

Meeting date: 9 February 2023

Report to: Full Cabinet

Report title: Medium Term Financial Strategy Period 9 Update Report (to 31 December 2022)

Report from: Acting Chief Executive

Report author/lead contact officer: Adam Paterson
Finance Manager – Financial Cycle Team

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. Executive Summary

- 1.1 This report is to update Full Cabinet on how the Council is performing against the approved 2022/23 – 2024/25 Medium Term Financial Strategy (MTFS) in the current financial year alongside setting out any new challenges that are emerging for the revised MTFS for 2023/24 – 2025/26.
- 1.2 To outline the Medium-Term Financial Strategy (MTFS) latest financial position as at 31 December 2022 (Period 9). This is the same position being reported to individual Cabinet portfolio holders during February.
- 1.3 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.
- 1.4 To provide details of the budget movements which have taken place up to Period 9 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 budget adjustments up to Period 9 of 2022/23 as summarised in Appendix B.
- 2.4 Approve the use of the Budget Strategy Reserve to fund the additional cost of £2.888 million for the 2022/23 Pay Award as detailed in paragraph 3.11.
- 2.5 Approve the use of the Budget Strategy Reserve to fund an increase of £1.015 million in the Impairment Allowance for doubtful debts as detailed in paragraph 3.12.
- 2.6 Approve the use of the Budget Strategy Reserve to balance the budget shortfall of £5.781 million in the Children and Education portfolio as detailed in paragraph 3.20.
- 2.7 Approve the use of £27,240 from the Commonwealth Games volunteers reserve in the Communities and Leisure Portfolio to fund current Voluntary and Community Sector priorities as detailed in paragraph 3.25.
- 2.8 Approve a contribution of £400,000 to the existing Family Hubs reserve to support development and roll out of the Family Hubs service in future years as set out in paragraph 3.27.
- 2.9 Approve a contribution to the existing Leisure reserves of the year end surplus in relation to Commonwealth Games activities, currently forecast at £75,000, as set out in paragraph 3.28.
- 2.10 Approve a contribution of the year end surplus in relation to the Employment and Skills service, currently forecast at £87,000, to the existing Employment Learn and Engage reserve as set out in paragraph 3.29.
- 2.11 Approve the creation of a new reserve for the Learning Disability Employment Support service and approve a contribution of the year end surplus for 2022/23 for the service, currently forecast at £64,000, and any surpluses for future years, to that reserve, as set out in paragraph 3.29.

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3. Matters for Consideration

3. This report provides an update on the latest MTFS position for 2022/23 at December 2022.

Medium Term Financial Strategy Position

- 3.1 Full Council agreed a balanced budget in February 2022 for the three years from 2022/23 to 2024/25. Officers have been working on the new MTFS for 2023/24 to 2025/26. We have followed the established process of taking updates through the Member led Budget Strategy Group followed by an all-Members' Seminar between October and December 2022. There has also been an additional Budget Strategy Group meeting on 16 January 2023.
- 3.2 The budget proposals were then presented to Scrutiny Boards in January and the updated MTFS is presented to Cabinet elsewhere on this agenda. Following this, the MTFS will be presented to Full Council in February 2023 alongside Cabinet's budget and council tax recommendations for 2023/24. The report elsewhere on this agenda covers the updated MTFS along with the assumptions made, decisions recommended and the overall position for 2023/24 to 2025/26.

Status of the 2021/22 Statement of Accounts and External Audit

- 3.3 The Council published its Draft 2021/22 Statement of Accounts on 16 June 2022, well ahead of the deadline of 31 July, and the elements of the audit that were within the control of both the Council and Grant Thornton were completed in advance of the statutory deadline of 30 November 2022.
- 3.4 However, there was a national technical issue relating to the valuation of Infrastructure Assets on balance sheets which was only resolved in December through the issue of a statutory instrument by the Department for Levelling Up, Housing and Communities (DLUHC). This meant that our accounts were not signed off by the statutory deadline of the end of November, but the Final Statement of Accounts has been approved by Governance Committee subject to that final sign-off.
- 3.5 Grant Thornton are, at the time of writing this report, finalising the audit and expect to sign off the Final Statement of Accounts during late January / early February. We still expect no issues to be raised as part of this and a verbal update will be provided at the meeting if any issues are identified.

In Year Financial Monitoring

- 3.6 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.

