

Cabinet

Excerpt of the public minutes of the meeting held on Thursday 9 December 2021 in the Town Hall, Royal Leamington Spa at 6.00 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), Milton (Chair of Overview & Scrutiny Committee) and Nicholls (Chair of Finance & Audit Scrutiny Committee and Labour Group Observer)

76. **Declarations of Interest**

There were no declarations of interest made in respect of the Part 1 items.

Part 1

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

79. **Q2 Budget Report**

The Cabinet considered a report from Finance, which provided an update on the current financial position as of 30 September 2021, both for the current year 2021/22 at the end of Quarter 2, 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 all the savings previously agreed as part of the 2021/22 Budget Setting. 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 continued 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.

The current year variations were last formally reported to Members in September as part of the Q1 Budget report. At that stage the profile of the revenue position reported a favourable variation of £69k for Q1, with a favourable forecast full year variation of £440k.

Through regular budget monitoring by the Accountancy Team in conjunction with the relevant budget managers, the latest budget variations were reviewed and where necessary, narrative provided in the below paragraphs. As of 30 September (Q2), the variance was £312k favourable, with an updated forecast favourable variance for 2021/22 of £557k. A summary of this was provided below:

2021-22				
Service (General Fund)	Variation Description	Q1 Variation £'000	YTD Variation at Q2 £'000	Forecast Full Year Variation £'000
Employee Costs	Staffing	£223 A	£127 F	£200 F
Assets	Delays to PPM works	£385 F	£500 F	-
	Riverside House L4 closure savings	£48 F	£56 F	£30 F
Cultural Services	Restricted Arts Concession activity (Reported Q1)	£11 A	£62 A	£100 A
	Arts staff Furlough	£18 F	£33 F	£33 F
	Leisure Concession	-	-	£288 F
Development Services	Development Control Income	£33 F	£399 F	£250 F
	Building Control Income (Reported Q1)	£54 F	£48 F	-
Environment & Operations	Bereavement Activity reduced	£50 A	£200 A	£250 A
	Car Park improved collection	-	£175 F	£250 F
	Add' Waste Collection	-	£162 A	£300 A
Finance	FMS (Reported Q1)	£57 A	£57 A	£57 A
Housing Services	B&B Accommodation	£100 A	£244 A	-
Strategic Leadership	COVID-19 Other Costs – Cleaning (Reported Q1)	£28 A	£40 A	£100 A
	COVID-19 SFC Income Compensation Scheme	-	£424 F	£424 F
	Joint Venture Loan Interest	-	£140 F	£964 F
	Enabling Development	-	£40 A	£40 A
	Contingency Budget	-	£23 A	£23 A
	Budget Savings proposals	-	£512 A	£512 A
	Budget Savings in-year underspend	-	£250 A	£500 A
TOTAL		£69 F	£312 F	£557 F

Implementation of savings reviews was ongoing across services, following the update to delivery forecasts discussed in the Quarter 1.

Continuing with the Salary Vacancy Factor process outlined in the Q1 report, the Q2 adjustment reflected the underspends on salaries within cost centres during the periods 1-5 (April -August).

As part of the Vacancy Factor process for Q1, £145,100 (GF) and £74,400 (HRA) was appropriated from staffing budgets for months 1 and 2.

For Q2, the following amounts were appropriated to the vacancy factor budgets:

Portfolio	Vacancy Factor Budget 21/22	Budget Released Q2	Total budget Released P1 - 5
Assets	-£48,600	£0	£1,700
Community Protection	-£55,200	£22,000	£26,400
Cultural Services	-£56,600	£32,700	£65,500
Development Services	-£109,300	£30,600	£56,000
Economy & Place		£6,500	£38,100
Environment & Operations	-£58,800	£34,000	£56,100
Finance	-£39,800	£21,100	£21,600
Housing Services - General Fund	-£38,200	£14,800	£14,800
ICT	-£42,900	£4,500	£11,000
Law & Governance		£5,200	£8,300
People & Communication	-£36,500	£8,900	£9,900
Revenues & Customer Services	-£66,300	£10,800	£25,000
Strategic Leadership	-£46,400	£3,100	£6,400
Total General Fund	-£587,400	£197,500	£340,800
HRA	-£77,400	£101,600	£149,300
Total	-£664,800	£299,100	£490,100

