

Report to Cabinet

28 September 2022

Subject:	Q1 Budget Monitoring 2022/23
Cabinet Member:	Cllr Bob Piper, Finance & Resources
Director:	Simone Hines, Director of Finance
Key Decision:	Yes
Contact Officer:	Rebecca Maher – Head of Finance Rebecca_Maher@sandwell.gov.uk

1 Recommendations

That Cabinet:

- 1.1 Note the financial monitoring position as at 30 June 2022 and refer the report to the Budget and Corporate Scrutiny Management Board for consideration and comment.
- 1.2 Approve an additional payment of £0.5m to Sandwell Children's Trust to fund the costs set out at paragraph 4.15
- 1.3 Approve the following budget virements above £1m in line with the revised delegated limits for Cabinet Members and Directors: -

Virements above £1m for Cabinet Approval	£'000	£'000
ASC - Removal of target budget for Market sustainability & Fair Cost of Care as received as a ASC grant		(1,247)
Resources - Removal of target budget for Market sustainability & Fair Cost of Care as received as a ASC grant	1,247	
TOTAL	1,247	(1,247)



2 Reasons for Recommendations

- 2.1 Section 151 of the 1972 Local Government Act requires the Chief Financial Officer to ensure the proper administration of the council's financial affairs. Budgetary control, which includes the regular monitoring and reporting of budgets is an essential element in discharging this statutory responsibility. The recommended treatment of the year end variances supports the financial sustainability of the council.

3 How does this deliver objectives of the Corporate Plan?

The Council's financial status helps to underpin the Council's Corporate Plan and the associated aspirations.

4 Context and Key Issues

General Fund Outturn

- 4.1 The overall projected outturn position for the General Fund is an overspend of £2.129m.
- 4.2 The overall projected net directorate outturn variance, excluding the HRA, is an overspend of £2.097m following the use of reserves. The variance for each directorate is summarised in the following table and analysed in more detail within Appendix 1.

Area	Ap pen dix	Total Budget £'000	Projected Outturn £'000	Variance from Budget £'000	(Use of) Reserve & RCCO £'000	Corporate Funding of COVID Pressures £'000	Projected Variance £'000
Corporate Management	1A	(204)	(29)	175	0		175
Borough Economy	1B	63,523	69,754	6,231	(5,486)		745
Adult Social Care	1C	79,853	82,506	2,653	(2,653)		0
Regeneration & Growth	1D	9,309	11,844	2,535	(1,022)		1,513
Housing	1E	2,111	3,044	933	(427)		506
Children's Services	1F	88,253	91,276	3,023	(2,063)		960
Business Strategy & Change	1G	11,909	12,097	188	(907)		(719)
Finance	1H	9,483	11,309	1,826	(952)		874
Law & Governance	1I	3,439	3,549	110	(419)	(198)	(507)
Vacancy Savings Q1		1,096	0	(1,096)	0		(1,096)
Net Service Expenditure (ex PH)		268,772	285,349	16,578	(13,929)	(198)	2,451
Public Health	1J	64	(78)	(142)	(212)		(354)
Total Net Service Expenditure		268,836	285,272	16,436	(14,141)	(198)	2,097
Capital Charge Adjustment		(26,461)	(26,461)	0	0		0
External Interest Payments		16,555	16,319	(236)	0		(236)
Interest/Dividend Receipts		(3,753)	(4,384)	(631)	0		(631)
West Midlands Transport Levy		13,117	13,117	0	0		0
West Midlands Magistrates Court		41	41	0	0		0
Environment Agency (Flood Defence)		88	88	0	0		0
Net Service Expenditure before use of balances		268,423	283,992	15,569	(14,141)	(198)	1,230
Use of Balances/RCCO/Central Items		(31,379)	(24,633)	6,746	(22,819)		(16,073)
Collection Fund Deficit		16,972	16,972	0	16,972		16,972
Council Tax		(117,967)	(117,967)	0			0
Business Rates		(136,049)	(136,049)	0			0
Total Net General Fund Expenditure (inc Central Items and use of balances)		(0)	22,315	22,315	(19,988)	(198)	2,129



