

CABINET
23 SEPTEMBER 2021**RESOURCES REPORT – REVENUE BUDGET MONITORING -
MONTH 4 (31 JULY) 2021/22**

Relevant Cabinet Member

Mr S E Geraghty

Relevant Officer

Chief Financial Officer

Recommendations

1. **The Cabinet Member with Responsibility for Finance (who is also the Leader of the Council) recommends that Cabinet:**
 - (a) **endorses his conclusions concerning revenue budget monitoring up to 31 July 2021;**
 - (b) **approves that the underspend on treasury costs set out at paragraph 42 totalling £5 million is transferred to the Financial Risk Reserve**
 - (c) **notes the financial impact and forecast for COVID-19 expenditure;**
 - (d) **notes the current progress regarding savings plans approved by Council in February 2021; and**
 - (e) **notes the report on borrowing and lending transactions during 2020/21 detailed in paragraphs 55-56 and Appendix 7.**

Introduction

2. This report details the 2021/22 outturn forecast for the Council's £355 million net revenue budget as at Month 4 (31 July 2021), the estimated financial impact of COVID-19 and progress to date on the savings and reforms programme.
3. The Council is forecasting a £1 million cost pressure whilst achieving savings of over £10.5 million in year.
4. In addition to this, the Council is managing around £36 million of additional one-off funding to support our response to COVID-19 working alongside partners and suppliers to ensure vital support services are enabled across the County area. Costs are broadly in line with the additional funding allocated by Central Government. Looking forward, the Council will be refreshing it's Medium Term Financial Plan noting the continual need to invest in the priorities that support vulnerable children and adults, ensuring road and infrastructure improvements support strong economic growth for the county area whilst acknowledging the financial risks on our income as we continue to recover from the effects of the pandemic.
5. This report also notes the latest position with regard to the Dedicated Schools Grant (DSG) High Needs Block.
6. An update on the latest borrowing and lending transactions are also reported.

Summary Revenue Budget Monitoring 2021/22 Forecast at Month 4 (31 July 2021)

7. The County Council's net budget of £355 million was set by Full Council in February 2021.
8. This report covers the forecast financial position for 2021/22 to the end of Month 4 (31 July 2021).
9. The overall outturn forecast, as set out in Table 1, at Month 4 is for a net overspend of £1 million.

Table 1: 2021/22 Month 4 Forecast

Service area	Budget £m	Forecast £m	Variance £m
People – Adults	133.887	133.869	-0.018
People – Communities	20.131	20.223	0.092
People – Public Health	-2.389	-2.401	-0.012
Children's Services/WCF	106.717	106.717	0.000
Economy & Infrastructure	55.349	55.418	0.069
Commercial & Change	7.496	7.445	-0.051
Chief Executive	1.200	1.106	-0.094
Total: Service excl DSG	322.391	322.377	-0.014
Finance/Corporate Items	34.642	34.198	-0.444
Non-assigned items	-1.500	0.000	1.500
TOTAL	355.534	356.575	1.042

10. The above table shows a net £14k underspend on services, a £0.444 million underspend on corporate areas as a result of no commitments allocated against the corporate contingency budget, and a £1.5 million overspend as a result of pausing the Organisational Redesign project during the pandemic.

11. A further breakdown for each service area is set out in Appendix 1.

Key Assumptions

12. The following key assumptions are made in the forecast this year.
 - COVID-19 expenditure is contained within the grant monies provided by Central Government
 - Qualifying expenditure that supports hospital discharges will be fully reimbursed via CCG's from Department of Health
13. Central Government has continued to issue grants to local authorities for cost pressures incurred in the new financial year in response to COVID-19. At the end of last financial year unspent COMF monies of £13.7 million were carried forward to 2021/22, and we have received a further £21.8 million to date bringing the total additional grants to £35.5 million.

