

Auditor's Annual Report on Solihull Metropolitan Borough Council (2021-22)

December 2022



Contents

| Section | Page |
|--|------|
| Executive summary | 03 |
| Opinion on the financial statements and use of auditor's powers | 05 |
| Key recommendations | 06 |
| Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources | 07 |
| Improving economy, efficiency and effectiveness | 08 |
| Improvement recommendations | 11 |
| Financial Sustainability | 15 |
| Governance | 17 |
| Follow-up of previous recommendations | 20 |
| Opinion on the financial statements | 21 |
| Appendices | |
| Appendix A – Responsibilities of the Council | 23 |
| Appendix B – Risks of significant weaknesses, our procedures and findings | 24 |
| Appendix C – An explanatory note on recommendations | 25 |
| Appendix D – Sources of evidence | 26 |



We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.










Executive summary






Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2021/22 is the second year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

| Criteria | Risk assessment | 2020/21 Auditor Judgment | 2021/22 Auditor Judgment | Direction of travel |
|---|---|---|--|---|
| Financial sustainability | Risk identified because of the reducing level of reserves. |  No significant weaknesses in arrangements identified |  No significant weaknesses in arrangements identified. |  |
| Governance | No risks of significant weakness identified |  No significant weaknesses in arrangements identified, but improvement recommendation made |  No significant weaknesses in arrangements identified, but one improvement recommendation made |  |
| Improving economy, efficiency and effectiveness | Risk identified because of the inadequate rating issued by Joint Targeted Area Inspection (JTAI) in relation to Children Services |  No significant weaknesses in arrangements identified, but improvement recommendation made |  One significant weaknesses in arrangements identified and one key recommendation made, together with four improvement recommendations. |  |

-  No significant weaknesses in arrangements identified or improvement recommendation made.
-  No significant weaknesses in arrangements identified, but improvement recommendations made.
-  Significant weaknesses in arrangements identified and key recommendations made.

Executive summary



Financial sustainability

The Council has a history of delivering balanced budgets, using reserves to balance cost pressures in the early years of its three-year planning cycle, allowing time to develop savings in later years. A cross-party approach to budget setting has been in operation for a number of years and the approved Medium Term Financial Strategy for 2022/23 to 2024/25 is no different. However, the Council, along with all others in the country, faces inflationary and other cost pressures and therefore has acknowledged the financial conditions in the medium term.



Governance

The Council has robust governance arrangements in place, including risk management, internal audit and counter fraud. The Council has implemented the improvement recommendation from the prior year to enhance reporting of risks to the Audit Committee by linking the risks to the corporate objectives. We have identified two potential improvement areas this year in respect better integration of financial and non-financial information when reporting budget variations and ensuring that the Council's website has the most up-to-date Declarations of Interest disclosures on it.



Improving economy, efficiency and effectiveness

The Council makes good use of benchmarking and financial information. These inform the key strategic priorities for the Council Plan and are used to monitor and improve performance within Directorates.

The Council has a good track record of working with partners. However, due to the recent Joint Targeted Area Inspection (JTAI) there have been weaknesses identified with partnership working with the Multi-Agency Safeguarding Hub (MASH). As a result, an improvement plan has been put in place. We have assessed the arrangements in place to address the issues raised as part of this inspection. We have raised an improvement recommendations in relation to formatting and potential streamlining of performance reports and procurement.

In November 2022 the Council were issued with a Statutory Direction from the Department for Education, as a result of the pace of progress in addressing the Improvement Notice not being sufficient. A Commissioner has been appointed to assist with improvements and report back to the Department for Education (DfE) on progress in January 2023. As a result of this, we have judged that there is a significant weakness in relation to the Council's ability to implement or achieve progress on significant recommendations raised from a regulator or inspectorate. Alongside this significant weakness we have raised a key recommendation for the Council to comply with requirements of the Statutory Direction and engage with the commissioner. We will continue to monitor the Council's progress on this matter.



We have substantially completed our audit of your financial statements and plan to issue an audit opinion in January 2023, following completion of our remaining work. Our findings are set out in further detail on page 20.



