter. It provides an analysis of the forecast financial position based on best estimates and assumptions now. It should be noted that there is significant uncertainty and potential volatility due to Covid-19 which may lead to future movements in the forecast. The Current analysis includes:
 - Capital and revenue financial performance;
 - Explanations and, where developed, mitigating actions for variations and the impact on service delivery; and
 - An indication of those areas where the current forecasts carry a risk of change during the year due to demand volatility; assumptions that could change over the course of the financial year, etc.

2. Graphical Summary

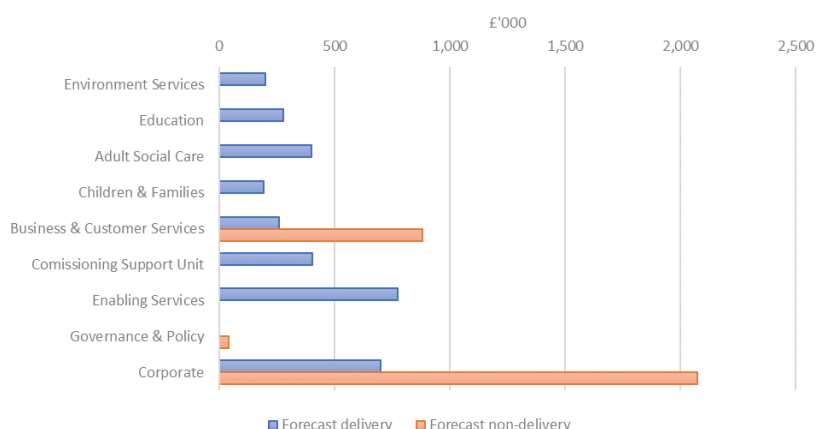
2.1. Revenue Forecast 2020/21

Services are forecasting a total overspend of £3.364m for the financial year 2020/21 if all Covid grant funding is used in 2020/21.

This is made up of £0.582m from Covid spending above government funding, and £2.782m pressure unrelated to Covid.

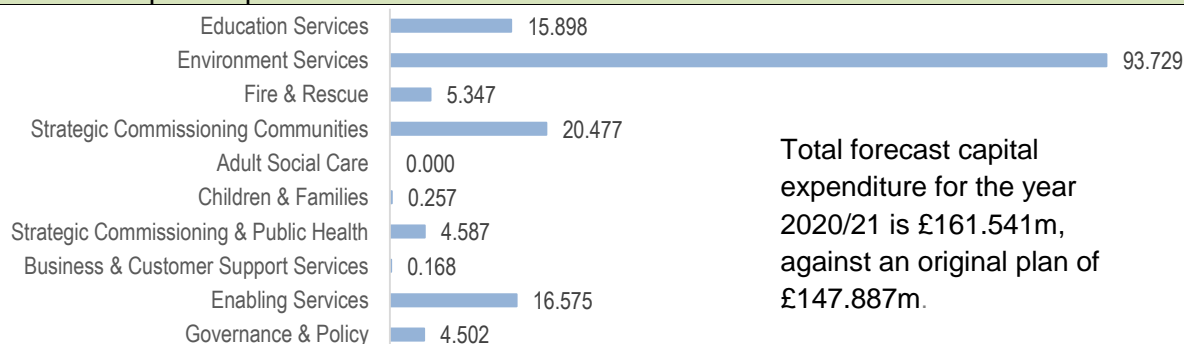
| 2020/21 Financial Year | | £m |
|---------------------------------------|--|---------------|
| Approved Budget | | £323.521 |
| Forecast exc. Covid income | | £360.390 |
| Over/Underspend | | £36.869 |
| Government Covid funding | | -£33.505 |
| Net over/underspend | | £3.364 |
| of which | | |
| Covid pressures above Covid funding | | £0.582 |
| Non-Covid pressures above core budget | | £2.782 |