Table 2: 2021/22 COVID-19 Grant Funding Available

Grants for 2021/22	£m
2021/22 General Grant	11.4
2021/22 CCG forecast	3.2
2021/22 COMF	2.9
2021/22 Transport	0.3
2021/22 Self Isolation	0.5
2021/22 Winter grant	2.4
2021/22 Holiday Activities & Food	1.4
General Grant used in 19/20	-0.3
Sub Total	21.8
Add unspent COMF Brought Forward from 2020/21	13.7
TOTAL	35.5

14. This funding will enable the Council to continue its response and it is forecast all these funds will be utilised this financial year.

15. Forecast commentary on the more significant financial issues is included below in the following paragraphs and variances by individual service area greater than £0.250 million are set out in more detail in Appendix 2.

People Services Total Budget £151.6m, £0.06m overspend

16. The People Directorate, comprising Adult Social Care, Communities and Public Health, is forecasting to spend it's £151.6 million budget with a relatively small £0.06 million overspend forecast.

17. This forecast assumes the Council will continue to receive funding from the CCG for the Hospital Discharge Programme, and that broadly demographic and cost pressures can be managed from within existing budget limits. The more significant variations are as follows:

People Services (Adult Social Care) Budget £133.9m, £18k underspend

18. The Adult Social Care budget is forecast to break even overall, with variances from budget as follows:

- Lower than expected demographic increases resulting in underspend forecasts for Older People services (£0.8 million) and Physical Disabilities (£0.3 million).
- £2.1 million overspend in respect of Learning Disability services due to higher than expected placement costs and a reduce in income levels.
- £1.4 million underspend in Support Services due mainly to a one-off recovery of direct payments and an assumption that a £0.5 million staffing and placements contingency will be spent and contributions to the CCG will be in line with previous years.

People Services (Communities) Budget £20.1m, £0.092m overspend

19. The forecast overspend includes the following managed risks:

- An overspend pressure due to income generation pressure within the Archives and Archaeology service.
- Provider Services is forecast to break even, however there are a number of service changes that need to be financially appraised and brought into the forecast later in the year when the work is progressed.

People Services (Public Health) includes £31.7m Public Health Grant Income and related expenditure. Other services a net -£2.4m, £0.12m underspend

20. The ring-fenced Public Health Grant is forecast to break even for 2021/22 after allowing for £2.171 million (P3 £1.4 million) to be transferred into reserves.

21. The underlying position on the Public Health Ring Fenced Grant is due to prudent use of other non-recurrent grants during the year. £1 million staffing costs can be covered by the Contain Outbreak Management Fund (COMF) and £0.4 million of the Domestic Abuse contract expenditure can be funded from this year's New Burdens grants. The net impact is we can preserve more money in the public health reserve for future allocations.

Education / WCF (excl. DSG) - Budget £106.7m, £1.2m overspend

22. The WCF forecast is presented alongside services that remain within WCC. In total these services are forecasting an overspend of £1.2 million at Month 4.

Table 3: Children's Services / WCF

Period 4	Budget	Forecast	Variance	
	£m	£m	£m	
Children's Services	106.717	106.717	0.000	Council
WCF			1.164	WCF
			1.164	

23. The Children's Services budget is forecasting an a break-even at P4.

24. The WCF forecast position of a £1.164 million deficit (less than 1% of the WCF budget) mainly relates to increased demographic pressures in Placements for Looked After Children.

25. The pressure in the social care budget remains due to an increased number of external placements since April 2020 which is consistent across the country where other local authorities are experiencing significant increases in costs for placements and overspends greater than Worcestershire. There has been a Covid-19 impact on our ability to move children and young people onto permanent arrangements which has contributed to increased costs, however the primary increase is due to the rising cost of residential and external foster care provision.

26. The overspend is being partially offset by other underspends across the Social Care service e.g. turnover, vacant posts, or where there are active efforts to reduce non-staffing spend. This is not a sustainable option as this the savings in staffing are a one-off short-term solution.

27. The current DSG position is a forecast overspend of £6.3 million against a total budget of £224 million. The overspend is exclusively within the High Needs block of the DSG and this together with a £3.2 million estimated catch up on School and Early Year Blocks will increase the overall DSG deficit brought forward from 2020/21 of £6.5 million to £15.9 million at the end of the year.