Opinion on the financial statements and use of auditor's powers

We bring the following matters to your attention:

Opinion on the financial statements

Auditors are required to express an opinion on the financial statements that states whether they : (i) present a true and fair view of the Council's financial position, and (ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22

We have substantially completed our audit of your financial statements and plan to issue an audit opinion in January 2023, following completion of our remaining work. Our findings are set out in further detail on page 22.

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

We did not issue any statutory recommendations.

Public Interest Report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We did not issue a Public Interest Report

Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

We did not apply for any such matter.

Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

We did not issue an Advisory notice.

Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

We did not apply for a judicial review.

Key recommendation



Recommendation 1

The Council should comply with the requirements of the Statutory Direction issued by the Department of Education (DfE) in November 2022. The Council should also ensure that it engages with the Commissioner and makes the investments required to embed the agreed Improvement Plan and regularly monitor and report against the progress being made.

Why/impact

The Council has not made sufficient progress against the Improvement Plan and is subject to a Statutory Direction from the Department for Education.

Auditor judgement

There is a significant weakness with regards to the Council's ability to implement or achieve progress on significant recommendations raised from a regulator or inspectorate. This key recommendation relates to this significant weakness.

Summary findings

In January 2022 the Council were subject to a Joint Targeted Area Inspection (JTAI) which found that there were weaknesses in Children's Services. This led to the issuing of an Improvement Notice in February 2022 with the Council required to implement an improvement plan to deliver appropriate and sustainable improvement to the service. Performance against this Improvement Plan was to be regularly reviewed by the Department for Education.

In response the Council increased funding by £6m in 2022/23 and produced a Statement of Action which sought to address the findings of the JTAI. The 'Improving Outcomes for Children in Solihull' Board has also been established, with an independent chair, to scrutinise the Improvement Plan.

Despite the steps taken by the Council a review by the DfE between June 2022 and September 2022 identified that the progress had not been sufficient. As a result a Statutory Direction was issued to the Council in November 2022 and a Commissioner was appointed with the remit to both support improvement and report to the DfE by January 2023 on the capacity of the Council to improve.

Management Comments

The Council welcomes the extra support and advice that the Commissioner will provide. We have a new leadership team in place in Children's Services and working with our statutory safeguarding partners, we are re-setting our improvement plan to make it more focussed, so that we can move forward with our key actions for improvement at pace.

The range of recommendations that external auditors can make is explained in Appendix C.



Securing economy, efficiency and effectiveness in the Council's use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



Financial Sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



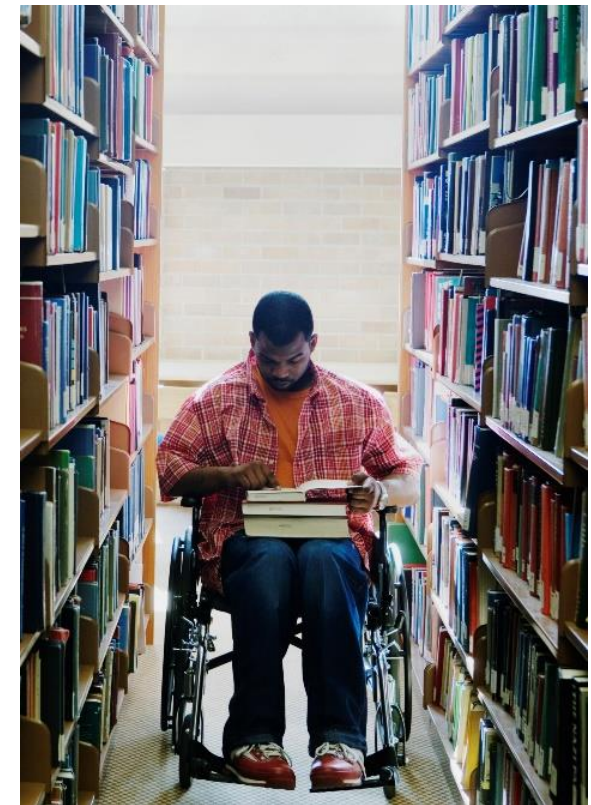
Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 8 to 19. Further detail on how we approached our work is included in Appendix B.