2.2. Savings Achievement



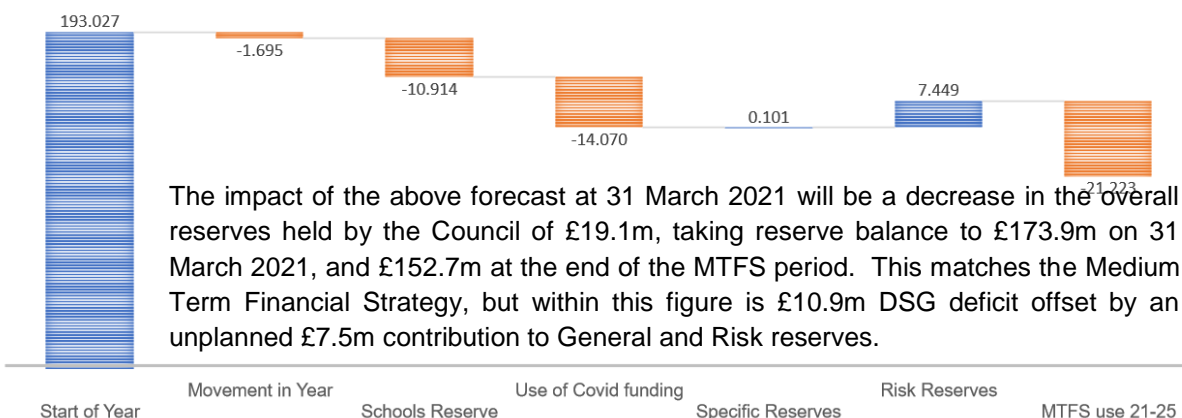
The savings plan for 2020/21 requires the delivery of £6.2m of savings from 19 individual savings initiatives. £3.2m (52%) are forecast to be delivered in line with the plan with £3.0m remaining unachieved mainly due to Covid-19.

2.3. Capital Expenditure Forecast 2020/21



Total forecast capital expenditure for the year 2020/21 is £161.541m, against an original plan of £147.887m.

2.4. Reserves Summary



2.5. Key Risks – revenue

- 2.5.1 The current adjusted forecast of Covid-19 pressures in 2020/21 is £34.087m. Government grants and NHS funding offsets £33.505m of this Covid-19 response pressure. This forecast excludes £2.750m (2020/21) and £8.178m (2021/22) of potential risks / future Covid-19 related costs as detailed in section 3.4. There has also been additional funding announced of additional support for some lost income. We are awaiting confirmation of the detailed allocations and terms of this funding to allow us to calculate what this equates to specifically for Warwickshire County Council. These factors mean there is likely to be further movement in the forecast Covid-19 position and if a further gap emerges this would have to be addressed through additional in year savings or one-off use of reserves.
- 2.5.2 The Covid-19 gross pressure and funding figures referred to in this report do not currently include the £520.5k emergency assistance grant due to a lack of certainty around where this will be targeted at the time of writing. This funding is ringfenced to emergency food supplies, and we will be working with District and Borough Councils to spend the full funding on the provision with no admin charge from the funding. Therefore, this will be a net zero impact on the assumption the grant will be targeted at specific new activity.
- 2.5.3 £1.658m of currently forecast underspends relate to reduced delivery of services, and there is a risk that demand and consequently the cost of delivery may accelerate again through the financial year, effectively reducing the current forecast underspends. See section 3.2.1. If this occurs, the revenue overspend will increase.
- 2.5.4 After notionally removing the Covid-19 related pressures within the revenue forecasts, the largest variances not mitigated within the service are:
- Overspends**
- Dedicated Schools Grant High Needs Block: £11.701m
 - Children in Care Placements: £2.076m
 - Business Support staffing: £1.441m
- Underspends**
- Capital Financing Costs: -£10.180m

