

Meeting date: 8 September 2022

Report to: Full Cabinet

Subject/report title: Medium Term Financial Strategy Period 4 Update Report (to 31 July 2022)

Report from: Director of Resources & Deputy Chief Executive

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Wards affected:

- All Wards | Bickenhill | Blythe | Castle Bromwich | Chelmsley Wood |
 Dorridge/Hockley Heath | Elmdon | Kingshurst/Fordbridge | Knowle |
 Lyndon | Meriden | Olton | Shirley East | Shirley South |
 Shirley West | Silhill | Smith's Wood | St Alphege
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Public/private report: Public

Exempt by virtue of paragraph:

1. Purpose of Report

- 1.1 To outline the Medium-Term Financial Strategy (MTFS) latest financial position as at 31 July 2022 (Period 4). This is the same position being reported to individual Cabinet portfolio holders during September.
- 1.2 To report on the latest Red, Amber and Green (RAG) ratings for the delivery of the (MTFS) savings 2022/23 to 2024/25, as detailed in Appendix A.
- 1.3 To provide details of the budget movements which have taken place up to Period 4 of this financial year, as required by Financial Regulations, and the revised budget following those movements, as detailed in Appendix B which Members are asked to approve.

2. Decision(s) recommended

- 2.1 Note the current financial position and actions being taken to address budget variances and determine whether any further actions are required.

- 2.2 Note the latest Red, Amber and Green (RAG) ratings for the delivery of the (MTFS) savings 2022/23 to 2024/25, as detailed in Appendix A.
- 2.3 Approve the removal of the approved contribution to the Public Health reserves and approve a drawdown of that reserve detailed in paragraph 3.16.
- 2.4 Approve the transfer of the £2.241 million Substance Misuse grant to Communities and Leisure from Adult Social Care and Health detailed in paragraph 3.17.
- 2.5 Approve the reclassification of the £207,000 corporate “contingency” reserve to Public Health reserves detailed in paragraph 3.18.
- 2.6 Approve the budget adjustments up to Period 4 of 2022/23 as summarised in Appendix B.

3. Matters for Consideration

- 3.1 This report provides an update on the latest MTFS position for 2022/23 at July 2022.

Medium Term Financial Strategy Position

- 3.2 Full Council agreed a balanced budget in February 2022 for the three years from 2022/23 to 2024/25. Officers have now begun working on the new MTFS for 2023/24 to 2025/26. We will be following the established process of taking updates through the Member led Budget Strategy Group and an all-Members’ Seminar, before presenting budget proposals to Scrutiny Boards, Cabinet and finally Full Council in early 2023.
- 3.3 As reported to Full Cabinet in June 2022, the overall position at the end of 2021/22 was that, with the exception of Children’s services all portfolios were in an equivalent or better financial position as at 31 March 2022 than that assumed in the budget approved by Full Council in February 2022. In that same report, approval was sought to provide a further £1 million top up to reserves to support delivery of the Children’s Improvement Plan for 2022/23.
- 3.4 However, the outlook for local government finance continues to worsen with a combination of existing and new, emerging service challenges and national pressures:
 - The lasting effects of Covid-19, including the gradual recovery to pre-pandemic activity levels for some services and the transition to a “new normal”, with potentially permanent changes to activity levels, for others;
 - The ongoing delay to local government finance reform and associated uncertainty over future funding;
 - Significant cost of living impacts on pay, energy and contractual costs;
 - Children’s services – further pressures forecast in the current year and beyond;
 - The reform of Adult Social Care including the outcome of the fair cost of care exercise.
- 3.5 It is clear from the above that the budget process for 2023/24 and beyond will be very challenging as the impact of inflationary pressures and demand for adults and children’s social care feed through into the budget process. The Council may also need to accept more risk in the budget assumptions.

2021/22 Statement of Accounts and External Audit

- 3.6 The Council published its Draft 2021/22 Statement of Accounts on 16 June 2022, well ahead of the deadline of 31 July and is currently part way through the External Audit, conducted by Grant Thornton. The audit deadline is 30 November 2022 and we are expecting to achieve this deadline with a Final Statement of Accounts being presented to Audit Committee and approved by Governance Committee before this deadline. At this point in time, the external auditors have not identified any issues to be reported on.