- 3.7 Appendix A 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.
- 3.8 For the current MTFs savings, Table 4 summarises the RAG status and value of the savings across all three years.
- 3.9 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.
- 3.10 The Council is facing in year pressures across all Directorates as a result of inflationary pressures and increasing utility costs, as well as Directorate specific challenges which are highlighted in Appendix A and summarised below.
- 3.11 The 2022/23 budget included funding for a pay award of 2.0%, but the pay award agreed between local government employers and the trade unions equated to a higher increase of around 5.45% (totalling £2.888 million). It is recommended that the additional in-year cost is funded through the Budget Strategy Reserve as reported through the Budget Strategy Group, all Members' Seminar and Resources and Delivering Value Scrutiny Board.
- 3.12 Approval is sought to use the Budget Strategy Reserve to fund a £1.015 million one off increase to the Impairment Allowance for doubtful debts. A fundamental review of outstanding debt has been undertaken in the light of the cost-of-living crisis, as a result of which it is proposed to increase the allowance made for the impairment of outstanding debts at the end of 2022/23.

Revenue Forecast Outturn – 2022/23

- 3.13 There is a forecast adverse variance on the Core Council of £5.781 million in relation to the Children and Education portfolio and a forecast in-year adverse variance of £2.731 million for the Dedicated Schools Grant (DSG) totalling £8.512 million. The overall financial position is further detailed by Cabinet Portfolio in Appendix A (Table 2) which highlights the key variances.
- 3.14 It should be noted that the impacts of Covid-19 are now included in the respective individual Portfolio forecasts as business as usual and external funding sources are either fully used or forecast to be used in line with their conditions.
- 3.15 The headline position for each Portfolio is reported below:

Adult Social Care and Health

- 3.16 The Adult Social Care element of this portfolio is forecasting a net nil position after using £2.046 million of the directorate reserves. £623,000 was approved as part of the current MTFs. A further £1.149 million reserves are funding one-off expenditure in relation to the extension of the crisis response team (a team of peripatetic social work and occupational therapy staff), to keep in place the hospital social care team to facilitate hospital discharges, and to meet our contractual commitments relating to fixed term posts. Costs of £134,000 to support the exploitation reduction is being met

from a reserve held for this purpose and £140,000 is being used from reserves to purchase additional bed capacity. This brings the total use of reserves to £2.046 million for adult social care. Public Health elements of this portfolio are reported as part of the Public Health Directorate summary below.

Children and Education

- 3.17 As outlined in the financial update report including MTFS implications presented to Cabinet on 6 December 2022, this portfolio is facing significant financial challenges in this financial year and beyond. These challenges include but are not limited to: Social Care Demand impact on staffing requirements, Home to School Transport, Children's Placements and Section 17 support.
- 3.18 Budget proposals were presented to the Children's Education and Skills Scrutiny Board on 5 January 2023 and the updated MTFS will be presented to Cabinet elsewhere on this agenda.
- 3.19 In year pressures are part funded by fully utilising all the available £2.500m Children's Services risk reserve during the year, leaving a net adverse variance of £5.781 million.
- 3.20 The Budget Strategy Group has recommended using the Budget Strategy reserve to balance the 2022/23 in year position. This proposed contribution, for which approval is sought as part of this report, is reflected in the budget strategy reserve figures included in the MTFS report elsewhere on your agenda.

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 (£265,000).
- 3.23 This is primarily as a result of changes to customer behaviour since the Covid-19 pandemic, specifically around: Core Theatre income, Encore Cafe Bar income, Highways Pavement Cafe Licences and Car Park income.
- 3.24 A number of service areas within the Economy and Infrastructure Directorate now sit within the Resources portfolio and are detailed below including Regulatory and Customer services and Bereavement services.
- 3.25 In September 2022 an update on the current challenges facing local voluntary, social enterprise and community sector groups from the rising cost of living was reported to the Cabinet Member for Communities and Leisure. Approval was given to allocate funding from the Voluntary and Community Sector (VCS) Development Reserve to fund various initiatives to build financial resilience for the sector. The report also identified surplus funding which had originally been set aside for volunteers to support the Commonwealth Games which could be used to supplement funding available from the VCS Development Reserve. Since the decision session the final amount available has been confirmed as £27,240. In accordance with Financial Regulations Cabinet

approval is requested to redesignate the Commonwealth Games volunteers reserve to be used to support current VCS priorities.