3. Revenue Outturn

Revenue forecast by service

| Service Area | 2020/21 Approved Budget | 2020/21 Quarter 1 Forecast | 2020/21 (Under)/ Overspend | Covid-19 Pressures | Non- Covid-19 Pressures |
|---|-------------------------------|----------------------------------|----------------------------------|-----------------------|-------------------------------|
| | £m | £m | £m | £m | £m |
| Communities | | | | | |
| Education Services - Non-DSG | 34.197 | 37.208 | 3.011 | 2.528 | 0.483 |
| Environment Services | 26.083 | 28.540 | 2.458 | 2.402 | 0.056 |
| Fire & Rescue | 21.240 | 21.482 | 0.243 | 0.168 | 0.075 |
| Strategic Commissioner for Communities | 21.885 | 27.422 | 5.536 | 5.174 | 0.362 |
| Subtotal Communities | 103.405 | 114.652 | 11.248 | 10.272 | 0.976 |
| People | | | | | |
| Adult Social Care | 158.006 | 166.332 | 8.326 | 8.906 | (0.580) |
| Children & Families | 63.834 | 66.471 | 2.636 | 2.247 | 0.389 |
| Strategic Commissioner for People | 34.017 | 33.791 | (0.225) | 0.028 | (0.253) |
| Subtotal People | 255.857 | 266.594 | 10.737 | 11.181 | (0.444) |
| Resources | | | | | |
| Business and Customer Services | 17.454 | 21.248 | 3.794 | 2.353 | 1.441 |
| Commissioning Support Unit | 4.910 | 6.382 | 1.472 | 1.778 | (0.306) |
| Enabling Services | 25.059 | 25.246 | 0.188 | 1.000 | (0.812) |
| Finance | 4.792 | 4.865 | 0.073 | 0.000 | 0.073 |
| Governance & Policy | 2.427 | 3.527 | 1.100 | 0.150 | 0.950 |
| Subtotal Resources | 54.642 | 61.268 | 6.626 | 5.281 | 1.345 |
| | | | | | |
| Corporate Services and Resourcing | (90.383) | (93.058) | (2.675) | 7.333 | (10.008) |
| DSG expenditure | 234.191 | 245.125 | 10.934 | 0.020 | 10.914 |
| DSG income | (234.191) | (234.191) | 0.000 | 0.000 | 0.000 |
| Subtotal Corporate Services and DSG | (90.383) | (82.124) | 8.258 | 7.353 | 0.905 |
| | | | | | |
| Sub-total | 323.521 | 360.390 | 36.869 | 34.087 | 2.782 |
| Covid-19 related grants (including NHS funding) | | (33,505) | (33,505) | (33,505) | |
| Total | 323.521 | 326.885 | 3.364 | 0.582 | 2.782 |

- 3.1 The table above shows the approved budget against the forecasts, including gross Covid-19 pressures, to show the pressure before Covid-19 related government funding is applied. This gives a forecast overspend of £36.869m against the approved budget. This variance is then separated into costs relating to Covid-19 response and those relating to non-Covid-19 pressures. Covid-19 funding from government grants and NHS discharge claims offsets £33.505m of this overspend, leaving a £0.582m forecast Covid-19 pressure alongside a £2.782m non-Covid pressure.
- 3.2 After allocating the Covid-19 grant funding, services with a material overspend are DSG-funded education services, Business and Customer Services and Governance and Policy. The area with material underspends is Corporate Services and Resourcing. Further details of the causes of the variation and mitigating actions are listed by service in Appendices A and C.
- 3.3 The largest are of pressure in the expenditure budget is Covid response costs. These can be funded by £33.505m of Government Grant and NHS Covid funding, leaving a forecast pressure of £0.582m to be funded by General Reserves in 2020/21. See section 3.10.
- 3.4 A number of variations in the services shown in the table above impact on specific ringfenced reserves, either underspends transferred to these reserves (£1.610m), or overspends funded from them (£1.509m). Although the net £0.101m does impact on the overall reserve position of the Council, the reserves are held for this specific purpose and it does not impact on the funds available for general use within the General Reserve. See section 4.
- 3.5 The Dedicated Schools Grant has a pressure of £10.914m forecast over the period April 2019 to March 2021. This pressure cannot be funded by the Council funds outside of the DSG grant, and the blocks cannot fund each other. The pressure on the High Needs Block has to be mitigated by future years' underspend in the High Needs Block. Plans to achieve this have been approved by Cabinet and investment funds allocated to begin work to bring this into effect.