28. A high needs recovery plan is in place and this has been discussed at the Schools Forum and with Special School Heads. An update will be provided through WCF in the late summer.

Worcestershire Children First (WCF) £1.164m deficit

29. Worcestershire Children First (WCF) is forecasting a deficit of £1.164 million. This deficit is within WCF and narrative is included alongside Council variances for information purposes. The Council's contract with WCF which is included in the Commercial and Commissioning Directorate is forecast to balance as this relates to the agreed contract this

financial year, and variance on WCF will be a consideration for future Council budget allocations.

30. The most significant variances from budget are as follows:-

- £1.6 million overspend in Children's Placements and Provision (£1.2 million at P3) which takes into account an 8% increase in placements over the remaining months of the financial year.
- £0.4 million underspend in other Social Care Services (including £0.1 million overspend in Safeguarding Services, £0.2 million underspend in Targeted Family Support and £0.2 million underspend in Family Front Door), due to increased forecast in Retention Payments and staffing underspends.
- £0.2 million underspend in Resources due to holding staffing vacancies and prudently managing expenditure.

Economy & Infrastructure (E&I) – Budget £55.3m, £0.07m overspend

31. The Economy and Infrastructure Directorate is forecasting to overspend its £55.3 million budget by £0.07 million.

32. The most significant variance from budget is a £4.5 million overspend for Waste Services. This comprises £3.8 million savings target not achievable this year, additional tonnage costs of £0.8 million less a £0.1 million reduction in business rates forecast. It is anticipated that the net overspend will be funded by a transfer from the Waste PFI reserve.

33. The directorate is forecasting to underachieve its £2.2 million capitalisation target by a small margin (£58k). This will continue to be closely monitored by tracking progress on individual capital schemes to assess if this shortfall can be mitigated.

34. There are a number of other small pressures relating to reduction in levels of income partly due to COVID-19 and work is underway to monitor this and establish mitigating action to ensure budget pressures can be contained.

Commercial and Commissioning – Budget £7.5m, £0.5m underspend

35. The Commercial and Commissioning Directorate is forecasting to underspend its £7.5 million budget by £0.051 million.

36. The most significant variances from budget are as follows:

- £44k overspend in Property Services due to unbudgeted software costs for TF Cloud.
- £67k underspend in Legal and Democratic Services due to reduced supplies and services expenditure

37. Property services are forecasting their £0.4 million savings target as AMBER risk and this position is being closely monitored.

Chief Executive/HR – Budget £1.2m, £0.1m underspend

38. The Chief Executive/HR function is forecasting to underspend its £1.2 million budget by £0.094 million.

39. The most significant variances from budget are a £40k underspend on HR core services and a £46k underspend on Content and Communications.

Finance / Corporate / Non-assigned Budget £34.6 million, underspend £0.444 million underspend

40. The Financial Services budget includes corporate items such as Debt Interest and Minimum Revenue Provision (MRP).

41. The £34.6 million budget for Finance / Corporate Items is forecast to underspend in total by £0.444 million.

42. Within this forecast there are a number of significant variances:

- £3.9 million underspend in Financing Transactions Borrowing Costs. An initial forecast for the deferment of borrowing on the assumption that cash balances are stronger than predicted due in part to the COVID-19 grant carry forward and the amount of grant fund received ahead of spending. There is no significant forecast for rises in borrowing interest rates.
- £1.1 million underspend of MRP budget following implementation of Council's existing MRP policy.

It is proposed that the above two underspends which total £5 million will be transferred to the Financial Risk Reserve

- £0.4 million Whole Organisation Contingency underspend. There are currently no spending commitments against this balance and thus can be released as an underspend to offset overall cost pressures.

