

Report to Cabinet

15 February 2023

Subject:	Q3 Budget Monitoring 2022/23
Cabinet Member:	Cllr Bob Piper, Finance & Resources
Director:	Simone Hines, Director of Finance
Key Decision:	Yes
Contact Officer:	Rebecca Maher – Assistant Director - Finance Rebecca_Maher@sandwell.gov.uk

1 Recommendations

That Cabinet:

- 1.1 Note the financial monitoring position as at 31 December 2022 and refer the report to the Budget and Corporate Scrutiny Management Board for consideration and comment.
- 1.2 Approve the transfers between reserves as outlined in Appendix 3.

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 underspend of £1.824m. The overall projected net directorate outturn variance, excluding the HRA, is an overspend of £5.253m 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 Q3 £'000
Corporate Management	1A	(194)	(54)	140	0	0	140
Borough Economy	1B	63,987	68,339	4,352	(3,606)	0	746
Adult Social Care	1C	80,876	84,975	4,099	(3,194)	(905)	0
Regeneration & Growth	1D	9,292	13,471	4,179	(2,846)	0	1,333
Housing	1E	2,350	2,653	303	(275)	0	28
Children's Services	1F	88,656	95,406	6,750	(2,563)	(1,395)	2,792
Business Strategy & Change	1G	12,423	13,127	704	(695)	0	9
Finance	1H	9,729	13,635	3,906	(2,838)	(567)	501
Law & Governance	1I	3,679	4,299	620	(620)	0	0
Vacancy Savings Q3		297		(297)			(297)
Net Service Expenditure (ex PH)		271,095	295,851	24,756	(16,636)	(2,867)	5,253
Public Health	1J	64	2,555	2,491	(2,491)		(0)
Total Net Service Expenditure		271,159	298,406	27,247	(19,127)	(2,867)	5,253
Capital Charge Adjustment		(26,461)	(26,461)	0			0
External Interest Payments		16,374	12,645	(3,729)			(3,729)
Interest/Dividend Receipts		(3,753)	(5,266)	(1,513)			(1,513)
West Midlands Transport Levy		13,117	13,117	0			0
West Midlands Magistrates Court		41	41	0			0
Environment Agency (Flood Defence)		88	88	0			0
Net Service Expenditure before use of balances		270,565	292,570	22,005	(19,127)	(2,867)	11
Contingency		3,442	1,506	(1,936)	0		(1,936)
Changes in Balances		(13,153)	(13,153)	0	0		0
Central Items		(23,809)	(17,989)	5,820	(5,719)		101
Use of Balances/RCCO/Central Items		(33,520)	(29,636)	3,884	(5,719)	0	(1,835)
Collection Fund Deficit		16,972	16,972	0			0
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)		1	25,890	25,889	(24,846)	(2,867)	(1,824)
Housing Revenue Account (HRA)	1K	(299)	(1,018)	(719)	(300)	0	(1,019)
Individual Schools Budgets (ISB)	1L	0	1,162	1,162	(4,070)	0	(2,908)
Total Net Expenditure		(298)	26,034	26,332	(29,216)	(2,867)	(5,751)

4.2 The previous forecast at Qtr 2 was an overall net overspend of £1.9m. The main reason for the movement between the period is a change in the Council's Minimum Revenue Provision Policy, which sets out how the Council repays debt. Council approved a revised approach in January which generated a saving of £4m for 2022/23.



- 4.3 Directorates have held a number of vacancies during quarter one, two and three 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.
- 4.4 The cost of living crisis is having a significant impact across the council both in terms of inflationary pressures and an increase in the agreed pay award compared to the amount included in the original budget which adds approximately £8.3m to the pay bill for 2022/23.
- 4.5 The exceptionally high level of inflation is also driving increased costs across some of our key contracts and leading to some very high cost placements in Adults and Children’s Social Care. When the budget was set in 2022/23 a Financial Planning Reserve was established specifically to provide a risk cover for rising inflation, and the monitoring position above does assume that this is called on to offset some of the inflationary pressures. Similarly, the Council holds an earmarked reserve for waste services to smooth fluctuations in the waste contract year on year, and this will be used to offset the higher than budgeted inflationary impact on the contract. The other use of reserves shown in the table above is largely planned use for specific projects, such as to fund initiatives in the COVID Recovery Plan and Directorate carry forward requests from 2021/22.
- 4.6 **Corporate Management (1A)**
- 4.7 The projected outturn for Corporate Management is an overspend of £0.140m. The main reason for this is the cost of the external commissioners for which there is currently no budget.

Borough Economy (1B)

- 4.8 The projected outturn variance against budget for Borough Economy (prior to reserve transfers) is an overspend of £4.352m. The main reasons for this overspend are an underachievement of licensing income and significantly high inflationary pressures relating to utilities costs in Highways and the waste contract.
- 4.9 The directorate is planning to use £3.606m of directorate earmarked reserves as outlined in Appendix 4. The revised projected outturn after this use of reserves is an overspend of £0.746m.



