Cabinet

Excerpt of the Minutes of the meeting held on Thursday 29 September 2022 in the Town Hall, Royal Leamington Spa at 3.00 pm.

Present: Councillors Day (Leader), Bartlett, Cooke, Falp, Grainger, Hales, Matecki, and Rhead.

Also Present: Councillors: Boad (Liberal Democrat Group Observer), Davison (Green Group Observer), Mangat (Labour Group Observer), and Milton (Chair of Overview & Scrutiny Committee).

169. **Declarations of Interest**

There were no declarations of interest made.

Part 1
(Items upon which a decision by the Council was required)

171. **Quarter 1 Budget Report**

The Cabinet considered a report from Finance which provided an update on the current financial position as of 30 June 2022, both for the current year 2022/23 at the end of Quarter One, and for the medium term through the Financial Strategy. Key variances and changes were highlighted to inform Members, with some recommendations also being put forward for their consideration.

The Medium-Term Financial Strategy showed that the Council was still reliant on making the savings previously agreed as part of the 2022/23 Budget Setting. However, further savings were now required in light of changes to the proposals following the approval to withdraw the request to merge with Stratford-on-Avon District Council and create a South Warwickshire District Council. With the significant risks facing the Council's finances in future years, it was important that officers and Members took all actions to ensure that the savings were generated.

The recommendations and updates would enable the Council to ensure Members and other stakeholders continue to be informed on the most up to date financial position of the Council, both in year and for the medium term. It would enable decisions to be made based upon these positions to ensure that the Council could continue to operate within a balanced budget.

Regarding the General Fund Financial Position as of 30 June (Q1), variations were identified by the Accountancy Team and reviewed in conjunction with the relevant budget managers, and where necessary, narrative provided in the report. As of 30 June (end of Q1) there was a favourable variance of £1,366k, with a forecast adverse variance for 2022/23 of £586k. A summary was provided below:

2022-23			
Service (General Fund)	**Variation Description**	**Q1 Variation £'000**	**Forecast Full Year Variation £'000**
Employee Costs	Staffing	£385 F	£500 F
	Pay Award contingency	-	
Assets	Delays to PPM works	£315 F	-
	Utility Charges – Electricity		£250 A
Cultural Services	Increased Arts Concession activity	£326 F	-
	Leisure Concession	-	£200 A
	Planning Income	£189 F	-
Environment & Economy	Existing waste contract income	£111 F	£200 F
	Green Waste Permits	£200 F	£486 F
Housing Services	B&B Accommodation	£100 A	-
Strategic Leadership	Warwickshire Place Partnership (Health & Wellbeing)	£100 F	-
	De-Carbonisation Grant	£20 F	-
	Members Allowance	£10 A	£40 A
	Contingency Budget	£135 F	-
	Crewe Lane LLP Interest		£62 A
	Budget Savings proposals linked to merger	£128 A	£512 A
	Budget saving proposal – digital transformation	£52 A	£208 A
	Budget Savings in-year underspend	£125 A	£500 A
TOTAL		**£1,366 F**	**£586 A**

Continuing with the Salary Vacancy Factor process established during 2021-22, the table below reflected the underspends on salaries within service areas during periods 1-3 (April-June). These were offset against a pre-determined value agreed at budget setting of expected levels of savings driven by gaps in establishments throughout the year, which was set at 3.6%.

As part of the Vacancy Factor process for Q1, £469,700 (GF) and £107,300 (HRA) was appropriated from staffing budgets.

Portfolio	Vacancy Factor Budget 22/23	Budget Released Q1
Assets	-£41,200	£40,000
Community Protection	-£68,700	£40,400
Cultural Services	-£62,400	£62,400
Development Services	-£76,800	£76,800
Environment & Operations	-£68,100	£68,100
Financial Services	-£107,200	£67,400
Housing Services - General Fund	-£48,200	£48,200
ICT	-£37,400	£19,500

People & Communication	-£31,400	£22,300
Strategic Leadership	-£111,300	£23,700
Total General Fund	**-£652,700**	**£469,700**
HRA	-£115,700	£107,300
Total	**-£768,400**	**£577,000**

Overall, 71.96% of the GF Vacancy Factor had been met, and 92.74% of the HRA vacancy factor.

Once the Vacancy Factor budgets were achieved, additional budget that was released would be allocated to a contingency provision to allow for a forecast 4% average pay award for 22/23, currently forecast at £350k. Any further budget released would then be returned to GF and HRA reserves and be available to use as necessary to meet other emerging challenges and opportunities.

After the Vacancy Factor Adjustment and departmental service reviews had been taken into consideration, General Fund salaries were £385k favourable against budget at the end of Q1. However, following the vacancy factor process and discussions with the relevant managers, some of the remaining underspent budget would be required to backfill where work had fallen behind due to staffing, establishment, and recruitment issues. This could take the form of additional fixed term staffing, agreed overtime and in some instances the use of agency staffing, which could carry a cost premium. These assumptions would continue to be reviewed and challenged into Quarter Two, and forecasts updated, as necessary. The value that the vacancy factor was set at (currently 3.6%) would also continue to be reviewed. Given the high levels of underspend reported at Q1, it might be necessary as part of Budget setting to increase this provision to better reflect the ongoing staffing challenges within service areas.