Savings programme Update

43. The savings target for 2021/22 is £12.2 million. £7.1 million was identified as part of the 2021/22 Budget Setting Process and £5.1 million was brought forward from last financial year:-

Table 4: Savings Forecast as at Month 4 2021/22

Service Area	Target £m	F'cast £m	Var £m	Detail
People	0.000	0.000	0.000	Social care and communities will seek to manage demand and costs within their increased cash limit.
WCF	2.950	2.950	0.000	A review of back office posts and vacancies is forecast to yield £0.650m. Ongoing consultations with staff to be carried out in accordance with our HR policies; The in-sourcing of school improvement has enabled us to grow our traded element and we forecast to seek an additional £0.6m in 2021/22. Finally, a range of service reviews have begun to seek efficiencies, and this will focus on removing £1.75m.
E&I	2.200	2.142	0.058	Capitalisation of staffing costs across a range of service areas along with other income generation opportunities.
E&I (b/fwd)	0.030	0.030	0.000	County Enterprises efficiencies
E&I (b/fwd)	0.830	0.830	0.000	Review of management structures
E&I (b/fwd)	0.500	0.434	0.066	LEAN systems reviews
E&I (b/fwd)	3.800	3.800	0.000	Waste Services
Commercial and Change	0.400	0.400	0.000	There is an ongoing review of property charges and costs following both COVID and the in-sourcing of PPL that expects to save £0.4m.
Corporate	1.500	0.000	1.500	This is a continuation of the Organisational Redesign target set in 2020/21 following work supported by external advisors to change the way we work and review structures and posts. This has been deferred due to work responding to the pandemic, however alternative plans are being reviewed to address this shortfall by year end.
Total	12.210	10.586	1.624	

44. The above table shows that £1.624 million of savings are not forecast to be achieved this year. In addition to this, the £3.8 million saving for Waste Services will not be achieved this year through contract management and instead it is forecast this will be funded by a transfer from the Waste PFI reserve.

45. The full programme with RAG status for each project is included at Appendix 6.

46. Alternative proposals are being assessed by officers and every effort made to address this shortfall, further update will be provided in the next Cabinet update.

Schools in financial difficulty

47. The table below shows the latest summary forecast position for Schools to 31 March 2022.

Table 5: Schools 2021/22 Forecast Position - Summary

-£6.8m	30 Schools in Surplus
£11.3m	91 Schools in Deficit
£4.5m	Net Deficit

48. The net forecast position may deteriorate if schools convert to academy status in 2021/22. Schools with a forecast surplus will transfer these balances on conversion; where schools with a forecast deficit convert to academy status, the deficit will remain with the Council. The maximum risk remaining if deficit balance schools convert is £11.3 million.

49. Cabinet earlier this year approved a new Earmarked Reserve for Education and High Needs with £2.4 million set aside for adverse financial changes which fall to the County Council to resolve after exhausting support from the Department for Education.

50. The Schools Finance Team continue to support and challenge the schools with deficit budgets against their agreed recovery plans. However, it is anticipated that there will be a requirement for some schools to attend a Schools Causing Concern meeting to review progress to date.

Medium Term Financial Planning

51. Whilst the County Council's Medium Term Financial Plan (MTFP) was approved by Full Council in February 2021, this was during the COVID-19 pandemic and there will be a need to consider the current financial pressures and the extent to which they affect future years when the MTFP is revised as part of the normal budget planning cycle.

52. The Council continues to manage the residual local impact of COVID-19 whilst maintaining service delivery. The knock-on effects on the number of claimants of Council Tax Support (managed by our District Councils) and potential reductions in business rates income will put stress on the level of funding available to the Council.

53. Setting aside COVID-19, the Council will continue to face more demand for some services through an increasing and ageing population, this, together with increases in cost pressures that arise through our partners and key suppliers means the Council should keep looking for opportunities to deliver even better value for money.

54. There are a number of areas which are subject to considerable change over the next few months and the Council will look to update its MTFP in preparation for the 2022/23 Budget Cycle. The main areas include the level of income expected to be collected and the impact on future demand and inflation.

55. It is nevertheless anticipated that we will present a draft budget in December 2021 for public consultation whilst also revising our Corporate Plan outlines priority investment in services.

Borrowing and Lending Transactions 2020/21

56. In accordance with Financial Regulations and the County Council's Treasury Management Policy Statement, the Chief Financial Officer is required to report annually on the activities of the Treasury Management operation. This report is set out at Appendix 7.