This enabled a further £198k (GF) and £102k (HRA) to be appropriated from Staffing budgets for months 1-5 as part of the Salary Vacancy Factor process. Overall, 58% of the GF Vacancy Factor was met, with the HRA Vacancy Factor being surpassed.

Once the Vacancy Factor budgets were surpassed (as was the case with the HRA), additional budget that was released would be returned to GF and HRA reserves, available to be used as necessary to meet other emerging challenges and opportunities.

After the Vacancy Factor Adjustment and departmental service reviews were taken into consideration, General Fund salaries were £127k favourable against budget at the end of Q2. However, following the vacancy factor process and discussions with the relevant managers, parts of these budgets might be required to backfill where work was behind due to staffing, establishment, and recruitment issues. These assumptions would continue to be reviewed and challenged as part of the Q3 vacancy factor work and Corporate Management Team would continue to oversee the vacancy management process.

Regarding assets, the delays to the commencement of a number of Planned Preventative Maintenance (PPM) programmed works reported in Q1 continued into Q2, resulting in the variation increasing to £650k. A number of factors were resulting in the delays to these works, with the key one being staffing resources within the Assets Service, driven by high levels of sickness, as well as recruitment challenges. It was expected that the full allocation of budget would be used to meet the repairs necessary in order 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 with the existing 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.

The continued closure of parts of Riverside House, including level 4, resulted in the savings against budget increasing to £56k, including £27k of utility savings. It was expected that these costs would increase as more people return to the offices as part of the hybrid working plan, as well as the increased costs associated with the Winter period.

It should be noted that utility charges were currently within budget heading into the winter, and the Council should not have been impacted by the recent increases in wholesale costs. However, the current rates were only fixed until March 2022. From this date, prices were expected to increase by around 20%, which would be incorporated into the 2022/23 budgets and Medium Term Financial Strategy in due course.

In relation to Cultural Services, the indoor sites, including the Royal Spa Centre, Royal Pump Rooms and Town Hall remained closed until September. The income foregone (£442k) was offset in part by a reduction in expenditure costs (£380k), such as bar supplies and Artist booking fees. Further support was received through Government grants, both those specific to the Arts sector, and through the Sales Fees and Charges Income Compensation Scheme. Heading into the Winter period, the number of events held typically increases, with the largest event each year being the Pantomime, so ticket sales would continue to be monitored over this period as part of the reopening plan. There were also a number of rescheduled events taking place over this period.

The Council continued to support casual staff through the closure, with the decision to furlough them from May 2020. The Council's final claim for salary costs in respect of 28 casual staff through the Coronavirus Job Retention Scheme, better known as Furlough, was made covering the month of July. The scheme was formally ended as of 30 September 2021.

Due to the pandemic, no Everyone Active concession income was allowed within the original Budget for 2021/22, rather than the £1.252m concession agreed within the original contract. Everyone Active submitted a financial projection for 2021/22 which was reported to Cabinet in July 2021. This projection anticipated a deficit for the year of £411k based on the situation at the time and the anticipated profile for recovery from COVID. Everyone Active continued to report their performance monthly to officers, with notable improved performance being reported from June 2021.

In September 2021, Everyone Active reprofiled their performance based on the first 6 months of the year and adjusted the year end position to a projected surplus of £288k. It was noted that this was still a forecast and could change again depending on a number of factors including COVID restrictions over the winter months. It should also be noted that this readjusted figure allows for the closure of Abbey Fields and Castle Farm from January 2022.