Public Health Directorate Portfolios

- 3.26 Public Health services sit across a number of portfolios. The Public Health element of the Adult Social Care and Health portfolio is forecasting to outturn with a gross favourable variance of (£233,000), mainly due to temporary vacancies - the actual variance at the year-end will be contributed to the existing Public Health Grant reserve.
- 3.27 A request is made, subject to the approval of the Cabinet Member for Adult Social Care and Health, to contribute £400,000 funding from Public Health Grant reserves to the existing Family Hubs reserve to support development and roll out of the Family Hubs service in future years.
- 3.28 Leisure services are aligned to the Communities and Leisure portfolio. There is a net adverse forecast variance of £284,000 across Leisure centres and other Solihull Active programmes which will be offset by additional use of reserves. There is a forecast surplus of (£75,000) on Commonwealth Games activities and a request is made, subject to the approval of the Cabinet Member for Communities and Leisure, to contribute the year end surplus on Commonwealth Games activities to the existing Leisure reserve to meet on-going legacy activities in relation to the Games in 2023/24.
- 3.29 There is a forecast favourable variance of (£87,000) in relation to the Employment and Skills service which sits within the Partnerships and Wellbeing portfolio. A request is made, subject to the approval of the Cabinet Member for Partnerships and Wellbeing, to contribute the year end surplus to the existing Employment Learn and Engage reserve to offset pressures in future years due to reduction in external grant funding for the service. The service area also hosts the Learning Disability Employment Support service. There were some initial delays to providing this new service and a request is made, once again subject to the approval of the Cabinet Member for Partnerships and Wellbeing, to set up and contribute the year end surplus, currently forecast at (£64,000), and any surplus in future years, to a new reserve for Learning Disability Employment Support, to make additional funding available for activities in future years.

Resources

- 3.30 The Resources portfolio is forecasting a favourable variance of (£5,000).
- 3.31 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 pressures. It is re-aligning services and budgets as part mitigation and using reserves to balance the remainder of the position.
- 3.32 There is a £45,000 favourable variance in Regulatory Services income due to faster recovery in demand for Vehicle Licensing than assumed at the start of the year and salaries due to vacant posts.
- 3.33 In addition, there is a £40,000 adverse variance within Bereavement Services relating

to a pressure on income due to reduced activity on burials, utilities cost inflation above the budgeted level and loss of income whilst the cremator at Woodlands is replaced, partly offset by funding allowed for expansion at Woodlands which will not happen in the current year.

Dedicated Schools Grant

- 3.34 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.
- 3.35 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.
- 3.36 The forecast for this year is a £2.731 million adverse variance, taking the forecast cumulative deficit to £15.944 million, which is reported in the unusable DSG adjustment account reserve, in line with current regulations.
- 3.37 The government has extended the statutory override which allows the Council to carry forward the DSG deficit for a further three years to 2025/26. If it is not extended beyond that point then the Council would be required to fund the deficit from its own unearmarked reserves from 2026/27.
- 3.38 Whilst Solihull's comparative position is not as severe as some Local Authorities with higher adverse balances, we have been working with the DfE's Delivering Best Value programme, supporting our work towards resolving the financial position in the High Needs Block in future years. This is a voluntary arrangement which will review data and service provisions in Solihull.

Capital Forecast Outturn – 2022/23

- 3.39 Appendix A also outlines the forecast capital position which is currently forecast to spend £56.994 million against a budget of £73.468 million, giving a favourable variance of (£16.474 million) mainly in relation to UK Central, Children's and Resources projects.
- 3.40 This position is as at 31 December 2022 and whilst a capital update report was presented to Cabinet in January which sought to re-phase £15.498 million of budgets into 2023/24, these adjustments have not yet been reflected in the budgets at the time of writing this report.
- 3.41 The revised budgets will result in a forecast favourable variance of (£978,000) and there will be an opportunity for any further re-phasing that may materialise before the end of the year when the Final Outturn report is presented to Cabinet in June 2023.

Medium Term Financial Strategy – RAG Status of Savings/Mitigations

- 3.42 The Council has a gross total of £1.729 million of savings 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

97% of 2022/23 savings targets are rated as Green. Any pressures are included in the reported figures in the detailed paragraphs above.

Reserves

3.43 Table 5 of Appendix A outlines the forecast reserves position at the end of 2022/23 and beyond as part of the overall MTFS position. 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>	<p>The budget and MTFS address all of the Council's priorities</p>

Priority:	Contribution:
8. Enhance our natural environment, improve air quality and reduce net carbon emissions.	
9. Promote employee wellbeing	The budget and MTFs address all of the Council's priorities

6.2 Consultation and Scrutiny:

6.2.1 The Period 4 financial position was considered by Resources and Delivering Value Scrutiny Board on 3 October 2022.

6.3 Financial implications:

6.3.1 These are 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 has recently been reduced to a net level 8 following the fourth Budget Strategy Group meeting where a balanced budget was proposed for the new MTFs period, subject to approval by Full Cabinet elsewhere on this agenda and Full Council on 23 February.

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 for P9.

7.2 Appendix B – Detailed Budget Movements for P9.

8. Background papers used to compile this report

8.1 Report to Cabinet Member for Communities and Leisure on 28 September 2022
'Voluntary, Community and Social Enterprise (VCSE) Sector Development Reserve'.

9. List of Other Relevant Documents

9.1 N/A