

Meeting date: 3 November 2022

Report to: Full Cabinet

Report title: Medium Term Financial Strategy Period 6 Update Report (to 30 September 2022)

Report from: Director of Resources & Deputy 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 30 September 2022 (Period 6). This is the same position being reported to individual Cabinet portfolio holders during November.
- 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 6 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 6 of 2022/23 as summarised in Appendix B.
- 2.4 Approve the removal of the approved contribution to the Public Health reserves and approve a drawdown of that reserve detailed in paragraph 3.17.
- 2.5 Approve the transfer of the £2.241 million Substance Misuse grant to Communities and Leisure from Adult Social Care and Health detailed in paragraph 3.18.
- 2.6 Approve the reclassification of the £207,000 corporate “contingency” reserve to Public Health reserves detailed in paragraph 3.19.
- 2.7 Approve the principle established as part of the Corporate Approach to delivering an Asset Masterplan for budget transfers of asset related budgets from the respective individual portfolio budgets to the Corporate Landlord function within the Resources portfolio as detailed in paragraph 3.41 – 3.42.
- 2.8 Approve the use of £153,000 of the Welfare Reform Reserve within the Housing Revenue Account in order to support additional staffing within the Solihull Community Housing (SCH) Money Advice Team for a further 2 years – as detailed in paragraph 3.43 – 3.47.

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3. Matters for Consideration

3. This report provides an update on the latest MTFS position for 2022/23 at September 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 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.
- 3.2 As reported to Full Cabinet in June 2022, the overall position at the end of 2021/22 was that, except for 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.
- 3.3 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.
- 3.4 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.

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

- 3.5 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 a significant way through the external audit, conducted by Grant Thornton. The audit deadline is 30 November 2022 and we expect that all elements of the audit that are within the control of both the Council and Grant Thornton will be completed within this timeframe.

- 3.6 However, there is an outstanding national technical issue relating to the valuation of Infrastructure Assets on balance sheets which is still to be resolved by the Department for Levelling Up, Housing and Communities (DLUHC) through a statutory instrument which may not happen until early December. This means that our accounts are unlikely to be signed off by the statutory deadline of the end of November but the Council has agreed with Grant Thornton that it is better to wait for the statutory instrument to be issued and have a later certification date rather than a qualified set of accounts.
- 3.7 Notwithstanding the above point our Final Statement of Accounts will be presented to Audit Committee for comment and subsequently to Governance Committee for approval during November. At the time of writing this report Grant Thornton have not identified any significant issues to be reported on.

In Year Financial Monitoring

- 3.8 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.
- 3.9 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.
- 3.10 For the current MTFs savings, Table 4 summarises the RAG status and value of the savings across all three years.
- 3.11 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.
- 3.12 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

- 3.13 There is a forecast adverse variance on the Core Council of £4.512 million in relation to the Children and Education portfolio and a forecast in-year adverse variance of £3.585 million for the Dedicated Schools Grant (DSG) totalling £8.097 million. The overall financial position 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 during November.
- 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 (£2.975 million) of the directorate contingency reserve – (£623,000) was approved as part of the current MTFS, an additional (£509,000) is required for in-year inflationary and demographic pressures. The remainder of the reserves usage is to fund in-year pressures arising as a result of the decision to extend the Crisis 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.
- 3.17 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.
- 3.18 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.
- 3.19 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

- 3.20 As outlined in the financial update report including MTFS implications presented to Cabinet on 6th October 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.
- 3.21 These pressures are part funded by fully using all the available £2.500m Children's Services risk reserve during the year, leaving a net adverse variance of £4.512 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

- 3.22 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.
- 3.23 The Directorate is forecasting a balanced position this year with a forecast use of reserves of (£762,000).
- 3.24 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.

- 3.25 Leisure services sit within the Public Health Directorate but are aligned to the Communities and Leisure portfolio. There is a forecast adverse variance of £281,000 in relation to leisure centres mainly due to the impact of inflation on utility costs. This will be offset by additional use of leisure reserves.
- 3.26 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.

Resources

- 3.27 The Resources portfolio is forecasting an adverse variance of £0.205 million.
- 3.28 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.
- 3.29 There is a £128,000 adverse variance due lower Licensing income within Regulatory Services as a result of the lasting impact of Covid and wider economic factors.
- 3.30 In addition, there is a £77,000 adverse variance within Bereavement Services relating to a pressure on income due to reduced activity on burials and higher utilities costs due to inflation above the budgeted level, partly offset by funding allowed for expansion at Woodlands which will not happen in the current year.