Development Control received a large planning fee relating to the proposed Gigafactory in the District, resulting in the significant uplift in income for the period.

A recurrent contingency budget of £750k per annum was established as part of Budget setting in February to mitigate the expected long-term reductions in car park income because of reduced activity, driven by changing shopping, social and work habits. Following a challenging first quarter where a number of restrictions were still in place, car parks across the District then benefitted from increased activity throughout the Summer. This was driven by the return of key outdoor events, including the Leamington Food Festival, which drove footfall. Other car parks, primarily those linked with the parks and recreation sites, also saw higher than forecast activity, likely due to the restrictions around foreign travel that were still largely in place over this period, resulting in more people visiting UK and local attractions.

While the winter periods might present further challenges for this service (outside of Christmas), it was expected that the requirement for this contingency might be reduced going forwards. This would be reflected through releasing £250k on a recurrent basis from this year, with a further recurrent £250k being released from the start of 2022/23.

Bereavement activity started to stabilise following a year of increased activity, with levels of burials and cremations being driven last year by COVID-19 related deaths, giving rise to additional income. As at quarter 2 income was currently £200k adverse against budget. The ongoing demand for the services was reviewed as part of the fees and charges and budget setting processes.

Additional waste collections continued into 2021/22, with increased volumes requiring collection from residential properties due to the continuing prevalence of remote / hybrid working. This was incorporated into the new waste contract commencing in August 2022. In 2020/21, the additional cost of collection totalled £600k.

This was, in part, offset by increased recycling income received during the year, also driven by increased collection rates.

Increased levels of temporary B&B accommodation were used since the start of the pandemic, to a cost of an additional £244k year to date. However, the Council would receive Flexible Homelessness Support Grant to fund this additional expenditure.

A number of other COVID-19 specific costs were incurred during the first half of the year, including the provision of Personal Protective Equipment and cleaning / sanitation. These costs would continue as the Council continues to mitigate the risks, and to support the move to hybrid working from November.

The Government extended its sales, Fees and Charges COVID-19 Income Compensation Scheme last year to continue into Quarter 1 2021/22, based on the same principles:

- The local authority will absorb the first 5% of the loss.
- The Government will fund 75% of the loss thereafter.
- The losses were in respect of sales, fees and charges that were not recoverable (including the concession fee from Everyone Active).
- Rents, commercial income, and interest receipts are excluded.

The Quarter 1 return was submitted on 22nd September, outlining £566k of lost income as a result of COVID-19. It was worth remembering that across this period (April-June) there were still varying levels of restrictions still in place. Following on from the principles as outlined in 1.3.5.1 of the report, this equated to a claim of £424k.

Within the Medium Term Financial Strategy last reported to Cabinet for Q1, estimated income in respect of this scheme was calculated at £600k. Therefore, an adjustment of £176k had to be incorporated into the latest update of the strategy.

The Council's wholly owned Housing Company Milverton Homes Ltd (Company Number 13123477) entered into a Joint Venture (Crewe Lane LLP) with housing developer Vistry Partnerships Ltd (Company Number 00800384) to facilitate the construction of 620 dwellings in Kenilworth on 27th August 2021. To finance the JV, the Council issued four loans of varying terms to the value of £50m. A further £10m in loans was committed to be issued in April 2022.

All loan interest and capital repayments would be serviced by and were the liability of the JV with necessary legal and financial securities and charges in place to protect the Council's interests in line with expert legal and financial advice. The loan interest payable to the Council from Crewe Lane LLP was charged at a commercial rate and any surpluses would be retained by the Council to support service operation. This was expected to return £964k in 2021/22. The 248 Affordable and Social Housing Dwellings would be constructed and handed over to the Council's HRA over a phase period ending in approximately 2028. Milverton Homes also committed to purchase 62 further dwellings.

