

Title: Q1 Budget Report
Lead Officer: Andrew Rollins (01926 456013)
Portfolio Holder: Councillor Hales
Wards of the District directly affected: All

Summary

The report provides an update on the current financial position as at 30th June 2022, both for the current year 2022/23 at the end of Quarter 1, and for the medium term through the Financial Strategy. Key variances and changes are highlighted to inform members, with some recommendations also being put forward for their consideration.

The Medium Term Financial Strategy shows that the Council is still reliant on making the savings previously agreed as part of the 2022/23 Budget Setting. However, further savings are 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 is important that officers and members take all actions to ensure that the savings are generated.

Recommendation(s)

- (1)** That Cabinet notes 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.
- (2)** To note the updated profile of budget saving schemes originally approved in December 2020, including the changes to those that were linked to the merger.
- (3)** That Cabinet notes 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.
- (4)** That the Council agrees the ongoing forecast deficit outlined in the MTFS is reviewed further as part of a later report to Cabinet once proposals for tackling the deficit have been developed.
- (5)** To note the current capital variations for schemes originally approved in February 2022.
- (6)** That Cabinet approves the use of Reserves for the services outlined in section 1.6.
- (7)** That Cabinet notes the use of Delegated emergency powers for the approvals outlined in section 1.7.

- (8) That Cabinet delegates drawdown from the Equipment Renewal Reserve to the Chief Executive, in consultation with the Head of Finance, Leader of the Council, and Finance Portfolio Holder.
- (9) That the Cabinet approve the centralisation of Assets R&M Budgets and HR Occupational Health Budgets.
- (10) That the Cabinet approves changes to the process for Central Establishment Charges (CEC) / Recharges.

1 Background/Information

1.1 Current year variances – General Fund

1.1.1 General Fund Financial Position as at 30th June (Q1)

Variations have been identified by the Accountancy Team and reviewed in conjunction with the relevant budget managers, and where necessary, narrative provided in the below paragraphs. As at 30th June (end of Q1) there is a favorable variance of £1,366k, with a forecast adverse variance for 2022/23 of £586k. A summary is 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

1.1.2 Salaries (General Fund)

1.1.2.1 Continuing with the Salary Vacancy Factor process established during 2021-22, the table below reflects the underspends on salaries within service areas during periods 1-3 (April-June). These are 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%.

1.1.2.2 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

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

1.1.2.4 Once the Vacancy Factor budgets are achieved, additional budget that is released will 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 will then be returned to GF and HRA reserves and be available to use as necessary to meet other emerging challenges and opportunities.

1.1.2.5 After the Vacancy Factor Adjustment and departmental service reviews have been taken into consideration, General Fund salaries are £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 will be required to backfill where work has fallen behind due to staffing, establishment, and recruitment issues. This can take the form of additional fixed term staffing, agreed overtime and in some instances the use of agency staffing, which can carry a cost premium. These assumptions will continue to be reviewed and challenged into quarter 2, and forecasts updated, as necessary.

1.1.2.6 The value that the vacancy factor is set at (currently 3.6%) will also continue to be reviewed. Given the high levels of underspend reported at Q1, it may be necessary as part of Budget setting to increase this provision to better reflect the ongoing staffing challenges within service areas.

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

1.1.3 Assets

- 1.1.3.1 Delays to the commencement of a number of Planned Preventative Maintenance (PPM) programmed works has continued into 2022/23. The Assets team are continuing to face resourcing challenges, driven by high levels of sickness and difficulties in recruiting to the substantive establishment. It is expected that the full allocation of budget will be used to meet the cost of repairs necessary to maintain the corporate stock. However it is likely that up to a third of the £1.5m programme will have to be slipped into the following financial year and so not present a real saving.
- 1.1.3.2 Another contributing factor to the variation is the way in which works are reported through the Financial Management System (FMS). One of the expected benefits of the new FMS, which went live in November, is that expenditure commitments will appear in a timelier manner in the system from the Property Management System. This will be as and when orders are raised, rather than only when they are paid. This will improve forecasting against the schedule agreed at Budget Setting in February.
- 1.1.3.3 Centralisation work is ongoing between finance and the assets teams to ensure resources are available and to enable programmed works to be more effectively managed, supported by timely, accurate and available information in the Financial Management System (see 1.9.1).