In Year Financial Monitoring 2022/23

- 3.7 Financial monitoring is carried out throughout the year by individual budget holders. Key income and expenditure risk areas are monitored monthly by Financial Operations. Identified financial risks are discussed with Heads of Service and significant risks are reported monthly to Directorate Leadership Teams (DLTs) and the Corporate Leadership Team (CLT) to ensure that net expenditure is managed within approved budgets.
- 3.8 Appendix A which is attached to this report shows the overall Revenue and Capital financial position by portfolio in more detail as a combination of graphs and tables. Tables 1 - 3 highlight each portfolio's forecast variance and provide some narrative commentary on the key variances within each portfolio.
- 3.9 For the current MTFs savings, Table 4 summarises the RAG status and value of the savings across all three years with the narrative relating to the Red rated savings.
- 3.10 Table 5 shows the total reserves and contingency funding by portfolio including the balance at the start of the financial year, forecast use over the three year period of the current MTFs and beyond and the resulting forecast remaining balance.
- 3.11 The Council is facing in year pressures across all Directorates as a result of the proposed (but not yet agreed) pay award, inflationary pressures and increasing utility costs, as well as Directorate specific challenges which are highlighted in Appendix A and summarised below.

Revenue Forecast Outturn – 2022/23

- 3.12 There is a forecast adverse variance on the Core Council of £2.619 million in relation to the Children and Education portfolio and an in year adverse variance of £3.585 million for the Dedicated Schools Grant (DSG). This is further detailed by Cabinet Portfolio in Appendix A (Table 2) which highlights the key variances and a separate report on each portfolio position will be presented to individual Cabinet Decision Sessions across September.
- 3.13 It should be noted that the impacts of Covid-19 are now included in Portfolio forecasts as business as usual and external funding sources are either fully used or forecast to be used in line with their conditions.
- 3.14 The headline position for each Portfolio is reported overleaf:

Adult Social Care and Health

- 3.15 The Adult Social Care element of this portfolio is forecasting a net nil position after using £2.550 million of directorate reserves - £623,000 of this was approved as part of the latest MTFs for inflationary and demographic pressures. The remainder of the reserves are utilised to fund pressures arising as a result of the decision to extend the Covid-19 Response Team, to keep in place the hospital social care team to facilitate hospital discharges, and to meet our contractual commitments relating to fixed term posts.
- 3.16 The Public Health element of the portfolio is also forecasting a net nil position this year, albeit also using a substantial amount of reserves to achieve that position (totalling £395,000). Initially there were plans to contribute £197,000 to the Public Health reserve this year, but approval is now sought to remove this budgeted contribution and instead call on this reserve due to the allocation of Public Health grant being below forecast by £103,000 in addition to a use of reserves to support the Public Health Accelerating Prevention agenda totalling £489,000.
- 3.17 In addition, approval is sought to transfer £2.241 million of Public Health grant funding for Substance Misuse budgets from the Adult Social Care and Health portfolio to the Communities and Leisure portfolio in line with the new cabinet portfolio responsibilities for 2022/23.
- 3.18 Further, there is £207,000 within an existing corporately held contingency reserve which is available for use by Public Health. Approval is sought to reclassify this reserve under this portfolio for Public Health Grant related expenditure.

Children and Education

- 3.19 As outlined in the 2021/22 Outturn report presented to Cabinet in June 2022, this portfolio is facing significant financial challenges this year and beyond. These challenges include but are not limited to; Social Care Demand pressures, Home to School Transport and Children's Placements.
- 3.20 These pressures are part funded by fully using all of the available Children's Services risk reserves during the year leaving a net adverse variance of £2.619 million. The portfolio, with support from the rest of the Council will need to identify mitigating actions to balance this position by the end of the financial year.

Economy and Infrastructure Directorate Portfolios

- 3.21 The Council considers Directorate positions before individual Portfolios, so the position outlined below is summarised for all of the Economy and Infrastructure Directorate portfolios. This approach has also been agreed and reflected within all of the individual portfolio reports.
- 3.22 The Directorate is forecasting a balanced position this year with a forecast use of reserves of £473,000.
- 3.23 This is primarily as a result of changes to customer behaviour since the Covid-19 pandemic, specifically around; Licensing, Core Theatre income, Encore Cafe Bar income, Highways Pavement Cafe Licences and Car Park income.

- 3.24 A number of service areas within this Directorate now sit within the Resources portfolio and are detailed below including Bereavement, Regulatory and Customer services.

Resources

- 3.25 There is a minor favourable variance of (£63,000) mainly as a result of favourable variances in Bereavement and Customer Services.
- 3.26 The Resources Directorate element of the portfolio is forecast to achieve a net nil position this financial year after dealing with some challenging savings targets and is using reserves to balance the position.