Improving economy, efficiency and effectiveness



We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

Performance Reporting

The Council prepares performance reports with key performance indicators (KPIs) which are presented to the relevant Cabinet Portfolio Holder. Reports include KPIs with explanations for where targets are not being achieved. There are also a variety of performance reports that are presented at internal meetings. We note that there are performance scorecard reports for the Health and Wellbeing Strategy and Children's Services. Performance progress reports are also produced for Adult Care and Support.

It is clear that performance reporting is taking place and there is appropriate and relevant information available. However, our wider experience is that a potential improvement area for the Council is to have a consistent format for each directorate that includes KPIs, progress and links to the risk register that are reported to each Cabinet Portfolio Holder. We would also suggest that the Council look at whether they can be streamlined, but recognise that a degree of tailoring will be required dependent upon the service being reported.

Benchmarking is used widely throughout the Council to inform planning and decision making.

We have reviewed budgeted spend per service line for 2021/22 and identified that highways roads and transport services were the only service with a unit cost score of 'high' when compared with all other Metropolitan Borough Councils. All other unit costs were either average, low or very low. This is comparatively low for a Metropolitan Borough Council and does not indicate any risks of significant weaknesses in arrangements.

Internal Audit

The Audit Committee receives Internal Audit reports quarterly with appropriate information to ensure controls are operating effectively. The Internal Audit opinion per the annual report for 2021/22 is moderate assurance.

There were 2 reviews that had no assurance and 2 reviews that had limited assurance. One of the no assurance relates to Children's Placements Finance. Due to the current risks to Children's Services there is an internal audit review planned included in the 2022/23 Audit Plan so that stakeholders can be given an independent view on the mitigations that have been put in place.

The Council follows up where a level 4 or level 5 assurance score was issued to determine if progress has been made. There are currently 7 findings that require follow up.

Partnership working

The Council is involved in a number of key partnerships. For example, during the year the Birmingham and Solihull Clinical Commissioning Group transitioned to the Birmingham and Solihull Integrated Care System (ICS). The ICS is a key partnership of health and care that deliver joined up services to the Birmingham and Solihull region. The Health & Wellbeing Board oversee the progress of the ICS and provide regular updates. Recently, the 'Inception Framework' was presented which details the priorities for the first year of the ICS with its partners.

It was announced in October 2021 that the Council has signed a 10 year contract with Veolia to deliver waste services. The contract started in April 2022. Each month, a contract report in partnership with Veolia is produced which monitors monthly progress such as SLA compliance and KPIs of the contract.

Improving economy, efficiency and effectiveness

Partnership Working - Children Services

While the Council has a good track record of working with partners in many areas, the recent joint targeted area inspection ('JTAI') of the multi-agency response to the identification of initial need and risk in Solihull report published in February 2022 identified areas for priority action and improvement. We have assessed the arrangements in place to address the issues raised as a result of the inspection. It is clear that this has impacted the morale of staff at an already challenging time in addition to nation wide resourcing issues. On the back of the inspection, the Council reacted with pace and implemented the 'Improving Outcomes for Children in Solihull Board' who meet six weekly and which is independently chaired and also has senior representation from partners including the Chief Executive of Solihull. Review of the July and August 2022 minutes for the board shows that there is representation and input from partners. Partners also prepare a highlight report as part of the meeting. This Board monitors and discusses the actions in the improvement plan and input is provided for improvements on an ongoing basis.

Performance reporting for Children's Services has significantly improved from 2021/22 which previously was included within the Corporate Leadership Team performance monitoring. This has now been developed as the Children Social Care Performance Scorecard in 2022/23 which is presented monthly at this Board aids performance monitoring and measuring. It is recommended that as part of the improvement activities underway monitored by the Improving Outcomes for Children in Solihull Board that the actions that are completed are monitored with KPIs to ensure satisfactory progress going forward. In addition to this, the Children Social Care Performance Scorecard should be linked to the Improvement Plan where appropriate. The Improvement Plan has been developed and is divided into six main themes:

- Children's record keeping systems
- Workforce
- Performance management information and quality assurance
- Quality of practice
- Leadership, governance and management
- Partnerships

The Improving Outcomes for Solihull Children's Board minutes follow these themes.