Adult Social Care (1C)

- 4.10 The projected variance against budget for Adults Social Care (prior to reserve transfers) is an overspend of £4.099m. 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.
- 4.11 The directorate is planning to make use of £1.471m 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 position of breakeven.

Regen & Growth (1D)

- 4.12 The projected variance against budget for Regen and Growth (prior to reserve transfers) is an overspend of £4.179m. 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.
- 4.13 The directorate is planning to use £2.846m 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 £1.333m.

Housing General Fund (1E)

- 4.14 The projected variance against budget for Housing (prior to reserve transfers) is an overspend of £0.303m. 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.
- 4.15 The directorate is planning to use £0.275m of directorate reserves which results in a revised projected overspend of £0.028m.

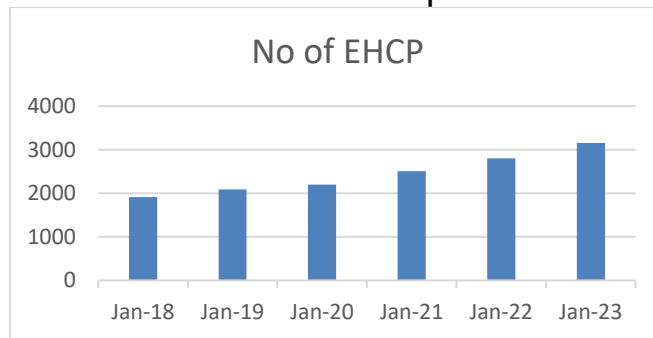
Children's Services (1F)



4.16 The projected variance against budget for Children’s Services is an overspend of £6.750m before applying reserves. The main reasons for this are the significant increase in the projected overspend on SEND transport, the impact of the pay award for the service and Sandwell Children’s Trust, placement pressure in SCT and the cost of exit packages as a result of restructuring within the directorate.

4.17 The forecast increase in the SEND Transport service is due to a significant increase in demand over the years, particularly for complex and out of borough placements which have the highest cost.

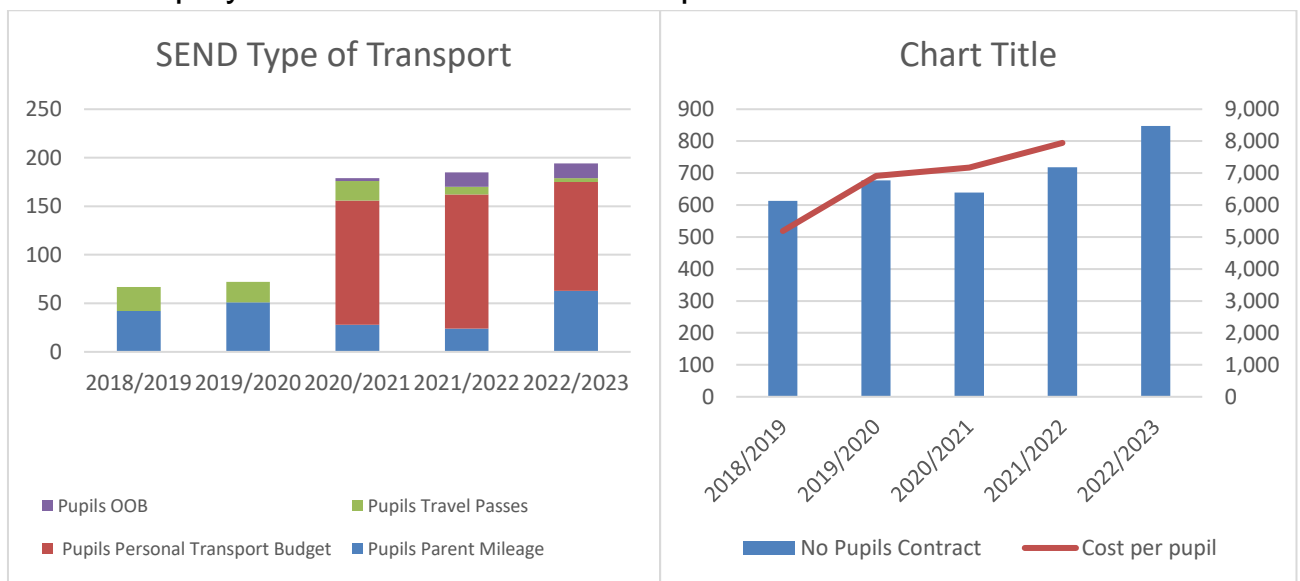
4.18 There has been a 51% increase in the Education Health and Care Plans (EHCP) issued over the years as can be seen in adjoining chart. This has correspondingly resulted in increase in request for SEN transport.



4.19 As mentioned above, request for travel assistance has therefore increased significantly. Most importantly however, is the increased nature and complexity of need of these pupils that has led to:

- them being placed in out of Borough (OOB) schools
- reduction in use of multi-occupancy vehicles
- More children are now travelling alone with passenger assistant

The inter-play of these factors can be explained in the two charts below.