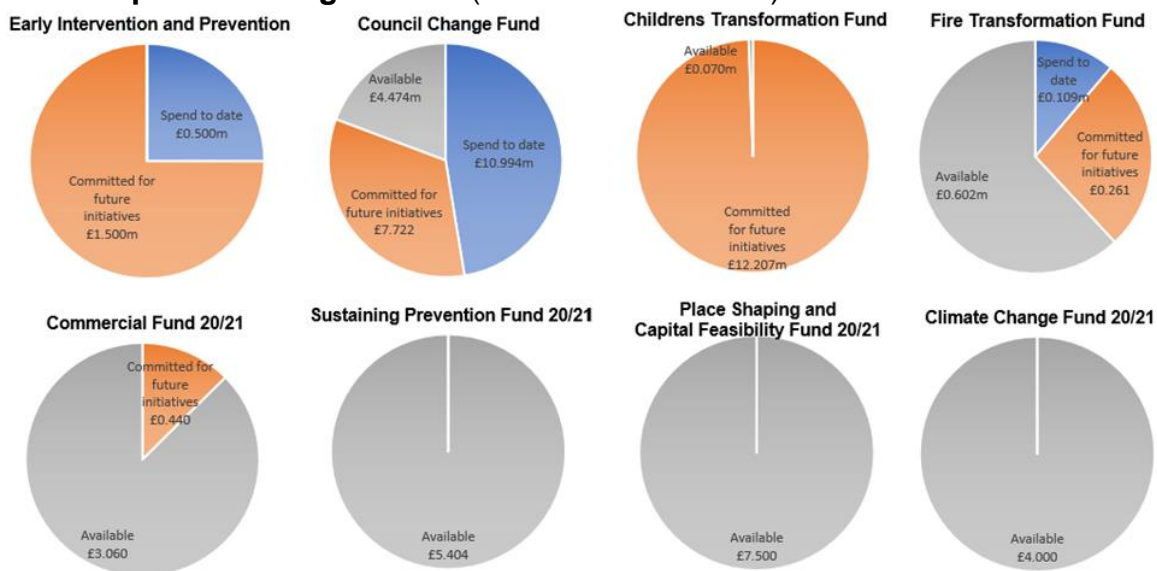
| DSG deficit forecast to be carried into 2021/22 | |
|--|----------------|
| Central Block | -£0.095 |
| Early Years Block | -£0.708 |
| High Needs Block | £11.701 |
| Schools Block | £0.016 |
| Total Impact | £10.914 |

- 3.6 There is a £6.373m forecast underspend across the services which will increase the amount of available funds in the General Reserves. This is made up of £9.262m pressures and £15.635m underspends, and will be discussed at Directorate Leadership Team meetings throughout the year. The largest 3 of these are:
 - £10.180m underspend in Corporate Services due to release of borrowing cost contingency not required to fund the capital programme in the current year;

- £2.076m overspend in Children and Families, related to Children in Care Placements, with increased numbers and complexity (affecting average unit cost);
- £1.900m overspend in Business and Customer Services, predominately made up staffing pressures; where budget transfers need to be agreed and finalised as part of the FOM. There is a risk these transfers will move the overspend to other service areas.

3.7 Note that £1.658m of this currently forecast underspend is in key areas of service delivery, predominantly staffing and Community Equipment in Adult Social Care, and recently announced grant income in Children and Families and Education Services. Services may increase spend in these areas to meet delivery requirements, so there is a risk that the underspend in these areas will reduce, but the current forecast represents the most likely outturn position.

3.8 Corporate Change Funds (as at 30th June 2020)



3.9 The bidding process and approval for Investment and Change funds has been on hold during the Covid-19 response phase and there is now a review of approved schemes in light of the need to fund the response and recovery phases. Cabinet has also agreed the realignment of £2.5m of funding into the Place Shaping Fund (£2m from the Sustaining Prevention Fund and £0.5m from the Commercial Fund). The remaining Early Intervention Fund balance from 2019/20 (£1.5m committed and £0.4m unallocated) has been incorporated into the Sustaining Prevention Fund to allow continued member oversight of the schemes approved.