1.1.4 Cultural Services

- 1.1.4.1 The Royal Spa Centre has received increased income during quarter one driven in part by a number of rescheduled events having now taken place. The centre is now fully operational after being closed for prolonged periods due to COVID-19.
- 1.1.4.2 Income and Expenditure will continue to be monitored as we head 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 remains prudent as there is still uncertainty as to how the site will perform going forward.
- 1.1.4.3 The leisure contract forecast is discussed in section 1.4.4.

1.1.5 Development Services

- 1.1.5.1 A large amount of fees have been carried forward (£324k) from 2021/22 into 2022/23 for ongoing planning work relating to the current year. We are forecasting that planning fees will achieve their annual budget.

1.1.6 Environment & Economy

- 1.1.6.1 Recycling credit income has reduced due to lower usage than during the last two years, when lockdowns increased home collection volumes. However income generated from material collections remains significantly above

budget. The forecast reflects that the new 123+ waste contract commences from 1st August, and so income from these sources will form part of that contract going forwards.

- 1.1.6.2 The number of residents who have signed up to the Green waste collection service has significantly exceeded expectations for 22/23 (see section 1.4.5).

1.1.7 Housing Services – General Fund

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

1.1.8 Strategic Leadership

- 1.1.8.1 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 depends on the number of councillors undertaking roles. The forecast for the year is £115k against a budget of £73k. Equally no budget provision has been provided to date to allow for the creation of the PABS and the chairman SRA.
- 1.1.8.2 £100k has been 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.
- 1.1.8.3 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 has been committed from this budget.

1.1.9 Budget savings

- 1.1.9.1 The progress against the Budget savings proposals is outlined in section 1.3.

1.2 Current year variances - Housing Revenue Account

- 1.2.1 Variations have been identified by the Accountancy Team in conjunction with the relevant budget managers, giving a favourable variance of £1,028k as at 30th June, with a forecast favourable variance for 2022/23 of £150k. A summary is 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	

- 1.2.2 Staffing resources across the Housing Revenue Account have seen similar issues to those impacting the Assets teams. Sickness and recruitment challenges have been present and are likely to continue going forwards in the immediate future.
- 1.2.3 Continued delays in receiving invoices from contractors for housing repairs, both major and responsive, is leading to the favourable variance YTD. A process is currently in development to ensure order data from the Housing Management System (Active H) appears in the new Finance Management System (FMS) as orders are raised, ensuring expenditure reporting is more robust and timelier than it is through the existing FMS. Currently expenditure is passed through to the FMS when paid.
- 1.2.4 This project to bring active orders into the FMS when approved, and the centralisation of all R&M budgets (discussed in section 1.9) will allow more timely financial management of these budgets. It should be noted that major and responsive works are ongoing, with the expectation that the full budget allocation for the year will be utilised.

1.3 Recommendation 2 – Budget Savings Progress

- 1.3.1 Managers have 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.
- 1.3.2 Appendix 1 outlines a full breakdown of all the current budget savings proposals, including forecast delivery.
- 1.3.3 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 have had to be removed. These schemes directly linked to efficiencies being made as a result of a joint Council. These have been highlighted in yellow on Appendix 1.
- 1.3.4 The latest updates have 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 will be bringing forward a revamped transformation programme outlining future plans in due course.
- 1.3.5 Within the savings, a £500k 'in-year underspend' was allowed for. At this point in the year, nothing has been explicitly allocated to this. However, as part of the on-going Budget monitoring throughout the remainder of the year, any projected savings will be allocated against this heading.
- 1.3.6 See Appendix 1 for a full breakdown of the progress on the Budget Savings Proposals.

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

1.4 Recommendations 3 and 4 – Medium Term Financial Strategy (MTFS)

1.4.1 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, there have been key changes to the MTFS for future years, as outlined below:

1.4.2 Inflation

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

Year	Inflation as at Budget Setting Feb 2022	Revised Inflation Q1 Budget Report	Recurrent impact to 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

1.4.2.2 The key driver of the inflation proposed above is salaries. The revision above reflects the latest proposed pay offer.

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

1.4.3 Salary Contingency

1.4.3.1 In addition to the contingency proposal outlined in 1.1.2, any agreed pay

award will have a recurrent effect on the MTFS. Given that we cannot guarantee that the high levels of vacancy will continue into future years at this stage, provision needs to be made to support a pay award higher than the 2% included to date. Therefore the pay provision has been increased in line with the revised inflation values in 1.4.2.1.