The recruitment and retention issues currently being faced by the Council were subject to review, with work commencing on how this be tackled going forward.

In Assets, delays to the commencement of a number of Planned Preventative Maintenance (PPM) programmed works continued into 2022/23. The Assets team were continuing to face resourcing challenges, driven by high levels of sickness and difficulties in recruiting to the substantive establishment. It was expected that the full allocation of budget would be used to meet the cost of repairs necessary to maintain the corporate stock. However, it was likely that up to a third of the £1.5m programme would have to be slipped into the following financial year and so not present a real saving.

Another contributing factor to the variation was the way in which works were reported through the Financial Management System (FMS). One of the expected benefits of the new FMS, which went live in November, was that expenditure commitments would appear in a timelier manner in the system from the Property Management System. This would be as and when orders were raised, rather than only when they were paid. This would improve forecasting against the schedule agreed at Budget Setting in February.

Centralisation work was ongoing between finance and the assets teams to ensure resources were available and to enable programmed works to be more effectively managed, supported by timely, accurate and available information in the Financial Management System.

In Cultural Services, the Royal Spa Centre received increased income during quarter one driven in part by a number of rescheduled events having now taken place. The centre was now fully operational after being closed for prolonged periods due to COVID-19.

Income and Expenditure would continue to be monitored as the Council headed into the peak season, including the return of the Christmas Pantomime following previous years cancellations due to COVID-19.

Despite a positive quarter one, the full year forecast remained prudent as there was still uncertainty as to how the site would perform going forward. The leisure contract forecast was discussed in section 1.4.4 of the report.

In Development Services, a large amount of fees were carried forward (£324k) from 2021/22 into 2022/23 for ongoing planning work relating to the current year. It was forecast that planning fees would achieve their annual budget.

In Environment & Economy, recycling credit income reduced due to lower usage than during the last two years, when lockdowns increased home collection volumes. However, income generated from material collections remained significantly above budget. The forecast reflected that the new 123+ waste contract commenced from 1 August 2022, and so income from these sources would form part of that contract going forward.

The number of residents who signed up to the Green waste collection service significantly exceeded expectations for 22/23.

In relation to Housing Services – General Fund, increased levels of temporary B&B accommodation were used since the start of the pandemic. The effects of the current cost of living conditions were also having an impact, resulting in a cost of an additional £103k year to date. However, the Council would receive Flexible Homelessness Support Grant to fund this additional expenditure. This would continue to be monitored into winter, when further significant cost increases were expected, including another rise in the cost cap in October just as the use of utilities would increase with colder weather and reduced daylight hours.

In relation to Strategic Leadership, the Members allowances scheme was revised at Annual Council in May 2022 and this increase was not built into the budget in February as the exact total additional costs were unclear, as this depended on the number of Councillors undertaking roles. The forecast for the year was £115k against a budget of £73k. Equally no budget provision was provided to date to allow for the creation of the PABS and the chairman SRA.

£100k was received as a grant to be held by WDC on behalf of the South Warwickshire Place Partnership (Health and Well Being) to be spent this current financial year.

Within the 2022/23 Budget agreed by Council in February, there was a Contingency Budget of £200k for any unplanned unavoidable expenditure. To date £65k had been committed from this budget.

Regarding budget savings, the progress against the Budget savings proposals was outlined in section 1.3 in the report.

In the Housing Revenue Account current year variances, variations had been identified by the Accountancy Team in conjunction with the relevant budget managers, giving a favourable variance of £1,028k as of 30 June, with a forecast favourable variance for 2022/23 of £150k. A summary was provided below:

2022/23				
Service	**Variation Description**	**Q2 Variation £'000**	**Forecast Full Year Variation £ '000**	**Rec/ Non-rec**
HRA	Staffing (after Vacancy Factor Adjustment)	£78 F	£150 F	Non-rec
	Housing Repairs	£950 F	-	Non-rec
TOTAL		**£1,028 F**	**£150 F**	

Staffing resources across the Housing Revenue Account saw similar issues to those impacting the Assets teams. Sickness and recruitment challenges had been present and were likely to continue going forwards in the immediate future.

Continued delays in receiving invoices from contractors for housing repairs, both major and responsive, was leading to the favourable variance YTD. A process was currently in development to ensure order data from the Housing Management System (Active H) appeared in the new Finance Management System (FMS) as orders were raised, ensuring expenditure reporting was more robust and timelier than it was through the existing FMS. Currently expenditure was passed through to the FMS when paid.

This project to bring active orders into the FMS when approved, and the centralisation of all R&M budgets would allow more timely financial management of these budgets. It should have been noted that major and responsive works were ongoing, with the expectation that the full budget allocation for the year would be utilised.

Regarding Recommendation Two (budget savings progress), managers had provided updates as to expected delivery against the Budget Savings Proposals agreed originally in December 2020, and last reviewed as part of Budget Setting in February 2022.