3.10 The bidding process has been re-initiated in July, with fast-tracked bids underway for specific economic recovery projects, the development of the Commercial Strategy including the Warwickshire Property Company and to support the Direct Schools Grant recovery and sustainability plans. The use of the investment funds will also be strongly influenced by any recommendations accepted by Cabinet flowing from the Cross Party Covid-19 Recovery working groups.

3.9 Following the outbreak of Coronavirus, £0.090m previously approved from the Early Intervention Fund to build capacity in the community has been returned to the Fund as the project will no longer continue under the current circumstances.

Covid-19

- 3.10 At a summary level, the last Covid-19 finance report to Corporate Board (dated 5 June) projected in year Covid-19 related expenditure, income and MTFs related pressures of £33.881m. This compares to an updated forecast of identified Covid-19 related pressures of £34.087m within this report. The Covid-19 related pressures continue to be reviewed and updated as response and recovery progress, and as such we anticipate that there will be some movement between overspends that are attributable to Covid-19 and those that are not.
- 3.11 In order to present the gross Covid-19 pressures, the net underspend or overspend for each service area does not include specific grants that Services will receive that will offset pressures in their areas. The total of these grants is within the £33.505m that is presented as being available to offset Covid-19 pressures. Please note that the government grants figure calculated in this report does not currently include any calculation of the potential refund for lost income.
- 3.12 In 2020/21 there is a potential risk around Home to School Transport to consider social distancing that is not included in the reported figures in the main body of this report. An indicative estimate of a further £2.750m has been included in the table below to include the impact of this risk. This has been reduced from the £5.500m estimate that was included the latest MHCLG return submitted in June to account for the latest changes in Government guidance.
- 3.13 The table below summarises the 2020/21 pressures and also the potential longer-term impact on Council Tax and Business Rates in future years.

| 2020/21 | £m | £m |
|---|----------|--------------|
| Covid-19 2020/21 identified pressures | 34.087 | |
| Grant funding to offset pressures | (33.505) | |
| Residual pressure in 2020/21 | 0.582 | |
| | | |
| Risks | | |
| - Home to School distancing costs | 2.750 | |
| Total residual pressure in 2020/21 | | 3.332 |

| 2021/22 | £m | £m |
|--|-------|---------------|
| Longer term impact on Council Tax and Business Rates | 8.178 | |
| Total residual pressure on WCC | | 11.510 |

- 3.14 Further work is required to ascertain the extent to which income shortfalls are Covid-19 related or due to other drivers. This will be important in the context of the most recent Government support for lost income, as we expect some level of external scrutiny and audit around any claims.
- 3.15 Services have reported underspends in team related costs such as staff travel, amounting to almost £1m in total across the Council. It is reasonable to assume that this level of underspend in these budgets areas is largely attributable to the impact of Covid-19 (the same budgets overspent by £0.250m in 2019/20).

Savings Performance

3.16 Performance against individual savings targets are listed in Annexes A to M.

| 2019/20 | No. of Savings Options | Saving Delivered £m | Savings Not Delivered £m |
|--------------------------------------|------------------------|------------------------|-----------------------------|
| Savings target achieved/overachieved | 15 | 2.766 | 0 |
| Savings target partially achieved | 1 | 0.948 | 1.575 |
| No saving delivered against target | 4 | 0 | 1.420 |
| Total | 19 | 3.214 | 2.995 |

3.17 Below are details of those savings which are highlighting forecast under-achievement:

| Description | Target £m | Saving Forecast £m | Reason for variance and associated management action |
|--|--------------|--------------------------|---|
| Corporate Services and Resourcing - Material receipts from the sale of strategic sites. Reinvestment of the capital receipts will reduce the Council's borrowing costs. | 2.523 | 0.948 | Delays on the sale of two sites as a result of preferred bidders withdrawing offers at the start of the Covid-19 lockdown has impacted on the ability to reduce borrowing costs in line with targets. |
| Business support - Service wide restructure of business support, including delayering of the entire model and reductions in levels of agency spend. | 0.880 | 0.000 | Due to the delay in implementing the new model for Business Support, work is on-going to reassess the service's ability to deliver the savings this year. A more accurate position statement will be available next quarter. |
| Contract Management - Reduction in the cost of contracted services and third party spend through improved contract management at all stages of the procurement process. | 0.500 | 0.000 | Delays in implementation due to impact of Covid-19 response. Further funding from the Organisational Change Fund to restart the process is in the process of being evaluated to ensure future years' savings remain on track and pick up the savings foregone in 2020-21. |
| Legal Services additional surplus - Additional surplus from external trading with other local authorities and public sector bodies | 0.030 | 0.000 | Unlikely at this stage due to current pressures on income. |
| Electronic record keeping - Reduced storage requirements as a result of the move to electronic record keeping. | 0.010 | 0.000 | Project delayed due to Covid-19 – work will be recommencing shortly but may delay full recovery in year 1. |
| | 3.943 | 0.948 | |