- 1.4.3.2 This will continue to be reviewed based on the latest information from ongoing pay award discussions. The vacancy factor target will also be reviewed alongside this, to ensure that this is set at a level reflecting the continued establishment gaps (see 1.1.2.6).

1.4.4 Everyone Active Leisure Contract

- 1.4.4.1 A revised contract has been 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.
- 1.4.4.2 Further dampening of £200k has now been included reflecting the ongoing risks associated with rising costs, in particular utility costs which are one of the largest expenses incurred at our leisure centres. To help support the concession provider, while also ensuring a commercial incentive remains, the split on any future surpluses has now been revised to 80/20 (WDC/EA)
- 1.4.4.3 Everyone Active will continue to provide monthly breakdowns of their accounts on an open book basis to support the updated arrangement. Discussions are ongoing relating to future years' concessions.

1.4.5 New waste contract - garden waste permits

- 1.4.5.1 The number of residents who have signed up to the new service has significantly exceeded expectations for 22/23, given that the service launched mid-season in August.
- 1.4.5.2 Current forecasts are for permit income to exceed £700k (35,000 permits), this despite the reduced cost of the permit due to the part year effect of a mid-year introduction.
- 1.4.5.3 The overall projection for the service in 22/23 has been forecast at £550k, increased by £486k over the original forecast of £64k, once additional costs that will be incurred in supporting the service have been factored in.
- 1.4.5.4 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 has been increased to 40,000 permits, generating income of £1.6m (£1.4m once additional service costs are factored in).

1.4.6 Utility Contracts

- 1.4.6.1 Following a period of uncertainty we are now starting to get some indicative estimates of the likely impact on electric and gas prices for our GF and HRA properties following the significant increases in costs seen over the last 12 months.

- 1.4.6.2 The Council contracts to buy electricity through ESPO for the period October – September, but for gas, the period is April - March.
- 1.4.6.3 ESPOs Energy Trading/ Risk Management team estimate the cost per kWh to be at least 20.31p from October, roughly a 100% increase. This excludes the Standing Charge / Green Levy / Distribution Cost element which we assume will also increase substantially.
- 1.4.6.4 We have 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 is £439k. Half of this is likely to impact in 2022/23 and then equally for the first half of 2023/24. We will not know the kWh. cost for October 2023 to September 2024 until mid-way through next year but market trends continue to indicate significant upward movement. Our price varies a little per site depending on the cost of transmission to site using the network (also expected to rise), so this figure is a broad estimate.
- 1.4.6.5 For Gas, our prices are fixed for the remainder of 2022/23 but indications are that there will be an increase in the range 180% - 250% from April 2023, although our gas usage is proportionally much less than electricity. ESPO has already bought around 87% of its contracted gas requirement for next year but still they are unsure about the exact price impact for next year.
- 1.4.6.6 Therefore the following recurrent changes have been 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

- 1.4.6.7 Work is underway to mitigate the impact of these increases, with our Building Management System operator, SERTEC being instructed to carry out an urgent review of our key sites to see if any changes to heating / lighting / cooling etc. can be introduced and if these may cause any loss of amenity at a building. There is limited scope at Pump Rooms as the art and museum collections require regulated air and temperature to prevent artifact deterioration. reviews taking place across sites with the biggest use.
- 1.4.6.8 We will also look at whether there are options to install PIR sensors in any corridors, kitchens, toilets etc at any locations, The costs are likely to be small in comparison with the energy cost increase and any marginal energy savings are worthwhile.
- 1.4.6.9 A further meeting with ESPO is due to take place later in the year once prices can be quantified with greater certainty.

1.4.7 Updated Medium Term Financial Strategy

1.4.7.1 Taking into account the changes highlighted in the report, the Medium Term Financial Strategy now presents 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

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

1.5 Recommendation 5 – Capital Variations

1.5.1 The following proposed changes to the Capital Budget have 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.

1.6 Recommendation 6 – Use of Reserves

1.6.1 Following the withdrawal of the merger, monies set aside for service integration, totalling £2.7m over 3 years, have been moved to the Service Transformation Reserve (STR) from the previously established Service Integration Reserve.

1.6.2 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 need to take place.