Appendix One to the report outlined a full breakdown of all the current budget savings proposals, including forecast delivery.

Following the approval to withdraw the request to merge with Stratford-on-Avon District Council and create a South Warwickshire District Council, a number of savings proposals had to be removed. These schemes directly linked to efficiencies being made as a result of a joint Council. These were highlighted in yellow on Appendix One to the report.

The latest updates also resulted in the removal of the remaining delivery against Digital Transformation from 2022/23, following delivery of service efficiencies related to the Finance Management System implementation from February 2022. The Head of IT services would be bringing forward a revamped transformation programme outlining future plans in due course. Within the savings, a £500k 'in-year underspend' was allowed for. At this point in the year, nothing had been explicitly allocated to this. However, as part of the on-going Budget monitoring throughout the remainder of the year, any projected savings would be allocated against this heading. See Appendix One to the report for a full breakdown of the progress on the Budget Savings Proposals.

With many of these savings still requiring much work to be carried out, a more prudent stance had been taken in projecting the likely savings from some initiatives. These savings were reviewed monthly by the Management Team to seek to ensure the savings initiatives were duly progressed.

Regarding recommendations three and four, the MTFS was last formally reported to Members in February as part of the Budget setting and Council Tax setting reports. At that stage the profile of revenue savings to be found was as follows:

	2022/23	**2023/24**	**2024/25**	**2025/26**	**2026/27**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Deficit-Savings Req(+)/Surplus(-) future years	0	1,377	575	754	1,186
Change on previous year	0	448	490	-223	-200

As well as the in-year changes detailed in sections 1.1 and 1.3 in the report, there were key changes to the MTFS for future years, as outlined below:

Inflation had been changed within the MTFS for recurrent expenditure as follows:

Year	**Inflation as at Budget**	**Revised Inflation Q1**	**Recurrent impact to**

	Setting Feb 2022	Budget Report	MTFS
			£'000
2022/23	4%	4%	0
2023/24	2%	4%	393
2024/25	2%	3%	181
2025/26	2%	2%	0
2026/27	2%	2%	0

The key driver of the inflation proposed above was salaries. The revision above reflected the latest proposed pay offer.

Major contracts would be subject to their own agreed cost profile and inflation levels, which would have been/would be factored in to the MTFS as appropriate.

In addition to the contingency proposal outlined in paragraph 1.1.2 in the report, any agreed pay award would have a recurrent effect on the MTFS. Given that there was no guarantee that the high levels of vacancy would continue into future years at this stage, provision needed to be made to support a pay award higher than the 2% included to date. Therefore, the pay provision had been increased in line with the revised inflation values in paragraph 1.4.2.1 in the report.

This would continue to be reviewed based on the latest information from ongoing pay award discussions. The vacancy factor target would also be reviewed alongside this, to ensure that this was set at a level reflecting the continued establishment gaps.

Regarding the Everyone Active Leisure Contract, a revised contract was agreed for 22/23 in place of the previous concession arrangement. A 90/10 (WDC/EA) split on any surpluses was agreed at the start of the financial year. At budget setting, a £500k leisure contingency was included to reflect the continued risks associated with achieving the full value of the original concession on the back of the pandemic and the sites in Kenilworth being closed for renovation this year.

Further dampening of £200k had now been included reflecting the ongoing risks associated with rising costs, in particular utility costs which were one of the largest expenses incurred at the Council's leisure centres. To help support the concession provider, while also ensuring that a commercial incentive remained, the split on any future surpluses had now been revised to 80/20 (WDC/EA).

Everyone Active would continue to provide monthly breakdowns of their accounts on an open book basis to support the updated arrangement. Discussions were ongoing relating to future years' concessions.

Regarding the new waste contract and garden waste permits, the number of residents who signed up to the new service significantly exceeded expectations for 22/23, given that the service launched mid-season in August.

Current forecasts were for permit income to exceed £700k (35,000 permits), despite the reduced cost of the permit due to the part year effect of a mid-year introduction.

The overall projection for the service in 22/23 was forecast at £550k, increased by £486k over the original forecast of £64k, once additional costs that would be incurred in supporting the service had been factored in.

Previously agreed budget proposals forecast that from 23/24, £1m per annum would be generated from the service. Given the current performance and take up by residents of the service, the forecast from 23/24 had been increased to 40,000 permits, generating income of £1.6m (£1.4m once additional service costs were factored in).

Regarding utility contracts, following a period of uncertainty there were now some indicative estimates of the likely impact on electric and gas prices for the Council's GF and HRA properties following the significant increases in costs seen over the last 12 months.

The Council contracted to buy electricity through ESPO for the period October – September, but for gas, the period was April - March.

ESPOs Energy Trading/ Risk Management team estimated the cost per kWh to be at least 20.31p from October, roughly a 100% increase. This excluded the Standing Charge / Green Levy / Distribution Cost element which it was assumed would also increase substantially.

