

# Report to Cabinet

7 December 2022

<b>Subject:</b>	<b>Q2 Budget Monitoring 2022/23</b>
<b>Cabinet Member:</b>	Cllr Bob Piper, Finance & Resources
<b>Director:</b>	Simone Hines, Director of Finance
<b>Key Decision:</b>	Yes
<b>Contact Officer:</b>	Rebecca Maher – Assistant Director - Finance <a href="mailto:Rebecca_Maher@sandwell.gov.uk">Rebecca_Maher@sandwell.gov.uk</a>

## 1 Recommendations

### That Cabinet:

- 1.1 Note the financial monitoring position as at 30 September 2022 and refer the report to the Budget and Corporate Scrutiny Management Board for consideration and comment.
- 1.2 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
Law & Governance - Removal of Legal fee income	1,300	
Corporate - Removal of legal fee income		1,300
<b>TOTAL</b>	<b>1,300</b>	<b>1,300</b>

- 1.3 Approve an allocation of £356,634 Covid funding to Sandwell Children's Trust to cover pressures relating to the pandemic experienced by them during 2021/22.

## 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 £1.927m. The overall projected net directorate outturn variance, excluding the HRA, is an overspend of £4.200m 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	Appendix	Total Budget £'000	Projected Outturn £'000	Variance from Budget £'000	(Use of) Reserve & RCCO £'000	Corporate Funding of COVID Pressures £'000	Projected Variance Q2 £'000
Corporate Management	1A	(200)	(29)	171	0	0	171
Borough Economy	1B	64,026	68,721	4,695	(4,655)	(40)	0
Adult Social Care	1C	80,421	87,990	7,569	(6,024)	(905)	640
Regeneration & Growth	1D	9,572	13,232	3,660	(2,505)	0	1,155
Housing	1E	2,209	3,184	975	(587)	0	388
Children's Services	1F	88,548	92,134	3,586	(2,563)	0	1,023
Business Strategy & Change	1G	12,078	13,359	1,281	(1,084)	0	197
Finance	1H	9,755	13,995	4,240	(3,311)	(442)	487
Law & Governance	1I	3,597	4,126	529	(390)	0	139
<b>Net Service Expenditure (ex PH)</b>		<b>270,006</b>	<b>296,712</b>	<b>26,706</b>	<b>(21,119)</b>	<b>(1,387)</b>	<b>4,200</b>
Public Health	1J	64	1,318	1,254	(1,254)	0	0
<b>Total Net Service Expenditure</b>		<b>270,070</b>	<b>298,030</b>	<b>27,960</b>	<b>(22,373)</b>	<b>(1,387)</b>	<b>4,200</b>
Capital Charge Adjustment		(26,461)	(26,461)	0	0	0	0
External Interest Payments		16,555	16,755	200	0	0	200
Interest/Dividend Receipts		(3,753)	(4,999)	(1,246)	0	0	(1,246)
West Midlands Transport Levy		13,117	13,117	0	0	0	0
West Midlands Magistrates Court		41	41	0	0	0	0
Environment Agency (Flood Defence)		88	88	0	0	0	0
<b>Net Service Expenditure before use of balances</b>		<b>269,657</b>	<b>296,571</b>	<b>26,914</b>	<b>(22,373)</b>	<b>(1,387)</b>	<b>3,154</b>
Use of Balances/RCCO/Central Items		(32,614)	(27,994)	4,620	(22,819)	0	(18,199)
Collection Fund Deficit		16,972	16,972	0	16,972	0	16,972
Council Tax		(117,967)	(117,967)	0	0	0	0
Business Rates		(136,049)	(136,049)	0	0	0	0
<b>Total Net General Fund Expenditure (inc Central Items and use of balances)</b>		<b>(1)</b>	<b>31,533</b>	<b>31,534</b>	<b>(28,220)</b>	<b>(1,387)</b>	<b>1,927</b>
Housing Revenue Account (HRA)	1K	(317)	(907)	(590)	(480)	0	(1,070)
Individual Schools Budgets (ISB)	1L		(1,040)	(1,040)			(1,040)
<b>Total Net Expenditure</b>		<b>(318)</b>	<b>29,586</b>	<b>29,904</b>	<b>(28,700)</b>	<b>(1,387)</b>	<b>(183)</b>



4.2 Directorates have held a number of vacancies during quarter one and quarter two 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 several service areas.