Medium Term Implications

- 3.18 The impact of pressures and reductions flagged in budget monitoring as ongoing will be modelled and the need to adjust future years' budgets evaluated as part of the MTFS refresh over Summer 2020. Once these, and any new pressures are identified through that work, changes to the value of the ongoing impact will be highlighted in this budget monitoring report.

4. Reserves position

| £m | Start of Year 20/21 | Movement in Q1 | Effect of Outturn | Closing Balance | 21-25 Planned Use | Remaining |
|---------------------------|---------------------|----------------|-------------------|-----------------|-------------------|-----------|
| Schools Reserves | 12.142 | 5.240 | (10.914) | 6.468 | | 6.468 |
| Earmarked Reserves | 125.301 | (6.778) | (13.969) | 104.554 | (14.883) | 89.671 |
| Risk and General Reserves | 55.584 | (0.157) | 7.449 | 62.876 | (6.340) | 56.536 |
| | 193.027 | (1.695) | (17.434) | 173.898 | (21.223) | 152.675 |

- 4.1 The reserves closing balance includes all approved use of reserves so far during the year, including carry forwards from 2019/20, use of change funds and use of specific or earmarked reserves in quarter 1. Alongside this the Effect of Outturn shows the impact of the current forecast revenue position on the council's funds.
- 4.2 Cabinet are requested to approve the transfer of £8.000m underspend in Corporate Services to reserves to provide some capacity to soften the short term phasing of the need to deliver additional savings from 2021/22 to balance the Medium Term Financial Strategy.

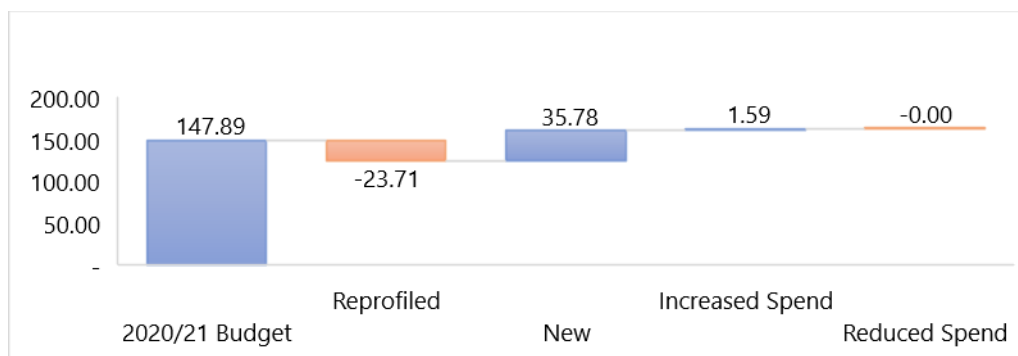
5.0 Capital

- 5.1 The latest forecast of 2020-21 capital payments is £161.541m, with a further £149.498m of payments forecast over the medium term. The 2020-21 forecast is an increase of £13.654m on the budget set in March 2020.
- 5.2 This increase is made up of £23.710m (12.9%) of planned spend for 2020/21 now expected to move into future years, an increase in newly approved capital schemes of £35.776m being brought into the programme and a net increase in the overall cost of capital schemes of £1.588m.
- 5.3 The remaining Capital Investment Fund (CIF) allocation of £5.711 million carried forward from 2019/20 has been added to the annual CIF allocation of £24.914 million per annum. This results in a total amount in the Capital Investment Fund (CIF) over the term of the MTFS of £130.281m.