- 4.3 Directorates have held a number of vacancies during quarter one and the savings from these have been moved into a corporate budget to be used to offset the overall overspend against the General Fund. A piece of work is ongoing to identify if any of these vacancies can be taken as long-term savings, whilst being mindful of the impact that recruitment difficulties is having in a number of service areas.
- 4.4 The cost of living crisis is having a significant impact across the council both in terms of inflationary pressures and an increase in the expected pay award compared to the amount included in the original budget. The position at the end of June has assumed a 5% pay award compared to 2% included in the budget when approved in February. This increases the Council's salary costs by approximately £6m, including Sandwell Children's Trust. However, since the Qtr 1 forecast has been prepared the Local Government National Employers have made a pay offer for 2022/23 of a fixed amount of £1,925 across all spinal points. This equates to an increase of approximately 10% at the lower spinal points to 3% at the top of the NJC grading structure. Work is ongoing to confirm the cost implications of the pay offer, if accepted, but it is anticipated that the average increase is in the region of 7%, which would add a further £2.3m to the pay bill for 2022/23.

Corporate Management (1A)

- 4.5 The projected outturn for Corporate Management is an overspend of £0.175m. The main reason for this is the cost of the external commissioners for which there is currently no budget.

Borough Economy (1B)

- 4.6 The projected outturn variance against budget for Borough Economy (prior to reserve transfers) is an overspend of £6.231m. The main reasons for this underspend are an underachievement of licensing income and inflationary pressures relating to utilities costs in Highways and the waste contract.
- 4.7 The directorate is planning to use £2.784m of directorate earmarked reserves and £2.702m of corporate reserves as outlined in Appendix 3. The corporate reserves being used are the Commonwealth Games reserve (£0.202m) and the Financial Planning reserve (£2.500m). The revised projected outturn after this use of reserves is an overspend of £0.745m. The Financial Planning Reserve was established as part of the 2022/23 budget process to manage in-year pressures, with rising inflation noted as a particular risk to the Council's budget position.



Adult Social Care (1C)

- 4.8 The projected variance against budget for Adults Social Care (prior to reserve transfers) is an overspend of £2.653m. The main reasons for this are the increased cost of placements and the impact of the additional pay award across the directorate.
- 4.9 The directorate is planning to make use of £2.736m of the additional Social Care Grant that was set aside in a reserve at the beginning of the financial year and this will result in a revised projected outturn of breakeven.

Regen & Growth (1D)

- 4.10 The projected variance against budget for Regen and Growth (prior to reserve transfers) is an overspend of £2.535m. The main reasons for this are the impact of the additional pay award and utilities inflation. The directorate also has a number of one-off projects that are planned to be funded from the carry forward reserve which was created at the end of 2021/22. Other pressures include a continuing pressure on markets income and business rates costs for void properties.
- 4.11 The directorate is planning to use £0.931m of the directorate earmarked reserves, predominantly the carry forward from 2021/22 as outlined above. In addition, the directorate will be drawing down £0.091m of the corporate Commonwealth Games reserve. The revised projected outturn following this use of reserves is an overspend of £1.513m.

Housing General Fund (1E)

- 4.12 The projected variance against budget for Housing (prior to reserve transfers) is an overspend of £0.933m. The main reasons for this are the impact of the additional pay award together with a review of floating support and transformation work which will be funded from the carry forward reserve. There are also pressures arising from additional security requirements at Granges and an under-achievement of income for garages.
- 4.13 The directorate is planning to use £0.427m of directorate reserves which results in a revised projected overspend of £0.506m.

Childrens Services (1F)

- 4.14 The projected variance against budget for Children's Services is an overspend of £3.023m. The main reasons for this are the impact of the



pay award for the service and Sandwell Children's Trust and also the cost of exit packages as a result of restructuring within the directorate.