1.6.3 In addition, members have recently approved the 'Applause' package.

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

1.6.5 The recommendation is for members to approve the use of the STR to support these posts / schemes which are necessary to ensure continued service delivery.

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

- 1.6.7 As stated in 1.4.7.2, officers have been tasked with identifying ways to reduce the financial deficit. It is expected that there will 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.
- 1.6.8 Part of this work will review the use of our reserves, including the STR, with further recommendations to be presented in the Q2 report.

1.7 Recommendation 6 – Use of emergency powers

1.7.1 Energy Rebate Discretionary scheme

- 1.7.1.1 A request to use delegated Emergency powers was submitted on 23rd June to approve the Hardship Fund and Energy Rebate Discretionary Scheme, to enable commencement by 30th June.
- 1.7.1.2 The scheme includes £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 for from the 2021/22 forecast surplus, as originally discussed in February 2022. The idea around the scheme is to provide additional support to those residents most in need who may have not received any support from the main £150 Council Tax Energy Rebate Scheme.
- 1.7.1.3 We have arranged for a payment of £150 for customers in Bands E-H who are 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.
- 1.7.1.4 We will also provide everyone who is in receipt of the maximum LCTR (85% or 100%) across all bands A-H a top up of £50.
- 1.7.1.5 We will be encouraging customers to apply for LCTR as well if they are struggling and if they are then successful they will receive an award as per the above. If they are unsuccessful in their claim but within a predefined amount, these people would also qualify for a payment of £125 as long as they have not already received an energy rebate payment.
- 1.7.1.6 The scheme is currently over halfway completed, with the scheme due to end on 30th November.

1.7.2 Spencer Yard

- 1.7.2.1 A request to use delegated Emergency powers was submitted on 15th June 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.

1.7.3 Lillington Health Hub

- 1.7.3.1 A request to use delegated Emergency powers was submitted on 10th August 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.
- 1.7.3.2 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 will be sufficient CIL income in both of these years to fund this project, with CIL income in 2022/23 forecast to be £3.125m.

1.7.4 Land acquisition – Villiers Street

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

1.7.5 Homes for Ukraine

- 1.7.5.1 A request to use delegated Emergency powers was submitted on 12th May 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 us to support those people arriving in our area under the Homes For Ukraine Government scheme.
- 1.7.5.2 Recommendation to accept the changes to the Warwick District Council 'Council Tax Section 13A(1)C Discretionary CTax reductions policy' in that the provision ensures that Local Council Tax Reduction is 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 is resident under any of the Government sponsored resettlement schemes or the Homes For Ukraine scheme, who is 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.

1.8 Recommendation 8 – Equipment Renewal Reserve

- 1.8.1 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.
- 1.8.2 Therefore it is proposed that drawdown from the Equipment Renewal Reserve is delegated to the Chief Executive, in consultation with the Head of Finance, Leader of the Council, and Finance Portfolio Holder.

1.9 Recommendation 9 – Centralisation of Budgets

- 1.9.1 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 below, have been put forward to improve the control and administration for managers.
- 1.9.2 Repair & Maintenance Budget.
 - 1.9.2.1 Currently the Repair and Maintenance budgets are managed by the Assets Team, but the budgets are held within individual service budgets. This causes difficulty in the financial management of these budgets as a manual report must be created each period to show spend against budget. The Assets team cannot currently easily use the new Financial System to see what the correct position is on an individual or global scheme basis. Managers within services currently have these budgets within their Cost Centres, against which they do not directly manage the related works. This

makes it difficult for the Assets Team to forecast spend against agreed programmes of work.

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

1.9.3 Occupational Health

- 1.9.3.1 Charges related to health and well-being, including occupational health, are responsive to individual staffing needs. The current process is 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 are not directly budgeted for within services. There is a cost in administration to the organisation to recharge these on a monthly basis. By centralising this cost to HR, they can be managed and forecasted within one area more effectively.
- 1.9.3.2 A budget will be required to be held in HR for the estimated annual cost is £16,800. This is 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 is anticipated to be funded from re-aligning existing employee budgets where resource is continually under-utilised, and therefore is expected to carry no additional budget requirement.