The Council had the estimated consumption for the 305 supplies (4,475,161kWh). A very basic forecast at 20.31p/kWh would be £909k. Current budget for electricity for 2022/23 was £439k. Half of this was likely to impact in 2022/23 and then equally for the first half of 2023/24. The kWh cost for October 2023 to September 2024 until mid-way through next year would not be known, but market trends continued to indicate significant upward movement. The Council's price varied a little per site depending on the cost of transmission to site using the network (also expected to rise), so this figure was a broad estimate.

For Gas, the Council's prices were fixed for the remainder of 2022/23 but indications were that there would be an increase in the range 180% - 250% from April 2023, although the Council's gas usage was proportionally much less than electricity. ESPO had already bought around 87% of its contracted gas requirement for next year but still they were unsure about the exact price impact for next year.

Therefore, the following recurrent changes were included in the MTFS:

	2022/23	2023/24	2024/25	2025/26	2026/27
	£'000	**£'000**	**£'000**	**£'000**	**£’000**
Increase (Decrease) in electricity charges	250	250	0	-150	0
Increase (Decrease) in Gas charges	0	150	0	-50	0

Work was underway to mitigate the impact of these increases, with the Council’s Building Management System operator, SERTEC being instructed to carry out an urgent review of key sites to see if any changes to heating / lighting / cooling etc could be introduced and if these would cause any loss of amenity at a building. There was limited scope at Pump Rooms as the art and museum collections required regulated air and temperature to prevent artifact deterioration. Reviews were taking place across sites with the biggest use.

The Council would also look at whether there were options to install PIR sensors in any corridors, kitchens, toilets etc at any locations, The costs were likely to be small in comparison with the energy cost increase and any marginal energy savings were worthwhile.

A further meeting with ESPO was due to take place later in the year once prices could be quantified with greater certainty.

Taking into account the changes highlighted in the report, the Medium Term Financial Strategy now presented the following deficit position:

	2022/23	2023/24	2024/25	2025/26	2026/27
	£'000	**£'000**	**£'000**	**£'000**	**£’000**
Deficit-Savings Req(+)/Surplus(-) future years	586	2,933	2,424	2,467	2,706
Change on previous year	0	2,347	-509	43	239

Recurrent savings of £3m needed to be secured to enable the Council to be able to set a balanced budget from 2023/24 onwards. Officers were currently reviewing ways of reducing the deficit, including income generation, service efficiency, and cost saving schemes. This work and its outcomes would be reported to Cabinet as part of the Q2 Budget Report in December 2022.

Regarding recommendation 5, the following proposed changes to the Capital Budget had been identified:

1) Kenilworth Leisure Centre site fit outs across Abbey Fields - £496k slippage (full year budget) into 2023/24.

2) Kenilworth Leisure Centre site fit outs across Castle Farm - £201k slippage (full year budget) into 2023/24.

Regarding recommendation 6, following the withdrawal of the merger, monies set aside for service integration, totalling £2.7m over three years, had been moved to the Service Transformation Reserve (STR) from the previously established Service Integration Reserve.

As part of the merger, a number of stages of service alignment were proposed. Pending these reviews taking place, a number of recruitment proposals were put on hold. These recruitments now needed to take place.

In addition, Members recently approved the 'Applause' package.

A full breakdown of all posts / schemes put forward to be funded from the STR was provided in Appendix 3 to the report.

The recommendation was for Members to approve the use of the STR to support these posts / schemes which were necessary to ensure continued service delivery.

Upon approval of these posts / schemes, there would be £1.812m remaining unallocated in the STR.

As stated in 1.4.7.2 in the report, officers were tasked with identifying ways to reduce the financial deficit. It was expected that there would be a period of officer / Member work over the coming months to work on options as part of the budget process due to commence in September. Part of this work would review the use of Council reserves, including the STR, with further recommendations to be presented in the Q2 report.

Regarding recommendation seven, updates on the following subjects were provided:

- Energy Rebate Discretionary scheme - A request to use delegated Emergency powers was submitted on 23 June 2022 to approve the Hardship Fund and Energy Rebate Discretionary Scheme, to enable commencement by 30 June. The scheme included £228,900 provided by the Government for the Energy Rebate Discretionary scheme and £200,000 provided by the Warwick District Council Hardship Fund. This was funding provided from the 2021/22 forecast surplus, as originally discussed in February 2022. The idea around the scheme was to provide additional support to those residents most in need who might have not received any support from the main £150 Council Tax Energy Rebate Scheme. The Council arranged for a payment of £150 for customers in Bands E-H who were in receipt of Local Council Tax Reduction (LCTR) as well as those receiving Disabled Person Reduction, Severely Mentally Impaired Disregard or Council Tax Carers disregard. The Council would also provide everyone who was in receipt of the maximum LCTR (85% or 100%) across all bands A-H a top up of £50. The Council would be encouraging customers to apply for LCTR as well if they were struggling and if they were then successful, they would receive an award as per the above. If they were unsuccessful in their claim but within a predefined amount, these people would also qualify for a payment of £125 as long as they had not already received an energy rebate payment. The scheme was currently over halfway completed, with the scheme due to end on 30 November 2022.