Within the 2021/22 Budget agreed by Council in February there was a Contingency Budget of £200k for any unplanned unavoidable expenditure. To date £223k was committed from this budget. This would be further reviewed as part of the 2022/23 budget setting process.

The progress against the Budget savings proposals is outlined in section 1.3 of the report.

In respect of current year variances - Housing Revenue Account, variations were identified by the Accountancy Team in conjunction with the relevant budget managers, giving a favourable variance of £1.549m as of 30 September, with a forecast favourable variance for 2021/22 of £94k. A summary of this was provided below:

2021/22				
Service	Variation Description	Q2 Variation £'000	Forecast Full Year Variation £ '000	Rec / Non-rec
HRA	Staffing (after Vacancy Factor Adjustment)	£51 F	£200 F	Non-rec
	Council Tax vacant properties	£48 A	£90 A	Non-rec
	Housing Repairs	£1,600 F	-	Non-rec
	PV (Solar) Panel income	£38 A	-	Non-rec
	Warwick Response equipment	£16 A	£16 A	Non-rec
TOTAL		£1,549 F	£94 F	

Staffing resources across the Housing Revenue Account saw similar issues to those impacting the Assets teams. Sickness and recruitment challenges were 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. As reported at Q1, a process was implemented 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. The new FMS went live on 8 November. A further update would be provided for Q3, with any necessary changes made via the budget setting process. It should be noted that major and responsive works were ongoing, with the expectation that the £6.450m would be utilised.

The time with which properties were vacant between tenancies increased since the start of the pandemic. Resourcing issues with ensuring contractor access for repairs and cleaning resulted in delays in being able to get new tenants into these properties. During the period of vacancy, it was the HRA which picks up the cost of the Council tax.

There were delays in receiving Solar panel income from the supplier. This was expected to be resolved during the year.

A one-off purchase of equipment to support the installation of a new Warwick Response system was made in this period. Warwick Response as a service would benefit from increased income and efficiencies going forward as a result of the expansion of the service, having now taken on customers from North Warwickshire as part of an ongoing service agreement.

For Recommendation 2 – Budget Savings Progress, managers provided updates as to expected delivery against the Budget Savings Proposals agreed originally in December 2020, and last reviewed as part of the Q1 report.

The latest updates resulted in a further reduction in expected delivery of savings from Digital Transformation in 2021/22 of £75k to £200k.

Kenilworth Leisure Centre borrowing was forecast to be delayed by 6 months to 2024/25, so savings £250k in 2023/24.

Within the savings, a £500k 'in-year underspend' was allowed for. At this point in the year, nothing was 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.

Appendix 1 to the report set out 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 was taken in projecting the likely savings from some initiatives. These savings were reviewed monthly by the Management Team to seek to ensure that the savings initiatives were duly progressed.

For Recommendation 3 – the Medium Term Financial Strategy (MTFS) was last formally reported to members in September as part of Q1 Budget report. At that stage the profile of revenue savings to be found was as follows: -

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	£'000	£'000	£'000	£'000	£'000	£'000
Deficit-Savings Req(+)/Surplus(-) future years	-163	448	938	715	515	241
Change on previous year	0	448	490	-223	-200	-274

As well as the in-year changes detailed in section 1.1 of the report, there were a number of key changes to the MTFS for future years, as outlined below:

Fees and Charges were reviewed across all Service Areas, with the detail being presented to this Cabinet in its own report (Fees and Charges 2022/23 – Ref 1194), which was considered in the November Cabinet meeting.

The proposed fees and charges present an overall forecast increase in income of £828k. As amounts totalling £399k were already factored into the MTFS (inflation and service initiative programme), the remaining balance of £429k would now also be included.

Officers were also continuing to liaise with senior Everyone Active representatives to agree the financial projections for 2022/23 and an agreed approach to payment of the concession to the Council. These figures would be reported to Cabinet as soon as they were confirmed. At this stage the MTFS included the full contractual concession for future years which increments up to £1.66m by 2026/27.