- 4.20 The result of this is a significant increase in the cost of travel per pupil as can be seen above.
- 4.21 The recent framework procurement of SEND used pupil transport number as at April 2022 of 716. However, this figure has increased significantly to 848 at the time the contract was implemented in September 2022.
- 4.22 This increased forecast would have been known and reported by period 7 but for the following reasons:
- Introduction of the new transport contract in September 2022 and allowing the providers to settle results in delay to forecast figures and costs.
 - A new system of paying on account was introduced which again delayed the projections as this was embedded.
 - Unavoidable staff absences due to illness further caused capacity issues which resulted in delays to figures being ready before Christmas
- 4.23 The directorate are currently exploring mitigations (immediate and longer term) to mitigate this pressure. This will be presented to Cabinet once it is firmed up.
- 4.24 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 £1.947m at its latest financial position against its budgeted surplus of £1.947m resulting in a net NIL position against its contract income. The main reason for the budget shortfall 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.
- 4.25 Following the use of reserves, the projected outturn position for Children's Services is an overspend of £2.792m.

Business Strategy & Change (1G)

- 4.26 The projected variance against budget for BSC (prior to reserve transfers) is an overspend of £0.704m. This will be offset by the use of reserves to fund one-off projects and expenditure of £0.695m. The revised projection following this is an overspend of £0.009m.

Finance (1H)



- 4.27 The projected variance against budget for Finance (prior to reserve transfers) is an overspend of £3.906m. 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.
- 4.28 Following the use of reserves, the projected outturn for Finance is an overspend of £0.501m, which is largely due to the increased pay award and additional interim posts.

Law & Governance (1I)

- 4.29 The projected variance against budget for L&G (prior to reserve transfers) is an overspend of £0.620m. However, £0.587m 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 projection of breakeven.

Public Health (1J)

- 4.30 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 £2.491m 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)

- 4.31 The projected variance against budget for the HRA (prior to reserve transfers) is an underspend of £0.719m. This is due to a number of vacancies across the services areas funded from the HRA account.

Dedicated Schools Grant (1L)

- 4.32 The Dedicated Schools Grant (DSG) is forecasting to overspend by £1.162m. 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 £2.908m. The overspend relates to the Central Schools Block and High Needs Block.

Central Items/RCCO/Use of Balances

- 4.33 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.



4.34 The net projected outturn variance against these budgets is an overspend of £0.101m and more detail is provided in Appendix 2.

Use of Reserves

4.35 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 £59.604m of these balances will be used leaving a remaining balance of £106.415m. 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

4.36 Expenditure on the Council's capital programme is forecast to be **£155.317m** during 2022/23. Appendix 6 provides a detailed breakdown of the programme. The main changes that have taken place since the quarter 2 monitoring are as follows: -

- A decrease of £3.671m in the Law & Governance budget in relation to the slippage of resources into 2023/24 in respect of the West Bromwich New Cemetery scheme. This scheme is not due to commence on site until 2023/24.
- An increase of £1.736m in the Business Strategy & Change budget in relation to slippage of resources into 23/24 of £0.800m in respect of the ICT End User Computing scheme, in order to further continue ICT Refresh, offset by the introduction of a £2.536m budget in respect of Oracle Fusion ERP Implementation.
- A decrease of £5.325m in the Borough Economy budget mainly in respect of slippage of resources into 2023/24 on the following schemes, £1.213m in respect of the Birchley Island scheme which is still under consultation, £2.265m in respect of Highways Infrastructure Condition to continue works in 23/24, £0.403m in relation to Lightwoods Park & House and a reduction of £1.000m in the Acquisition of Vehicles budget to reflect the Council's current vehicle replacement programme.
- A decrease of £11.836m in the Regeneration & Growth budget mainly in respect of slippage of resources into future years in relation to Towns Fund schemes £10.096m and the Property Refurbishment budget £1.712m.



- A decrease of £1.897m in the Housing & Assets budget mainly in respect of slippage into future years in relation to Empty Properties £0.677m, The Public conversion to College scheme £0.341m and Vulnerable Home Owners £0.759m.
- An increase of £3.584m in the Children & Education budget mainly to reflect the use of Basic Need, School Condition and Devolved Formula Capital resources to continue various school improvement schemes.
- An increase of £1.125m in the Housing Revenue Account (HRA) budget mainly in respect of increased spend on adaptations £1.380m and Boscobel Avenue £0.250m – to cover (homeloss, moving costs etc.) offset by spend on several Homes England new build schemes £0.500m moving into future years.
- The Oracle Fusion project has been add to the programme following Cabinet approval of the implementation budget in January.

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 **£0.812m** of this leaving a remaining balance of **£2.578m**.
- 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 **£2.911m** 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. Vacancy controls have also been in place since October. The review of the Council's MRP policy has generated a saving of



£4m for the year which has contributed to the overall underspend position reported for Qtr 3.

- 5.3 There is still a lot of risk in the financial position, largely due to continued inflationary pressures and the increased demand being seen for Adults and Children's Services.

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