Capital forecast by service

| | 2020/21 | 2020/21 | 2020/21 | 2021/22 to | 2021/22 to | 2021/22 to | Total Variance £m |
|--|--------------------------|----------------|----------------|-------------------------------------|---------------------------|---------------------------|-------------------------|
| | Approved Budget £m | Forecast £m | Variance £m | 2024/25 Approved Budget £m | 2024/25 Forecast £m | 2024/25 Variance £m | |
| Education Services | 12,484 | 15,898 | 3,415 | 16,983 | 16,277 | - 707 | 2,708 |
| Environment Services | 79,975 | 93,729 | 13,754 | 47,001 | 79,034 | 32,033 | 45,787 |
| Fire and Rescue | 7,523 | 5,347 | - 2,176 | 558 | 2,734 | 2,176 | - |
| Strategic Commissioning Communities | 27,138 | 20,477 | - 6,661 | 33,000 | 39,716 | 6,716 | 55 |
| Communities | 127,120 | 135,452 | 8,332 | 97,543 | 137,761 | 40,218 | 48,550 |
| Adult Social Care | 0 | - | - | 313 | 313 | - | - |
| Children and Families | 230 | 257 | 27 | 172 | 172 | - | 27 |
| Strategic Commissioning and Public Health | 100 | 4,587 | 4,487 | 35 | 63 | 28 | 4,515 |
| People | 330 | 4,844 | 4,514 | 521 | 549 | 28 | 4,542 |
| Business and Customer Support | 168 | 168 | - | 1,782 | 1,782 | - | - |
| Enabling Services | 16,563 | 16,575 | 12 | 9,389 | 9,389 | - | 12 |
| Governance & Policy | 3,706 | 4,502 | 796 | 17 | 17 | - | 796 |
| Resources | 20,437 | 21,245 | 808 | 11,188 | 11,188 | - | 808 |
| Total | 147,887 | 161,541 | 13,654 | 109,252 | 149,498 | 40,246 | 53,900 |

Capital Variance Analysis



5.4 *2020/21 Budget* – This is set according to the forecast spend in 2020/21 made on 31st March 2020. The forecast shows the changes in capital programmes since then, made up of:

- i.) *Reprofiled projects* – these are schemes where there has been a slip in the time scale for delivery. The project is still being delivered and with no material change in cost, but the impact is that the benefits of projects are not realised and available to the taxpayers of Warwickshire in the timeframe originally anticipated. There is £23.71m of project expenditure which has slipped into future years, and work is ongoing to make initial estimates of planned delivery more realistic to ensure slippage only occurs where uncontrollable delays occurs.
- ii.) *New projects* – these are projects recently added to the capital programme or projects where costs have risen as a result of a substantial change in scope. These schemes have been added through formal governance, with financing made available from CIF or Corporate grants.
- iii.) *Projects with Increased Spend* – these are schemes where project costs have risen above the level previously expected. This means additional funding has had to be arranged. This may be in the form of a revenue contribution to capital from a Service's revenue budget, the use of basic need funding for education projects or through the collection of additional S278 money from developers. Apart from for S278 projects the impact of this is that there is less funding available for other projects/activity.
- iv.) *Underspent projects* – these are schemes which have been delivered under budget. The impact of this is that funds are no longer required for a specific scheme. This may mean the authority will be able to recycle funds to alternative projects or will borrow less.

5.5 The additional funding available should be noted. For 2020-21, £35.776m of forecast spend has been added to the capital programme, with an additional £16.504m available in 2021-22 onwards. This is as a direct result of new funding from grants, capital investment fund borrowing and S278 contributions.

5.6 Across all years supplementary funding of an extra £1.620m has been added to capital projects where additional funding is required to deliver schemes already in progress.