- Spencer Yard - A request to use delegated Emergency powers was submitted on 15 June 2022 to approve the movement of money within the Future High Street Fund Scheme for Leamington. This was done to facilitate the commencement of works in Spencer Yard with a view to completion in a 12-to-15-month period.

- Lillington Health Hub - A request to use delegated Emergency powers was submitted on 10 August 2022 to approve the forward funding of expected CIL contributions, pending their receipt in 22/23 and 23/24. This would enable the Lillington Health Hub project to progress. The profile of CIL contributions committed to the project for 22/23 total £1m and 24/24 total £900k. A Cabinet report in March 2022 forecast that there would be sufficient CIL income in both of these years to fund this project, with CIL income in 2022/23 forecast to be £3.125m.

- Land acquisition – Villiers Street - A request to use delegated Emergency powers was submitted on 20 May 2022 to approve the purchase of two plots of land on Villiers Street, Leamington Spa to ensure that that they remained as open space land. It was agreed that the 2 plots would be purchased for £5,250 and £39,000 (plus reasonable legal expenses) each.

- Homes for Ukraine - A request to use delegated Emergency powers was submitted on 12 May 2022 to approve policy changes that needed to be made to the Council's 'Council Tax Section 13A(1)C Discretionary CTax reductions policy' in order for the Council to support those people arriving in the area under the Homes For Ukraine Government scheme. The recommendation to accept the changes to the Warwick District Council 'Council Tax Section 13A(1)C Discretionary CTax reductions policy' was to ensure that Local Council Tax Reduction was not adversely affected for those eligible sponsors hosting a guest in their household under the Government's Homes For Ukraine scheme. Also, that any person liable for Council Tax in the Warwick District Council area who was resident under any of the Government sponsored resettlement schemes or the Homes For Ukraine scheme, who was in receipt of the maximum Local Council Tax Reduction under the working age scheme (85%) would not be required to pay the remaining 15% Council Tax charge, with these cases being reviewed annually.

Regarding recommendation 8, the latest Equipment Renewal Schedule was approved by Members as part of the budget setting report in February. It was noted that this reserve, along with several others were all forecast to have demands exceeding the available balances.

Therefore, it was proposed that drawdown from the Equipment Renewal Reserve be delegated to the Chief Executive, in consultation with the Head of Finance, Leader of the Council, and Finance Portfolio Holder.

Regarding recommendation 9, as part of the ongoing review of budget management processes following the implementation of the new Finance Management System, a number of proposals, as outlined in the report, were put forward to improve the control and administration for managers.

Currently the Repair and Maintenance budgets were managed by the Assets Team, but the budgets were held within individual service budgets. This caused difficulty in the financial management of these budgets as a manual report needed to be created each period to show spend against budget. The Assets team could not currently easily use the new Financial System to see what the correct position was on an individual or global scheme basis. Managers within services currently had these budgets within their Cost Centres, against which they did not directly manage the related works. This made it difficult for the Assets Team to forecast spend against agreed programmes of work.

The proposal was to move all centrally managed Repair & Maintenance, Mechanical & Electrical and PPM budgets to the Assets Department. This would allow Assets to financially manage these budgets using the new FMS and provide more accurate forecasts of spend. It would also remove these budgets from service budgets, leaving only their controllable (excluding CEC's – see section 1.10 in the report) budgets to manage. There were no budget implications to this request as current budgets already exist.

Charges related to health and well-being, including occupational health, were responsive to individual staffing needs. The current process was for the invoice to be paid centrally by HR, and then recharged to Cost Centres based on actual usage. Due to their responsive ad-hoc nature, Occupational Health charges were not directly budgeted for within services. There was a cost in administration to the organisation to recharge these on a monthly basis. By centralising this cost to HR, they could be managed and forecasted within one area more effectively.

A budget would be required to be held in HR for the estimated annual cost of £16,800. This was initially proposed to be funded from the Contingency Budget for 2022/23, and to then be included from 2023/24 in the base budget. From 2023/24, this was anticipated to be funded from re-aligning existing employee budgets where resource was continually under-utilised, and therefore was expected to carry no additional budget requirement.

Regarding recommendation 10, another piece of work being undertaken as part of the ongoing review of budget management processes was the way in which Central Establishment charges (CEC) / Recharges were implemented.

CECs were an accounting method to redistribute non-front-line service costs to front-line services, in order to show the true cost of a service being provided by the Council. An example of this would be that to provide a car parking service, there would be costs incurred by support services such as Finance, HR and IT which would need to be attributed to the overall cost in addition to direct cost such as the salaries of attendants. The current system for recharges mixed both front line service costs and business (external) recharges together. At year end, both Service Managers and Accountancy had to reallocate the spend for the year. This was a time-consuming process which was ultimately not value adding to the Council and used staffing resource that could be better utilised on more operational and strategic support, as well as being a significant task as part of the closure of accounts process.