- 4.15 Sandwell Children's Trust is also experiencing pressures from exceptionally high cost placements as well as recruitment and retention issues and is forecasting a shortfall of £1.5m as at Qtr 1 against its budgeted surplus of £1.9m. This does not include the impact of the pay award mentioned above. This is due to a combination of factors, including an increase in the number of children with complex needs and a substantial increase in the weekly cost of placements compared to the MTFP assumptions. In addition, since the Qtr 1 forecast has been prepared the Trust has recruited additional project teams at enhanced rates in order to fulfil the statutory requirements of the service and to mitigate the difficulties in recruitment and retention of permanent staff. This is estimated to cost £750k for the year, which is offset slightly by savings of £250k in the costs of paying market supplements due to vacant posts. The Council has agreed to fund these additional costs to ensure the Trust can continue to meet its statutory responsibilities. The Council maintains a risk reserve for SCT and it is proposed to use a combination of Social Care Grant and the reserve to offset these additional costs.
- 4.16 The Council and SCT have discussed the current financial position and options to take corrective action. The Trust already has a savings target of £2.3m to achieve in 2022/23, with some risks around the ability to fully deliver the savings in relation to placements. SCT are considering a range of innovative ways to source and retain social workers and have developed a Workforce Strategy to take this forward. The Trust has also commissioned external support to undertake a review of the Trust Workforce Strategy and approach to recruitment and retention.
- 4.17 A number of non-operational vacancies are being frozen and in year savings targets for the remainder of the organisation have been increased to partly compensate for increased operational costs.
- 4.18 The Trust also has a Transformation Programme in place which is currently focussing on a review of Edge of Care services, with the objective of improving service delivery so that families are supported early enough and with the appropriate level of intervention to prevent the need for expensive statutory intervention, and a reorganisation of the Front Door to improve the application of thresholds and reduce the number of inappropriate referrals that waste time and resources whilst still managing safe-guarding risks effectively.



4.19 The annual Contract Sum agreement with Sandwell Children's Trust provides for the Council to fund the cost of the pay award each year. As this was estimated at 2% when the Contract Sum was agreed, in line with the Council's assumption in its budget, the Council will need to fund the actual costs when known.

4.20 Following the use of reserves, the projected outturn position for Children's Services is an overspend of £0.960m.

Business Strategy & Change (1G)

4.21 The projected variance against budget for BSC (prior to reserve transfers) is an overspend of £0.188m. This will be offset by the use of reserves to fund one-off projects. Corporate reserves of £0.404m are planned to be used to fund exit packages for staff and corporate improvement plan work. The revised projection following this is an underspend of £0.719m.

Finance (1H)

4.22 The projected variance against budget for Finance (prior to reserve transfers) is an overspend of £1.826m. One of the main reasons for this is expenditure relating to the upgrade to Oracle Fusion which is being funded from an earmarked corporate reserve. There are also agency staff working on corporate improvement projects that are being funded from the Corporate Improvement Plan reserve.

4.23 Following the use of reserves, the projected outturn for Finance is an overspend of £0.874m, which is largely due to the increased pay award and additional interim posts.

Law & Governance (1I)

4.24 The projected variance against budget for L&G (prior to reserve transfers) is an overspend of £0.110m. However, £0.419m expenditure is planned to be drawn down from the directorate's general reserve to cover one-off projects, some linked to the Corporate Improvement Plan and this results in a projected underspend of £0.507m.

Public Health (1J)

4.25 Public Health is a ringfenced grant and therefore any underspend has to be transferred into a specific Public Health Reserve. The projected outturn variance is currently an underspend of £0.354m. This is mainly



due to delays in planned activity against some projects that are being funded from the grant.

Housing Revenue Account (1K)

- 4.26 The projected variance against budget for the HRA (prior to reserve transfers) is an underspend of £0.825m. This is due to a number of vacancies across the services areas funded from the HRA account.