Due to the high volume of actions, the improvement plan will be an ongoing challenge over the next 3-5 years. At the time of our review, there were 27 completed actions with 11 actions outstanding for target completion of end of 2022. At the time of this review, we are unable to comment if the Council will be able to reach this target by the end of 2022. For the remaining actions with target dates to be confirmed, the Council needs to allocate an appropriate timeline for these.

In relation to this, during 2021 an internal audit into the implementation of the Children's casework management system Liquid Logic System (LCS) was commenced. This resulted in 18 recommendations and an overall score of 4 being provided which is limited assurance. An update on this was presented during March 2022. Theme 1 of the Improvement Plan relates to Children's Record Keeping. As noted previously, there is an internal audit review on the risks and mitigations of Children's Services as part of the 2022/23 Internal Audit Plan.

The Council is also facing pressures on the Medium Term Financial Strategy (MTFS) delivery. The MTFS for 2022/23 – 2024/25 provided additional funding to assist Children's Services of £5.8m in order to mitigate pressures. In addition to this a contribution of £1.5m to the Children's Reserve was approved as part of the MTFS of which the majority is committed to improvement activities. In June 2022 it was recommended that a further £1m was contributed from the Budget Strategy Reserve to the Children's Risk Reserve. The revenue forecast outturn as at July 2022 shows an adverse variance of £2.6m. The JTAI improvement activities were £2.113m as part of the forecast variance of £5.119m before £2.5m is offset by use of reserves. The funding challenges for this will need to be addressed as demands will only increase and as a result has been added to the Corporate Risk Register as a red rating.

It is important to note that the JTAI was published in February 2022 which clearly highlighted weaknesses in joint arrangements. At the time of our review, we can see that the Council has demonstrated it has taken significant efforts to respond and has put additional funding towards implementation. The Council increased funding by £6m in 2022/23 and produced a Statement of Action which sought to address the findings of the JTAI. The 'Improving Outcomes for Children in Solihull' Board has also been established, with an independent chair, to scrutinise the Improvement Plan.

Improving economy, efficiency and effectiveness

Partnership Working – Children Services (cont'd)

Despite the steps taken by the Council a review by the DfE between June 2022 and September 2022 identified that, in its view, the progress had not been sufficient. As a result a Statutory Direction was issued to the Council in November 2022 and a Commissioner was appointed with the remit to both support improvement and report to the DfE by January 2023 on the capacity of the Council to improve.

This appointment was made following the findings of the review, with the following issues noted as persisting in Solihull;

- Serious practice concerns with evidence of unknown and unassessed risk leaving some children at risk of harm
- No clear plan to reduce unallocated cases, which peaked at over 400 cases in August 2022, with DfE funding provided to address this having limited impact
- A fragile workforce and insufficient social care workers to deal with need
- Unreliable recording systems and poor oversight of risk
- Capacity concerns across the service and within the local safeguarding children's partnership's business unit
- Actions still to be addressed, embedded and sustained from the JTAI
- Advisor appointed to support improvement struggling to get engagement from the authority

As a result of this intervention from the Department for Education and the ongoing issues with Children's Services in Solihull, we have identified that there is a significant weakness in relation to the Council's ability to implement or achieve progress on significant recommendations raised from a regulator or inspectorate. Alongside the identification of this significant weakness we have raised a 'Key Recommendation' that the Council should comply with the requirements of the Statutory Direction, ensure that it engages with the commissioner and makes the required investments to embed the agreed Improvement Plan, along with regularly monitoring and reporting on the progress made. We will continue to monitor the progress of the Council in this area and consider any future steps taken by the Department for Education in Solihull.

Procurement

The Council has a well run procurement function with a structure that supports the wider business. The Council has a Procurement Strategy in place available on the Council website which sets out the procurement vision, leadership and responsibility and rules and best practice. We noted that the Procurement Strategy for the Council is not a stand alone document, there is scope for the Council to develop this into a document that is reviewed annually and covers a range of around 3-4 years.