1.10 Recommendation 10 – Change to Central Establishment Charges / Recharges

- 1.10.1 Another piece of work being undertaken as part of the ongoing review of budget management processes is the way in which Central Establishment charges (CEC) / Recharges are implemented.
- 1.10.2 CECs are 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 will be costs incurred by support services such as Finance, HR and IT which will need to be attributed to the overall cost in addition to direct cost such as the salaries of attendants.
- 1.10.3 The current system for recharges mixes both front line service costs and business (external) recharges together. At year end, both Service Managers and Accountancy have to reallocate the spend for the year. This is a time-consuming process which is ultimately not value adding to the Council, and uses 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.
- 1.10.4 The proposal is to review these processes and implement an alternative way to do CEC / Recharges which is efficient in time but retains accuracy within the accounts. This will also seek to separate business recharges for one off and ongoing works and what is classed as a CEC (front line service recharges). Many other Local Government organisations have moved to an estimated process, allowing budgets and charges to be agreed and processed at the

beginning of the year. This gives more clarity to service managers of their costs for their service within the year and will ease the burden on managers and Accountancy at year end.

- 1.10.5 The recommendation is 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.

2 Alternative Options available to (name of Committee/Cabinet etc.)

- 2.1** No alternative options are presented

3 Consultation and Member's comments

- 3.1** The Finance Portfolio Holder points out that current forecast position of referred to in paragraph 1.4.6 is dependent upon the Council achieving all the annual savings within Appendix 1 (which includes charges from green waste), and the full concession being received for the Council's Leisure Centres from 2023/24. Without these, the Council will be facing a bigger deficit position and have to seek to find further savings if services are to be protected.

4 Implications of the proposal

4.1 Legal/Human Rights Implications

- 4.1.1 The proposals are in line with current legislation where applicable.

4.2 Financial

- 4.2.1 Officers review current year budgets against outturn on a monthly basis at the same time as considering their implications for the medium term. Members are updated on a quarterly basis. As part of this process budget managers are asked to review both their salary position and revenue position through returns with Accountancy, and update / comment as necessary. This process has been strengthened over the last few years through increased formalisation. Further reviews and changes to this process will be implemented through utilisation of the new Financial Management System (FMS), which went live in November 2021.
- 4.2.2 The Budget Review Process provides a planning tool to ensure resources are directed to the Council's priorities. Alongside the Council's own activities, external factors influencing its finances are also taken into consideration, for example Central Government Financing, the Business Rates Retention scheme, changes in legislation and the economy.
- 4.2.3 The Council maintains its Reserves to deliver Capital and other projects, and to ensure that there are sufficient resources available to manage unforeseen demands and continue to deliver its services. Close monitoring of these Reserve balances and Capital Programme, together with plans to replenish them will preserve the financial stability of the organisation for future years.
- 4.2.4 Members will note the significant change in the profile of the Medium Term Financial Strategy as a result of developments within Q1. Therefore, it is essential that the Council continues to work towards delivering new proposals in

addition to the proposals agreed in December 2020, and updated as part of the Q1 Budget Report. This will ensure the Council is not being run at a deficit on the provision of services, and can continue to deliver a balanced budget.

4.3 Council Plan

- 4.3.1 In respect of Warwick District Council's Business Plan this proposal will have the following relevance and impact as set out below.

External:

- 4.3.2 People - Health, Homes, Communities
4.3.3 Services - Green, Clean, Safe
4.3.4 Money - Infrastructure, Enterprise, Employment

Internal:

- 4.3.5 People – Effective Staff
4.3.6 Services – Maintain or Improve Services. The Council's Budget seeks to allocate the Council's financial resources to ensure the Council's services continue to be provided in accordance with Council policies and priorities, and resources for projects are similarly prioritised.
4.3.7 Money - Firm Financial Footing over the Longer Term. The Council's Medium Term Financial Strategy seeks to allocate the Council's financial resources to ensure the Council's services continue to be provided in accordance with Council policies and priorities, and resources for projects are similarly prioritised.

4.4 Environmental/Climate Change Implications

- 4.4.1 WDC has a budget of £500,000 per annum for Climate Change. It is proposed to utilise this for 2022/23 and 2023/24 to support a number of priorities within the Climate Change Action programme.
4.4.2 Proposals for the use of this budget were outlined in the Climate Change Action Programme report presented to Cabinet on 4 November (Item 11).

4.5 Analysis of the effects on Equality

- 4.5.1 Not relevant.

4.6 Data Protection

- 4.6.1 Not relevant.