4.3 The cost of living crisis is having a significant impact across the council both in terms of inflationary pressures and an increase in the agreed pay award compared to the amount included in the original budget which adds approximately £8.3m to the pay bill for 2022/23.

### Savings Monitoring

4.4 Directorates planned to make a number of savings in order to balance the budget for 2022/23. Progress against achieving these savings is being monitored regularly by Leadership Team. Any overspends because of these savings not being achieved are included within projections for 2022/23. However, unachieved savings may also have an impact on the budget position for future years.

4.5 The following savings are currently delayed and are therefore of concern: -

		£000
Adults	Undertake best value reviews on 50 cases where the weekly commitment of care and support is £2,200+ per week	442
Adults	Undertake asset / strength based reviews on 412 cases where the weekly commitment of care and support is under £100.00 per week	256
Adults	Develop an alternative approach to double handed care calls.	655
Adults	To use 18 current vacant lets at Walker Grange for people with dementia rather than placing in market.	355
Adults	To ringfence 15 current vacant lets at Willow Gardens for placement of people with dementia rather than placing them in the market.	296
Adults	Decommission non-statutory Community Advocacy Services	25
Borough Economy	SLT	186
Regen & Growth	Ending of Court House lease in July 2022	130
<b>Total</b>		<b>2,345</b>



4.6 The shortfall against 'double handed care calls' is due to a later implementation of this and therefore only a part-year saving is possible in 2022/23. It is anticipated that a full-year saving will be achieved in 2023/24. Alternative savings of £0.490m have also been identified by Adult Social Care to replace some of those above but this still leaves a shortfall of approximately £1.100m across all directorates. Directors will need to identify savings to replace any that are judged to be unachievable rather than delayed. Alternatively, these unachievable savings will need to be included as part of budget planning for 2023/24.

#### 4.7 **Corporate Management (1A)**

4.8 The projected outturn for Corporate Management is an overspend of £0.171m. The main reason for this is the cost of the external commissioners for which there is currently no budget.

#### **Borough Economy (1B)**

4.9 The projected outturn variance against budget for Borough Economy (prior to reserve transfers) is an overspend of £4.695m. The main reasons for this overspend are an underachievement of licensing income and inflationary pressures relating to utilities costs in Highways and the waste contract.

4.10 The directorate is planning to use £3.321m of directorate earmarked reserves and £1.334m 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 (£1.132m). The revised projected outturn after this use of reserves is breakeven.

4.11 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)**

4.12 The projected variance against budget for Adults Social Care (prior to reserve transfers) is an overspend of £7.569m. The main reasons for this are the increased cost of placements, increased care rates for complex care and supported living packages, and the impact of the additional pay award of 7% across the directorate.

4.13 The directorate is planning to make use of £2.736m of the additional Social Care Grant, reserve approved for increase in care rates of £2.6m and other smaller Adult Social Care reserves. This has resulted in a forecast overspend of £0.640m. The main reason for this movement in



forecast position is due to increasing the pay award forecast from 5% to 7%.

### **Regen & Growth (1D)**

- 4.14 The projected variance against budget for Regen and Growth (prior to reserve transfers) is an overspend of £3.660m. 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.
- 4.15 The directorate is planning to use £2.414m 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 £1.155m.

### **Housing General Fund (1E)**

- 4.16 The projected variance against budget for Housing (prior to reserve transfers) is an overspend of £0.975m. 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.
- 4.17 The directorate is planning to use £0.587m of directorate reserves which results in a revised projected overspend of £0.388m.

### **Childrens Services (1F)**

- 4.18 The projected variance against budget for Children's Services is an overspend of £3.586m before applying reserves. 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.
- 4.19 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 £2.517m as at its latest financial position against its budgeted surplus of £1.900m. The projected deficit against the contract sum is therefore £0.570m. 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.