Central Items/RCCO/Use of Balances

- 4.27 The council has several centrally held budgets. The nature of these is such that they are not within a specific directorate's control. The council also makes use of balances towards one-off expenditure and as Revenue Contributions to Capital Outlay.
- 4.28 The net projected outturn variance against these budgets is an underspend of £16.073m and more detail is provided in Appendix 2. The main reason for this is the additional Section 31 grant that was received to fund the Collection Fund deficit of £16.972m that was brought forward from 2021/22. This deficit arose mainly as a result of the additional Business Rates reliefs that were granted to businesses by Central Government to assist with the continuing impact of the COVID pandemic.

Use of Reserves

- 4.29 At the end of 2021/22 £154.971m was held in earmarked reserves and three new reserves have been created as part of the budget setting process for 2022/23 which increased the opening balance to £164.703m. During the year, it is projected that £36.911m of these balances will be used leaving a remaining balance of £127.972m. A significant proportion of the use of reserves is the Business Rates S31 grant reserve, which is maintained due to timing differences in the accounting treatment for business rates income. Further detail is provided in Appendix 3.

Capital

- 4.30 Expenditure on the Council's capital programme is forecast to be **£166.723m** during 2022/23. Appendix 4 provides a detailed breakdown of the programme.
- 4.31 The main changes that have taken place since the 2021/22 outturn are as follows: -



- A decrease of £0.773m in the Adults Social Care budget mainly in respect of slippage of resources into 2023/24 in relation to Adult Social Care Capital Grant.
- An increase of £4.040m in the Borough Economy budget mainly in respect of the introduction of the Active Travel Fund – Tranche 2 monies £1.542m and the Local Transport Plan resources £2.223m being agreed by the West Midlands Combined Authority, and the introduction of a £0.275m budget for Street Lighting SON to LED pressures which is subject to Cabinet approval on 28th September 2022.
- An increase of £18.466m in the Regeneration & Growth budget in respect of monies received from the Department for Levelling Up, Housing & Communities in respect of several Towns Fund major schemes.
- An increase of £2.097m in the Children & Education budget mainly to reflect the use of Basic Need & School Condition resources to continue various school improvement schemes.
- An increase of £7.468m in the Housing Revenue Account (HRA) budget mainly in respect of High Rise & New Build projects in 2022/23.

Section 106/Community Infrastructure Levy (CIL)

- 4.32 Section 106 monies are paid by developers towards the cost of providing community and social infrastructure but must be used for specific purposes. The Council currently holds £3.390m in Section 106 monies and is forecasting to spend £0.667m of this leaving a remaining balance of £2.723m.
- 4.33 The Community Infrastructure Levy is a charge that local authorities can set on new development to raise funds to help fund the infrastructure, facilities and services which are needed to support new homes and businesses in the areas. The Council currently holds £2.787m in the Capital 80% pot CIL monies and is not forecasting any expenditure against this.

5 Conclusion

- 5.1 The Council is facing a challenging financial position for 2022/23, largely due to the impact of inflation. The additional forecast cost from the



increased pay award and inflation on key services is in the region of **£10m** and may increase if the current pay offer is accepted.

- 5.2 Leadership Team and the Finance Team have carried out a review of underspends from 2021/22 and vacant posts in order to mitigate the inflationary increases, and the result of these reviews are reflected in the forecast outturn position. Work is ongoing to identify further corrective action to reduce the budget deficit as the Council does not have sufficient unallocated reserves to cover the current forecast overspend.

6 Alternative Options

- 6.1 There are limited alternatives to the recommendations included in this report. Cabinet could decide not to allow the proposed use of reserves by directorates, but this would increase the projected overspend and result in a further reduction in the council's general fund balance.

7 Implications

Resources:	Resource implications are contained within the main body of the report.
Legal and Governance:	No direct implications arising from the recommendations.
Risk:	This information is contained within the main body of this report.
Equality:	No direct implications arising from the recommendations.
Health and Wellbeing:	No direct implications arising from the recommendations.
Social Value	No direct implications arising from the recommendations.

8 Appendices

App 1 Outturn Summary for Directorates

App 2 Central Items

App 3 Reserves

App 4 Capital

App 5 CIL and S106 Funding



9 **Background Papers**
None