The proposal was to review these processes and implement an alternative way to do CEC / Recharges which was efficient in time but retained accuracy within the accounts. This would also seek to separate business recharges for one off and ongoing works and what was classed as a CEC (front line service recharges). Many other Local Government organisations had moved to an estimated process, allowing budgets and charges to be agreed and processed at the beginning of the year. This gave more clarity to service managers of their costs for their service within the year and would ease the burden on managers and Accountancy at year end.
The recommendation was to review and propose a new way of working for CEC's and Internal Service charges, with the outcome being in place for the 2023/24 Budget Setting process.

The Overview & Scrutiny Committee noted the report and thanked officers for their time in producing it. The Committee noted the positive impact the new financial system is having already and would like to thank officers and Members for the collaborative work on that.

Members highlighted their concerns on the impact of the energy crisis on Council finances and look forward to receiving an action plan on that in the near future.

Members have also asked that where emergency powers are used, full details should be made available in the Cabinet report to enable scrutiny to take place efficiently.

The Leader advised that in terms of the cost of living crisis, there was a package of measures that was originally going to come through the Leadership Coordinating Group (LCG), but this was postponed due to the funeral of the Queen. There was a special LCG session organised for 3 October to deal with this work, and the drafts he had seen so far had been very impressive and he was confident a strong package would be put forward. With the Medium Term Financial Strategy (MTFS), there was a need to get a grip on the projected £3 million deficit, however there had been similarly eye-watering amounts projected in previous years and the Council had managed to do something about it. There was a plan to take the budget development through the Resources Programme Advisory Board (PAB) as well as through LCG, to ensure that this was done on a cross-party basis and to give the full disclosure of the thinking behind decisions. The Leader offered to sit down with Councillor Davison to go through the details of the Spencer Yard project, in order to give him the confidence he was looking for.

Councillor Hales noted the concerns regarding the increase in gas, electric, but it was important to note the steps already taken, for example the use of reserves for the applause package for staff, as well as the use of funds for the Energy Rebate scheme. He thanked the support of Group Leaders, and officers for their efforts in working to produce the balanced budget that was required. He then proposed the report as laid out.

Recommended to Council that

(1) the ongoing forecast deficit outlined in the MTFS be reviewed further once proposals for tackling the deficit have been developed and reported to Cabinet for consideration; and

(2) Council amends the Constitution to record the Cabinet's delegated authority for the Chief Executive, in consultation with the Head of Finance, Leader of the Council, and Finance Portfolio Holder, to drawdown from the Equipment Renewal Reserve.

Resolved that

(1) the latest current year financial position for both Quarter 1 (General Fund £1,366k Favourable and Housing Revenue Account £1,208k Favourable), and forecast for the year (General Fund £586k Adverse and Housing Revenue Account £150k Favourable), with the key variations that drive these positions, be noted;

(2) the updated profile of budget saving schemes originally approved in December 2020, including the changes to those that were linked to the merger, be noted;

(3) the impact on the Medium Term Financial Strategy (MTFS) due to changes detailed within the report, and how these changes are expected to be accommodated, be noted;

(4) the current capital variations for schemes originally approved in February 2022, be noted;

(5) the use of Reserves for the services outlined in section 1.6 in the report, be approved;

(6) the use of Delegated emergency powers for the approvals outlined in section 1.7 of the report, be noted;

(7) the centralisation of Assets R&M Budgets and HR Occupational Health Budgets, be approved; and

(8) changes to the process for Central Establishment Charges (CEC) / Recharges, be approved.

(The Portfolio Holders for this item was Councillor Hales)
Forward Plan Reference 1,309

172. **Final Accounts 2021/22**

The Cabinet considered a report from Finance which provided a summary on the draft 2021/22 final accounts, with the draft Statement of Accounts (available on the website) providing a detailed analysis. An update against the audit timeline was given. Members were asked to note the draft financial position for 2021/22 as detailed in the report, and the decisions made under delegated authority.

The report and supporting appendices enabled the Council to ensure Members and other stakeholders continued to be informed on the most up to date financial position of the Council. It enabled decisions to be made based upon these positions to ensure that the Council could continue to operate within a balanced budget.

The final draft outturn positions upon closure of the accounts were as follows:

	Latest Budget £'000	**Actual £'000**	**Variation £'000**
General Fund	9,890	9,845	-45
HRA	-2,797	-3,893	-1,096
Capital Programme	76,175	48,575	-27,600

The outturn for the General Fund Revenue Services for 2021/22 presented a favourable variation of £0.045m. Should there be any change to the variation because of the External Audit (which commenced on 5 September), Members would be updated accordingly.

The significant General Fund variations were presented in the table below.

Description	**Variation £'000**	**Favourable / Adverse**
Employee Costs	-616	F
R&M	-1,039	F
CCTV	-118	F
Spa Centre	78	A
Rental income (Catering Contract)	84	A
Commonwealth Games	-295	F
Building Control Income	-61	F
Local Land charges Income	100	A
Bereavement Services	233	A
Car Park income	23	A
Waste Collection Income	870	F
Watercourses & Culverts Fee Income	135	A
Benefits	537	A
Payment Channels	62	A
Investment Interest Income	-104	F

HRA Recharge	30	A
Projects	122	A

An analysis by Portfolio was shown at Appendix A to the report. IAS19 adjustments and capital charging had been excluded from the variations above as these were reversed out of the Net Expenditure position.