Regarding the Waste Contract and Recycling Centre Fire, the impact of the fire in July at the Ettington recycling centre was still uncertain currently. Currently a £1m contingency was put into the MTFs to support any additional costs incurred from this. Further developments on the response to the fire, along with confirmation of the new waste contract, would be incorporated into the Budgets to be reported to Members in February.

When considering the changes outlined in the report, the position of the Medium Term Financial Strategy is as follows: -

	2021/22 (Latest)	2022/23	2023/24	2024/25	2025/26	2026/27
	£'000	£'000	£'000	£'000	£'000	£'000
Deficit-Savings Req(+)/Surplus(-) future years	-557	-1,258	-1,230	-1,900	-1,571	-1,107
Change on previous year	0	-1,258	28	-670	329	464

It was noted that the Medium Term Financial Strategy currently presented a surplus position across all years of the strategy. However, a number of these years' surpluses were driven primarily by the non-recurrent income received from the loan interest serviced by Crewe Lane LLP, for which the last year was 2026/27. Once this was excluded, the underlying position moving forward was a forecast £400k surplus. This surplus was still driven by two factors which remained significant risks:

- The achievement of the savings and increased income specifically the sum identified for green waste charging (Section 1.3 and Appendix 1 to the report)
- The concession from Everyone Active, as discussed in paragraph 1.4.4 of the report.

Therefore, it was still essential for the long-term financial standing of the Council that delivery on the ambitious budget proposals, reviewed last quarter and discussed in section 1.3 of the report, was achieved.

Furthermore, the Council had significant risks following the fire at the Pure Recycling plant; the labour market in relation to HGV drivers; and its income streams due to the uncertainty around the pandemic.

Based on the General Fund gross expenditure of c£70m, this forecast surplus was under 1%. Noting the potential volatility of certain income and expenditure streams, the surplus was very low, and could very easily slip into a deficit position.

Appendix 3 to the report was included with the report to show the effect on the Medium Term Financial Strategy if none of the Budget proposals outlined in Appendix 1 to the report were to be achieved from 22/23. The summary of this was as follows:

	2021/22 (Latest)	2022/23	2023/24	2024/25	2025/26	2026/27
	£'000	£'000	£'000	£'000	£'000	£'000
Deficit-Savings Req (+)/Surplus(-) future years	-557	-1,258	-1,230	-1,900	-1,571	-1,107
Change if budget proposals not achieved	0	2,008	2,639	2,866	3,086	3,020
Potential Deficit	-557	750	1,409	966	1,515	1,913

Recommendation 4 in the report – Allocation of General Fund Surplus, showed that the current year forecast surplus of £557k was proposed to be allocated to the Service Transformation Reserve.

The use of all the Council's Reserves and Balances would be considered further as part of the Budget Report in February 2022.

Recommendation 5 in the report – Capital Variations had the following proposed changes to the Capital Budget identified:

- 1) Castle Farm Sports Pitch Drainage—£73k slippage into 2022/23.
- 2) Play Area Improvements- £100k slippage into 2022/23.
- 3) 2nd Warwick Sea Scouts- £337k saving as project complete (£250k paid back by Sea Scouts).
- 4) Lord Leycester Warwick Town Wall- £100k slippage into 2022/23.
- 5) Covent Garden Electrics- refunds of £113k to go back into Corporate Asset Reserve.