- 4.20 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.
- 4.21 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.
- 4.22 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.
- 4.23 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 increased costs of £2.400m.
- 4.24 Following the use of reserves, the projected outturn position for Children's Services is an overspend of £1.023m.

### **Business Strategy & Change (1G)**

- 4.25 The projected variance against budget for BSC (prior to reserve transfers) is an overspend of £1.281m. This will be offset by the use of reserves to fund one-off projects of £0.468m. Corporate reserves of £0.342m are planned to be used to fund exit packages for staff and £0.274m for the corporate improvement plan work. The revised projection following this is an overspend of £0.197m.



## Finance (1H)

- 4.26 The projected variance against budget for Finance (prior to reserve transfers) is an overspend of £4.240m. 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.
- 4.27 Following the use of reserves, the projected outturn for Finance is an overspend of £0.487m, which is largely due to the increased pay award and additional interim posts.

## Law & Governance (1I)

- 4.28 The projected variance against budget for L&G (prior to reserve transfers) is an overspend of £0.529m. However, £0.390m 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. Additionally, there is a revenue contribution to capital expenditure of £0.237m. This results in a projected overspend of £0.139m.

## Public Health (1J)

- 4.29 Public Health is a ringfenced grant and therefore any over or underspend has to be transferred into a specific Public Health Reserve. The forecast outturn variance is currently an overspend of £1.254m before application of reserves. As stated above, this overspend will be funded from existing PH reserve. Therefore, the end of year forecast, after reserve utilisation, is a nil variance.

## Housing Revenue Account (1K)

- 4.30 The projected variance against budget for the HRA (prior to reserve transfers) is an underspend of £0.590m. This is due to a number of vacancies across the services areas funded from the HRA account.

## Dedicated Schools Grant (1L)

- 4.31 The Dedicated Schools Grant (DSG) is forecasting to underspend by £1.040m. The surplus DSG reserve at the end of 2021/22 is £4.070m which means the surplus DSG at the end of this year is forecast to be £5.110m. The entire in-year underspend is in High Needs Block.

## Central Items/RCCO/Use of Balances

- 4.32 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.

- 4.33 The net projected outturn variance against these budgets is an underspend of £16.199m 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

- 4.34 At the end of 2021/22 £154.971m was held in earmarked reserves. Three new reserves have been created, and adjustments made to the accounting treatment for some grants, which increased the opening balance to £166.019m. During the year, it is projected that £45.429m of these balances will be used leaving a remaining balance of £120.590m. 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

- 4.35 Expenditure on the Council's capital programme is forecast to be **£171.601m** during 2022/23. Appendix 4 provides a detailed breakdown of the programme.
- 4.36 The main changes that have taken place since the 2021/22 outturn are as follows: -
- An increase of £0.236m in the Law & Governance budget in respect of the introduction of a Revenue Contribution to Capital Outlay (RCCO) in relation to the Rowley Cemetery scheme.
  - An increase of £4.567m in the Borough Economy budget mainly in respect of the introduction of a £3.147m budget for Highways Inflation Pressures in relation to Infrastructure (£2.147m Main Programme & £1.000m RCCO from Reserves) this is subject to the approval of a report going to Cabinet in November 2022. Also, the introduction of a £1.420m Street Lighting SON to LED budget funded by Prudential Borrowing (Spend to Save) which is also subject to approval at Cabinet in November 2022.





- An increase of £6.467m in the Regeneration & Growth budget in respect of monies received from the Department for Levelling Up, Housing & Communities (DLUHC) in respect of several Towns Fund Major schemes.
- A decrease of £7.082m in the Housing & Assets budget in respect of slippage into future years in relation to the Disabled Facilities Grant schemes for Private Disabled Adaptations in homes across the borough.
- An increase of £0.306m in the Children & Education budget mainly to reflect the use of Basic Need & School Condition resources to continue various school improvement schemes.
- A decrease of £18.082m in the Housing Revenue Account (HRA) budget mainly in respect of the re-profiling of New Build (£7.4m) and High-Rise projects (£10.7m) into 2023/24, due to COVID and Procurement delays effecting start on site

### **Section 106/Community Infrastructure Levy (CIL)**

- 4.37 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.
- 4.38 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.
- 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

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