57. The key highlights of this report are:-

- The Council's treasury activities were managed successfully within the approved Prudential Indicator limits.
- The Base Rate remained at 0.10% for the entirety of the Financial Year.
- Investments were prudently made to the UK Debt Management Office, other local authorities, Money Market Funds and Ultra-Short duration Bond Funds are in line with the existing County Council Treasury Management Policy.
- £21.3 million of existing loans have been repaid during the year.
- New loans of £70 million have been taken out during 2020/21 at an average rate of 1.49%. This was a planned activity to manage the working capital implications of pre-paying pensions contributions to achieve savings.
- Total long-term debt outstanding is within plan and stood at £522.7 million at 31 March 2021 at an average rate of 3.27% (3.33% for 2019/20).

Legal Implications

58. Legal advice will be provided to support any changes in service delivery in accordance with the requirements of the Council's policies and procedures.

Financial Implications

59. Members are required under Section 25 of the Local Government Act 2003 to have regard to the Chief Financial Officer's report when making decisions about the budget calculations for each financial year. This is undertaken through the approval of the annual budget in February each year.

60. Section 25 of the Act also covers budget monitoring and this process monitors the robustness of budgets, adequacy of reserves and the management of financial risk throughout the year. This Cabinet report highlights forecast variances arising from current financial performance and the possible impact of existing pressures on future expenditure so that appropriate action may be taken.

61. In discharging governance and monitoring roles, Members are asked to consider the issues arising and the potential impact on the budget as well as the financial risks arising.

62. The Council's procedures for budget monitoring is reinforced through close financial support to managers and services on an ongoing basis to ensure processes and controls are in place to enable tight financial control.

HR Implications

63. A number of existing savings may impact on staff roles and responsibilities and where appropriate senior officers take advice from the Council's Human Resources team.

64. This will include undertaking consultations with staff, trade unions and any other affected body as appropriate.

Equality Duty Considerations

65. The Council will continue to have due regard to proactively addressing the three elements of the Public Sector Equality Duty in all relevant areas – in particular the planning and delivery of our services. The Council will continue to assess the equality impact of all relevant transformational change programmes and will ensure that Full Council has sufficient equalities assessment information to enable it to have due regard to the three elements of the Equality Duty when considering any changes to the budget. The Council will continue to ensure best practice is followed with regard to these requirements.

Risk Implications

66. The Cabinet report includes recommendations regarding the Council's forecast financial position for 2021/22 and the carry forward of earmarked reserves and unspent grants.

67. If approved, there are normal risks regarding ensuring that appropriate qualifying expenditure is incurred, and that spending is within the cash limited for budgets. These risks are mitigated through the regular budget monitoring process.

Privacy and Public Health Impact Assessment

68. A Health Impact Assessment has been undertaken with regard to this report and recommendations relating to new spending decisions to understand the potential impact they can have on Public Health outcomes across the county area.

69. This report is mainly about confirming the forecast financial position at this stage of the year reflecting existing Cabinet decisions and policies, and where appropriate utilising specific grant monies with spending restrictions associate with these grants.

70. Taking this into account, it has been concluded that there are no other specific health impacts as a result of new decisions arising from this Cabinet report.

71. A similar assessment has been undertaken with regard to privacy/data protection and has confirmed that there is no impact anticipated as a result of this report.

Supporting Information

- **Appendix 1** – Budget Monitoring Outturn Forecast for Month 4 - 31 July 2021
- **Appendix 2** - Budget variances greater than £0.250 million
- **Appendix 3** - Capitalisation
- **Appendix 4** – Proposed withdrawal from Grants/Reserves
- **Appendix 5** – Proposed Carry Forwards – Grants / Earmarked Reserves
- **Appendix 6** – List of Savings / RAG Analysis
- **Appendix 7** - Borrowing and Lending Transactions 2020/21

Contact Points

County Council Contact Points

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Specific Contact Points for this Report

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Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) the following are the background papers relating to the subject matter of this report:

Previous Cabinet Resources Reports