4.7 Health and Wellbeing

- 4.7.1 Not relevant.

5 Risk Assessment

- 5.1** The February Budget report detailed the main financial risks facing the Council. Many of these related to local authority funding, notably Business Rate Retention.
5.2 The COVID-19 pandemic has brought many risks to the Council's finances since March 2020 relating to income and expenditure. Whilst it is believed the figures within this report present prudent yet reasonable estimates, it is possible that

the financial position for the current year and future years could be significantly different to that forecast. Furthermore, the situation with the national and international environment could lead to further unknowns, particularly relating to the cost of living, inflation and to the recovery, and the effects these will have on medium term service provision and financial position of the Council and its residents / visitors.

5.3 Many controls and mitigations are in place to help manage the financial risks facing the Council. These include: -

- 5.3.1 The comprehensive Budget Review process. This entails all budget managers reviewing their budgets on at least a monthly basis, considering previous, current, and future years, along with any possible issues that may impact upon their budgets. As part of this process, regular Budget Review reports are issued to Cabinet and the Senior Management Team.
- 5.3.2 Financial Planning with the MTFS / financial projections, bringing together all issues that will impact on the Council's finances in the medium term.
- 5.3.3 Financial controls, including the Codes of Financial and Procurement Practice, system controls, reconciliations, audit (internal and external).
- 5.3.4 Project Management and associated controls.
- 5.3.5 Trained staff and access to appropriate professional advice (e.g. Legal).
- 5.3.6 Implementation and continued development of the new Financial Management System.
- 5.3.7 Risk Management process across the Council, including the on-going review and maintenance of risk registers.
- 5.3.8 Scrutiny by members of the Council's finances, including Budget Reports, and the financial implications of all proposals.
- 5.3.9 Within the 2022/23 Budget there is a Contingency Budget, originally of £200k for any unplanned unavoidable expenditure. Additionally, separate provisions for leisure services (£500k), and inflation (£100k) had been included. The use of these balances has been discussed within this report.
- 5.3.10 Reserves – The Council holds a number of reserves, with each being allocated for specific purposes. Whilst much of these reserves have already been earmarked for agreed projects, it is important that reserves are held for any unforeseen demands. The use of the Business Rate Retention Volatility Reserve does reduce the forecast balance on this reserve to around £1m. This balance should not be allowed to go below this level.
- 5.3.11 The General Fund Balance is available to accommodate any unplanned expenditure, or to make up any shortfall in income. However, the Council should seek to maintain the balance of at least £1.5m.
- 5.3.12 The specific causes of reductions to income or increased expenditure should continue to be managed by the relevant Service Area as part of managing the risks within each Service Risk Register. Each Service Area's Risk Register is presented to Finance and Audit Scrutiny Committee annually on a rolling basis.

6 Conclusion/Reasons for the Recommendation

- 6.1** The recommendations and updates will 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 will enable

decisions to be made based upon these positions to ensure that the Council can continue to operate within a balanced budget.

Background papers:

Budget setting 22-23 Report (Cabinet 10 February 2022 – Item 6)

Climate Change Action Programme (Cabinet 4 November 2021 – Item 11)

Supporting documents:

Appendix 1 – Budget Proposals Q1 update

Appendix 2 - Financial Strategy Q1 Update

Report Information Sheet

Please complete and submit to Democratic Services with draft report

Committee/Date	Cabinet – 10 August 2022	
Title of report	Quarter 1 Budget Report 2022-23	
Consultations undertaken		
Consultee *required	Date	Details of consultation /comments received
Ward Member(s)		
Portfolio Holder WDC		Councillor Hales
Financial Services *		Steven Leathley
Legal Services *		
Other Services		
Chief Executive(s)		Chris Elliot
Head of Service(s)		Andrew Rollins
Section 151 Officer		Andrew Rollins
Monitoring Officer		Andrew Jones
CMT (WDC)		
Leadership Co-ordination Group (WDC)		
Other organisations		
Final decision by this Committee or rec to another Ctte/Council?		Recommendation to :Cabinet / Council F&A Committee
Contrary to Policy/Budget framework		No
Does this report contain exempt info/Confidential? If so, which paragraph(s)?		No
Does this report relate to a key decision (referred to in the Cabinet Forward Plan)?		No
Accessibility Checked?		Yes