5.7 Analysis of 2020/21 highlights:

- i.) *Governance & Policy* – £0.796m increase in the forecast on the property rationalisation project at Hawkes Point: Additional funds were approved last September (£0.997m). Between Quarter 1 and Quarter 3 2019 the project was reviewed so that plans to create additional accommodation as a separate site to Hawkes Point were transferred from Budbrooke to Henley in Arden sites. As a result of this the forecast was reduced by £0.997m as the project was intended to be a cost saving alternative. An additional £0.796m has been added to the forecast costs on this project to cover the new expected design, partly funded from revenue and partly from income.
- ii.) *Education Services* - £0.672m increase on the forecast on the Pears Education Centre project. Costs to make the centre fit for purpose have risen compared to initial estimates at the point of purchase. Additional funds for the refit of the centre have been approved from two sources. £0.150m transfer from public

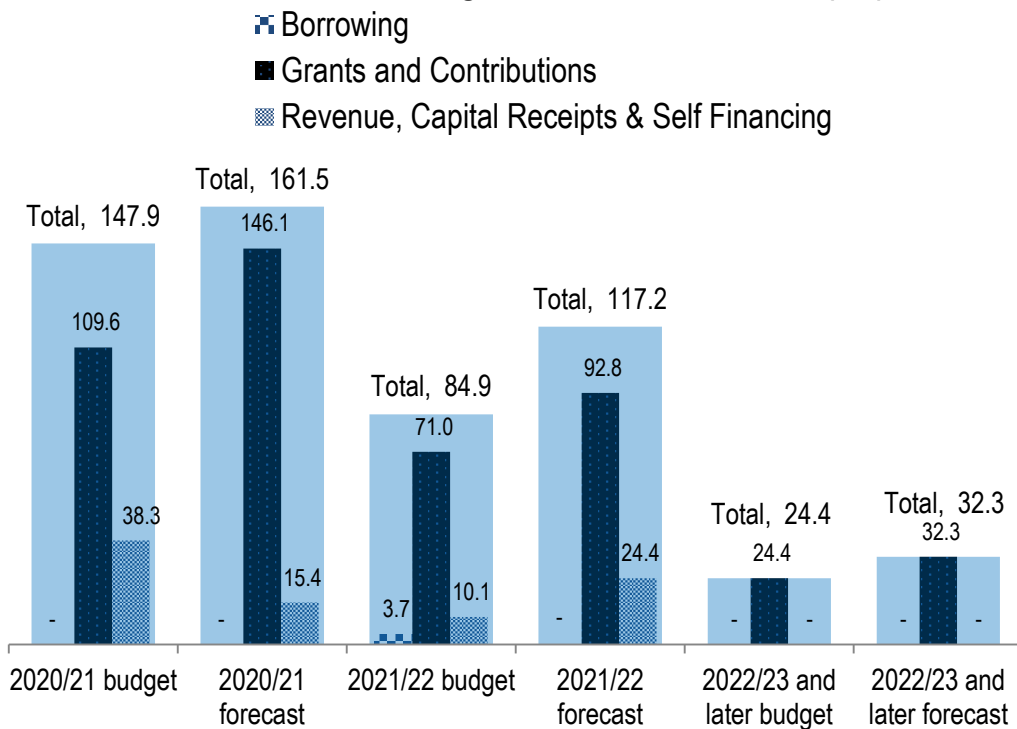
health capital project. £0.522m from Education’s specialist provision fund. This was approved at the Education Service’s paper at July cabinet.

- iii.) Delays in Projects – the £23.710m delays and re-profiling of projects is caused by slippage. The slippage on individual projects is detailed in Appendix B.

Capital Financing

5.8 As well as approving the revised spending in the capital programme, the County Council must also ensure it has sufficient funding available to meet its capital payments in each financial year. The chart and the table below show how the planned and forecast capital expenditure is to be financed. These figures exclude the remaining unallocated Capital Investment Fund.

Estimated Financing to 2022/23 & Later Years (£m)



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

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

6. Financial Implications

- 6.1 The report outlines the financial performance of the authority in the year 2020/21. There are no additional financial implications to those detailed in the main body of the report.
- 6.2 The key financial issue remains the need for the MTFS to 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.

7. Environmental Implications

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

8. Background Papers

None

9. Appendices

Appendix A – Finance commentary on service revenue forecasts

Appendix B – Finance commentary on service capital forecasts

Appendix C – Service level narrative, reserves, savings and forecasts

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