In respect of Recommendation 6 in the report – Commonwealth Games Street Dressing, Officers were working closely with the Organising Committee of Birmingham 2022 Commonwealth Games as further details emerged on volunteering, Live Sites, and street dressing for summer 2022. In February 2021 an allocation of £83k was made from the Commonwealth Games Reserve to cover these three areas of work, the figures being based on the information that officers had at the time. Whilst the costs associated with volunteering and live sites remained relatively static over the last 10 months, the street dressing work stream evolved. The official Look Book containing the range of street dressing items was released in late October, allowing officers to undertake more detailed planning and costing of proposals for the District. The range of street dressing offered an opportunity for the district to “dress” the towns to show them off to their best making local residents proud of their district and to create a real sense of arrival for visitors during the Games. The original plan was to focus on relatively low-key street dressing on the walking routes to the venues (B2022 would dress the 2 venues i.e., St Nicholas Park and Victoria Park), some specific dressing at the Live Site in the Pump Rooms Gardens (WCC would dress the Warwick Live site in Market Square) and some targeted dressing in Kenilworth and Whitnash in

partnership with the Town Councils.

However, on reflection, it was felt that the Council was missing a trick in celebrating the District. It was considered that this more ambitious approach would make a real impression for residents and visitors to the district and might create a model that could be replicated for future large events in the district.

To achieve this more high-profile approach, additional budget was required. Work was ongoing to finalise the proposals for the various street dressing items in terms of costs and locations, and whilst officers engaged with each of the Town Councils, details of the financial contributions from the respective town councils were yet to be confirmed. Therefore, it was requested that Cabinet agree to a further allocation of funding of up to £67,000, in addition to the £83,000 already in the budget, with approval for spending this budget allocated to the Chief Executive, Head of Cultural Services (joint sponsors of the project) in consultation with the Portfolio Holder for Leisure, Tourism and Culture. The allocation was proposed to be made from the Service Transformation Reserve.

Recommendation 7 in the report – Housing Finance Business Partner showed that as the Council increased and developed its Housing strategy, both through the Housing Revenue Account funded new housing developments, and through the establishment of a Local Housing Company (see section 1.1.9.5 of the report), the resources within the existing Accountancy Team increasingly became stretched. Therefore, it was agreed, with consultation and support from the Head of the Housing Revenue Account and the Head of Finance, that a new permanent post was added to the establishment.

The post would play a key role in the provision of a comprehensive accountancy service for Housing, including HRA and Local Housing Company support for the Council and to assist the Principal Accountant with their responsibilities.

The post was expected to require a budget of £46,200 per annum, proposed to be funded from the Housing Revenue Account Capital Investment Reserve.

There were no alternative options presented.

The Finance & Audit Scrutiny Committee supported the recommendations in the report. The Committee also welcomed the fact that the Everyone Active forecast income was showing a positive variance. The Committee requested an analysis of the income received from EA to date for each year of the current contract including compensation from the government during the pandemic for lost concession fees.

In response to comments from Members, the Portfolio Holder reminded them that the budget was only truly correct when first produced, future events such as potential lockdowns might alter it. He emphasised the need to deal with all oncoming challenges whilst still supporting residents and businesses to the best of our ability. The Leader of the Council echoed these comments and added that WDC had already set out the anticipated joint savings, so if the merger was not approved by Council an emergency meeting would be scheduled for January 2022 to discuss the required additional savings.

Councillor Hales then proposed the report as laid out.

Recommended to Council that the 2021/22 forecast surplus is reviewed further as part of the February 2022 Budget report, with the forecast saving of £557k allocated to the Service Transformation Reserve.

Resolved that

- (1) the latest current year financial position for both Quarter 2 (General Fund £312k Favourable and Housing Revenue Account £1.549m Favourable) and forecast for the year (General Fund £557k Favourable and Housing Revenue Account £94k Favourable) be noted, with the key variations that drive these positions;
- (2) the updated profile of budget saving schemes originally approved in December 2020 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 2021 be noted;
- (5) a further allocation of up to £67,000 for Commonwealth Games street dressing, to be funded from the Service Transformation Reserve be approved by Cabinet; and
- (6) an allocation of £46,200 per annum be approved by Cabinet for the provision of a new Housing Finance Business Partner, to be funded from the Housing Revenue Account Capital Investment Reserve.

The Portfolio Holder for this item was Councillor Hales)
Forward Plan Reference 1,249