Dedicated Schools Grant

- 3.31 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.
- 3.32 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.
- 3.33 The forecast for this year is a £3.585 million adverse variance, taking the forecast cumulative deficit to £16.798 million, which is reported in the unusable DSG adjustment account reserve, in line with current regulations.
- 3.34 Whilst Solihull's comparative position is not as severe as some Local Authorities with higher adverse balances, we are participating with the DfE's Delivering Best Value programme, supporting our work towards balancing the in-year financial position in the High Needs Block in future years. This is a voluntary arrangement which will review data and service provisions in Solihull.
- 3.35 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 in August 2022, but no announcement has yet been made. A significant number of local authorities would be impacted materially if the override was not continued.

- 3.36 An update on the DSG budget position will be the subject of a separate report to Cabinet in February 2023 as part of the suite of budget reports for that meeting.

Capital Forecast Outturn – 2022/23

- 3.37 Appendix A also outlines the forecast capital position which is currently forecast to spend £65.989 million against a budget of £74.675 million, giving a favourable variance of (£8.686 million) mainly in relation to UK Central, Children’s and Resources projects.
- 3.38 A capital update report will be presented to Cabinet in December which will seek to re-phase any budgets into 2023/24 where project timelines or scope have changed.

Medium Term Financial Strategy – RAG Status of Savings/Mitigations

- 3.39 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

- 3.40 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.

A Corporate Approach to Delivering an Asset Masterplan

- 3.41 A Corporate Approach to Delivering an Asset Masterplan (CADAM) is a key council transformation programme, cited as a ‘strong foundation’, in the Council Plan which implements strategic asset management by putting in place a Corporate Landlord function. Under a Corporate Landlord approach the ownership of an asset and the responsibility for their management, maintenance and funding will be transferred from respective service departments to the Corporate Landlord which sits within Resources. Assets will be brought into the Corporate Landlord function on a phased approach, and associated budgets will be transferred in line with this.
- 3.42 In line with the Council’s Financial Regulations, these budget transfers will need Cabinet approval. Cabinet is asked to give overall approval as part of this report to undertake these budget transfers as and when an asset moves across as a technical adjustment from the respective cabinet portfolio into the Resources cabinet portfolio, which will then be reported to Cabinet quarterly as part of these reports in the future.

Housing Revenue Account (HRA) – proposal to use reserves to support the Money Advice team

- 3.43 Full Cabinet will be receiving an HRA Budget report in February as part of the annual suite of budget setting reports. However, there is an item of business that needs approval ahead of that which is contained in the following paragraphs.
- 3.44 Prior to the introduction of Universal Credit, HRA surpluses from 2013/14 and 2014/15 were set aside to create a Welfare Reform Reserve in order to support tenants as they transition from the Housing Benefit System. Since that time, approved use of funds has included funding for additional temporary staffing within Solihull Community Housing's (SCH) Money Advice Team to meet the additional demand on that service – this funding is due to end in March 2023.
- 3.45 It is recommended that additional capacity is maintained within the Money Advice Team at this time. The service is continuing to experience high demand and additional resources would help to sustain the existing team structure. Some of the increased workload at present is from SCH tenants impacted by the economic crisis and who need help with debt and welfare benefit advice. SCH are also dealing with more referrals from across the business as part of our joint working with the council in accessing funds from the Household Support Fund. The Money Advice Team are speaking to increased numbers of tenants in severe financial hardship and who are in need of emergency help with food and fuel.
- 3.46 Another area of work where additional capacity would help the service is from the increased pressures on our homeless service where cases are referred from Housing Options to the Money Advice Team. We have seen an increase in the work being generated which requires caseworkers to help and support customers with their Housing Benefit application forms.
- 3.47 There is an unallocated balance within the Welfare Reform Reserve of £153,000, it is recommended that this sum be made available over the 2 year period to the end of March 2025 to finance the costs of the staffing required in order to continue to manage this demand.

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. 	The budget and MTFS address all of the Council's priorities
<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. 	The budget and MTFS address all of the Council's priorities
<p>Environment:</p> <ol style="list-style-type: none"> 8. Enhance our natural environment, improve air quality and reduce net carbon emissions. 	The budget and MTFS address all of the Council's priorities
<ol style="list-style-type: none"> 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 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 for P6.

7.2 Appendix B – Detailed Budget Movements for P6.

8. Background papers used to compile this report

8.1 N/A

9. List of Other Relevant Documents

9.1 N/A