Net Business Rates Retained Income to the General Fund was favourable by £4.904m against the revised Budget. This was due to the way that government compensated Councils through S31 grants for administering its Covid support programmes, primarily in the form of Business Rates Reliefs and Business Grants.

Investment Interest was lower than that budgeted. An increase on the return from the Crewe Lane loan had been offset by the commencement of Housing Investment programmed expenditure meant that there had been less balances to invest. The Annual Treasury Management Report was due to be presented to Overview and Scrutiny Committee alongside the report on 28 September and would provide more information on the 2021/22 performance. The Table below summarised the HRA and GF position.

	Latest Budget £'000's	**Actual £'000's**	**Variation £'000's**	**Fav / Adv**
General Fund	-1,524	-1,628	-104	F
HRA	-304	-15	289	A
Total Interest	**-1,828**	**-1,643**	**185**	**A**

Employee costs were underspent by £616k in 2021/22. The key driver of this was staffing vacancies totalling £596k across a number of services, in particular Assets, Community protection (Environmental Health), Environment & Operations (Green space development and ranger services), Revenues & Customer Services, and Development Services. Vacancies had been offset with additional staffing costs (overtime, agency staffing) where necessary, at a cost of £505k (£21k over budget). Recruitment and retention remained a key challenge for the organisation.

Regarding Assets, the Planned, Preventative Maintenance (PPM) corporate repairs programme was funded through a combination of revenue and reserve funding from the Corporate Assets Reserve, in that order. In 2021/22, £149k had been drawn down from the Corporate Assets Reserve due to expenditure in year of £562k. Expenditure was significantly lower in year on the PPM programme than was originally set in as part of the Budget Setting Report in February 2021 (where £1.541m of works had been agreed, including slippage from 2020/21, supported by a £1.128k draw down from the Corporate Assets Reserve). The key drivers of the reduction in expenditure in year were delays caused by resourcing issues on both the side of WDC and the contractors, in part still as a result of COVID-19 and an increase in demand for construction services. As part of Budget Setting for 2022/23, £561k of these delayed works had been carried forward as part of the Earmarked Reserve request.

Regarding Community Protection, a new CCTV maintenance contact had been agreed in year resulting in savings against the recurring budget.

Regarding Culture, Tourism and Leisure, reduced income had been received across many cultural sites, in particular the Royal Spa Centre, because of remaining COVID-19 restrictions and delays to shows / events using the facilities. Some of the loss had been offset against reduced expenditure costs incurred and the receipt of recovery grants in-year. Rental income from Jephson Gardens Restaurant and Pump Rooms had not been received in year, resulting in an adverse variance of £38k.

Delays had been incurred in the delivery of some preparations for the Commonwealth Games taking place in July-August 2022, resulting in an underspend in 2021/22. Funding relating to the Games would be carried forward to 2022/23 (as an Earmarked Reserve), to match delivery against Birmingham 2022 deadlines.

Regarding Development Services, there had been higher than forecast non-fee earning work recharged to Daventry and Rugby in 2021/22. The carry forward of local land charges planning income into 2022/23 for applications not yet fully determined had been higher than anticipated, reducing this year’s income figure. This income would be reflected in the following year and therefore a reversal of this position in 2022/23 might be seen.

Regarding Environment and Operations, Bereavement Services saw a significant increase in the demand for its services in the prior year, in part driven by COVID-19. However, as the District started seeing fewer cases and deaths, activity levels had fallen to pre-pandemic levels, bringing reduced demand for services at the Crematorium against forecast.

Car park income had continued to be down on pre-pandemic levels as a result in changing user habits. The increased prevalence of remote working had reduced footfall at a number of central urban car parks across the District, and a reduction in season tickets issued. Car parks linked with green spaces had continued to see high levels of activity.

Income received for the sale of recycled materials collected through waste services had continued to be high, as the market value of goods had increased significantly over the two years since the waste contractor last estimated the amount the Council would receive. Demand for bulky item collections also had remained high with people continuing to spend more time at home driven by remote working.

In terms of Watercourses & Culverts – contract income was estimated for budget setting based on the tender process and was set too high. This had been updated for 2022/23.

Regarding Finance, Housing benefits presented an adverse net variance of £537k, driven by a reduction in the subsidy on benefit overpayments. There was an increase in payment processing charges as more people were paying online. The pandemic had increased the speed at which the transition to online payments had taken place.

There had been a reduced recharge to the Housing Revenue Account this year from the General Fund for support services provided. Support services were currently driven as a proportion of costs incurred by services.

The Latest Budget for the Housing Revenue Account (HRA) allocated £2.797m to be appropriated to the HRA Capital Investment Reserve. The actual outturn for 2021/22 resulted in £3.893m being transferred, an increase of £1.096m. This was summarised in Appendix B to the report.