Dedicated Schools Grant

- 3.27 The Council has reported adverse variances against the High Needs Block of the DSG budget since 2018/19 and the accumulated deficit as at 31 March 2022 totalled £13.213 million. The position reflects the increase in the number and cost of school placements, particularly in the independent sector.
- 3.28 Full Cabinet was presented with a High Needs Block recovery report in December 2021 with a further update taken to the Children and Education portfolio in July 2022 with an update on the Strategy for Inclusive Education.
- 3.29 The forecast for this year is a further £3.585 million taking the forecast cumulative deficit to £16.798 million, which is reported in the unusable DSG adjustment account reserve, in line with current regulations.
- 3.30 The DSG deficit is a potential financial risk for the Council to meet from its own unearmarked reserves from 2023/24, if the statutory override arrangements currently in place, do not continue beyond the current year. The Council responded to a Department of Education consultation return, regarding this risk, on 18th August 2022.

Capital Forecast Outturn – 2022/23

- 3.31 Appendix A also outlines the forecast capital position which is currently forecast to spend £68.444 million against a budget of £72.288 million, giving a favourable variance of £3.844 million mainly in relation to UK Central projects.
- 3.32 A report will be presented to Cabinet in December which will seek to re-phase any budgets into 2023/24 where project timelines have changed.

Medium Term Financial Strategy – RAG Status of Savings/Mitigations

- 3.33 The Council has a net total of £7.092 million of savings or mitigations targets across 2022/23 to 2024/25. There are no Council wide savings targets after 2022/23 in the current MTFs but there are significant mitigation plans agreed through the previous Budget Setting process which need to be delivered in order to achieve a balanced budget. Currently 93% of 2022/23 savings targets are rated as Green. Any pressures are included in the reported figures in the detailed paragraphs above.

Reserves

- 3.34 Table 5 of Appendix A outlines the forecast reserves position at the end of 2022/23.

Each portfolio is forecast to use elements of their contingency reserves to balance their position this financial year as outlined in the above paragraphs.

4. What options have been considered and what is the evidence telling us about them?

4.1 N/A

5. Reasons for recommending preferred option

5.1 N/A

6. Implications and Considerations

6.1 State how the proposals in this report contribute to the priorities in the [Council Plan](#):

Priority:	Contribution:
<p>People and Communities:</p> <ol style="list-style-type: none"> 1. Improving outcomes for children and young people in Solihull. 2. Good quality, responsive, and dignified care and support for Adults in Solihull when they need it. 3. Take action to improve life chances and health outcomes in our most disadvantaged communities. 4. Enable communities to thrive. 	<p>The budget and MTFS address all of the Council's priorities</p>
<p>Economy:</p> <ol style="list-style-type: none"> 5. Develop and promote the borough's economy, with a focus on revitalising our town and local centres. 6. Maximising the opportunities of UK Central and HS2. 7. Increase the supply of affordable and social housing that is environmentally sustainable. 	<p>The budget and MTFS address all of the Council's priorities</p>
<p>Environment:</p> <ol style="list-style-type: none"> 8. Enhance our natural environment, improve air quality and reduce net carbon emissions. 	<p>The budget and MTFS address all of the Council's priorities</p>
<ol style="list-style-type: none"> 9. Promote employee wellbeing 	<p>The budget and MTFS address all of the Council's priorities</p>

6.2 Consultation and Scrutiny:

6.2.1 N/A

6.3 Financial implications:

6.3.1 Included throughout the report

6.4 Legal implications:

6.4.1 N/A

6.5 Risk implications, including Risk Appetite:

6.5.1 The budget monitoring report takes account of known forecast variances. In addition, there may be pressures which are currently being monitored and managed by budget managers that could affect the final outturn position for 2022/23.

6.5.2 As mentioned in Section 3 of this report there are a number of substantial financial risks that the authority is facing as a result of external economic conditions which will be considered as part of the Council's Budget Setting Process.

6.5.3 The Corporate risk relating to the delivery of the MTFS is currently at a net level 9. The new MTFS that will be presented to Full Council in February 2023 will need to reduce this risk to at least a net level 8.

6.5.4 Covid-19 Funding has now all been committed and any further pressures will need to be managed within individual Portfolios.

6.6 Equality implications:

6.6.1 N/A

6.7 Linkages to our work with the West Midlands Combined Authority (WMCA), Local Enterprise Partnership or the Birmingham & Solihull Integrated Care System (ICS):

6.7.1 N/A

7. List of appendices referred to

7.1 Appendix A – Detailed Financial Summary

7.2 Appendix B – Detailed Budget Movements

8. Background papers used to compile this report

8.1 N/A

9. List of other relevant documents

9.1 N/A