Staffing resources across the Housing Revenue Account had seen similar issues to those impacting the Assets teams. Sickness and recruitment challenges had been present and were likely to continue going forwards in the immediate future.

Delays to repairs and maintenance work due to issues with access and contractor availability as a result of COVID-19 had resulted in an underspend in year of £733k. Major and cyclical repairs had both been affected by these issues. It was expected that access would improve in 2022/23 and enable contractors to complete the works necessary to maintain the housing stock.

There had been a favourable variation in the bad debts provision. Arrears over the pandemic had been lower than expected, in part due to the support provided by central Government. Therefore, the bad debt provision had not required increased resourcing. Given the current cost of living issues facing society, the provision would be monitored going into and through 2022/23.

Capital Expenditure showed a favourable variance against the latest budget of £27.6m. This was comprised of the Housing Investment Programme and Other Services. The table below summarised Budget and Expenditure by Fund. A comprehensive breakdown of the variations and their drivers, and the level of budget to either be returned to reserves or slipped to 2022/23, were provided in Appendix D to the report.

	Latest 2021/22 £'000	**Actual 2021/22 £'000**	**Variance 2021/22 £'000**
Housing Investment Programme	58,114	35,481	-22,633
Other Services	18,061	13,094	-4,967
Total Capital	**76,175**	**48,575**	**-27,600**

The key drivers of the variations were:

- Slippage at housing development schemes in part still impacted by the effects of COVID-19, including the Triangle at Europa Way, Cubbington Waverly Riding School and Oakley Grove Phase 2.
- Covid-19 access to existing housing stock had delayed contractors in being able to get into properties, impacting on the fitting of kitchens, bathrooms, aids and adaptations and electrical fitments.
- Delays to the commencement of development at both Kenilworth leisure centre sites, which was originally due to commence in January 2022, due to the discharging of planning conditions and the volatility of the current construction market.

Appendix D to the report provided a comprehensive breakdown of the variations and their drivers, and the level of budget to either be returned to reserves or slipped to 2022/23.

In the November 2016 Budget Review report, Members approved that any surplus or deficit on the General Fund balance was to be appropriated to or from the General Fund Balance. Under this agreed delegation, £0.045m had been allocated.

Similarly, it was agreed for the Housing Revenue Account that the balance would be automatically appropriated to/from the HRA Capital Investment Reserve. £1.096m had been transferred in 2021/22.

As part of the Final Accounts process, requests had been approved under delegated authority by the Head of Finance for Revenue Earmarked Reserves. These were for previously agreed projects where it had not been possible to complete as budgeted within 2021/22 and would therefore need to carry forward budget to 2022/23.

These totalled £2.347m for the General Fund and £0.469m for the HRA and were outlined in detail in Appendix C to the report. Requests were considered against budget outturn within the specific projects and services, with requests approved only where there was sufficient budget available.

Members noted that these were considerable sums. Key earmarked approvals for the General Fund included set up budget relating to the new waste contract, the Commonwealth Games, delays to PPM and Climate action funded works. For the HRA, the main approval was for delayed major repairs relating to the Housing Investment Programme (HIP), and consultancy budget to support ongoing housing development projects.

It was recommended that the Cabinet should note the position on revenue slippage. As in previous years, expenditure against these budgets would be regularly monitored and reported to Cabinet as part of the budget review process.

In terms of alternative options, the report was a statement of fact. However, how the outcomes might be treated could have been dealt with in a variety of ways. The main alternatives were to not allow any, or only allow some of the earmarked reserve requests to be approved.

The Cabinet noted that there had been difficulties in recruitment, particularly to specialised positions. There was a need to look how the Council could retain staff and become an attractive employer.

The Overview & Scrutiny Committee noted the report and congratulated officers on their efforts.

Councillor Hales paid credit the Senior Leadership Team (SLT) and staff team as a whole for continuing to perform their job well, in the face of these recruitment difficulties. In response to a question from Councillor Davison, he agreed e that the report would include a simple breakdown of the finances, for example, breaking down money received, money spent, and details regarding where Council Tax was spent and useful percentages, so that it was simpler for the public to understand. He congratulated the Interim Head of Finance and his team, and then proposed the report as laid out.

Recommended to Council that

(1) the final revenue outturn positions of the General Fund (GF) and the Housing Revenue Account (HRA), being £0.045m and £1.096m favourable respectively, be noted;

(2) the Capital Programme showing a variation of £27.6m under budget and the level of slippage carried forward to 2022/23 as set out in Appendix D to the report, be noted;

(3) the allocations of the revenue surpluses which have been appropriated to the General Fund Balance Reserve and HRA Capital Investment Reserve under delegated authority, be noted; and

(4) the final position for Revenue Slippage and the Earmarked Reserve (EMR) requests of £2.347m General Fund and £0.469m HRA (Appendix C to the report), with the requests having been approved under delegated authority by the Head of Finance in conjunction with the Finance Portfolio Holder, be noted.

(The Portfolio Holder for this item was Councillor Hales)
Forward Plan Reference 1,310