There is a contract management toolkit in place on the intranet with procurement being responsible for the corporate contract management approach however it is not responsible for contract management which lies with the directorates. Contracts are held on this toolkit on the intranet, it is recommended that the Council performs an exercise to ensure that all contracts are consolidated from directorates on the one contract register as directorates are able to self serve for contracts below £50k it is important that these are also consolidated on to the contract register.

VfM 2020/21 Improvement Recommendation Follow Up

We recommended in the prior year that the Council should review the arrangements in place during the pandemic to determine whether any of these could result in cost savings.

As part of the overall planning as part of budget process this looks at examples within stronger communities portfolio such as digital proposals streamlining and community housing company streamlining. Hybrid working has been embedded in the way that the Council works now and as a result of this the existing office has 900 spaces but fewer than 200 staff in at any one time. Therefore the longer term plan is to replace council accommodation (for example the Eastgate project). One property has already been exited and is available for letting as it is no longer required.

Improvement recommendations



Improving economy, efficiency and effectiveness

Recommendation 1

It is recommended that as part of the improvement activities underway monitored by the Improving Outcomes for Children in Solihull Board that the actions that are completed are monitored with KPIs to ensure they are maintaining satisfactory progress.

Why/impact

Monitoring the performance of completed actions will allow a greater chance of preventing the issues identified in the initial JTAI report.

Auditor judgement

Without appropriate monitoring over performance of completed actions there is a risk that the standard of these could slip and result in poor performance which could have both financial and reputation damage for the Council and the community.

Summary findings

As a result of the JTAI inspection, the Council has developed an Improvement Plan and formed an Improving Outcomes for Children in Solihull Board. This Board monitors the actions of the improvement plan however there is no monitoring of the KPIs for these. It is therefore recommended that this is implemented as part of the Board process.

Management Comments

Agreed – This will be part of the work to re-set the improvement plan referred to in an earlier response.



The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Improving economy, efficiency and effectiveness

Recommendation 2

It is recommended that the Council should consider:

- a consistent format for performance reporting which includes all KPIs, progress to date, progress direction of travel, link to corporate objectives and risk registers, and
- that is streamlined, but tailored, to reflect the relevant service line.

Why/impact

Having a streamlined and consistent format for performance reporting that is presented to the appropriate committee/cabinet portfolio holder will allow directorates and stakeholders a greater view that is easier to read and track progress. This should also limit the amount of different performance reports the Council has if each directorate has one detailed performance report.

Auditor judgement

Without appropriate performance reporting that is simple to understand and track progress on there is a risk that there is a weakness in service performance that does not get identified early enough resulting in reputational and financial damage for the Council.

Summary findings

The Council currently has a variety of performance reporting that is produced. However, we noted that this comes in different forms. We think the Council could benefit from having a set of consistently formatted reports similar to the performance scorecard reports already built.

Management Comments

Agreed – the Council will look at the extent to which there can be a consistent format for performance reports which does not compromise clear reporting of the performance measures that exist across the range of Council services.



The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Improving economy, efficiency and effectiveness

Recommendation 3

It is recommended that the Council performs an exercise to ensure all contracts that the Council has are consolidated onto the new contract register. This should be reviewed regularly.

Why/impact

Although the Council has a contract register on the intranet it does not hold all of the contracts the Council has as directorates can self serve for under £50k and there could be risky contracts under this threshold.

Auditor judgement

Without an appropriate up to date contract register there is a risk that all contracts are not included which could result in poor risk management and result in financial loss for the Council.

Summary findings

The Council currently has a contract register on the contract toolkit on the intranet however this may not include all contracts the Council has. The Council should perform an exercise to ensure all contracts are held on this register with who is responsible for the contract management.

Management Comments

The Council's new Oracle system makes visibility of these lower value contracts clearer. The Council will work towards incorporating the lower value contracts in the Contract Register. Timescales will be discussed with the External Auditors and the Audit Committee.



The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Improving economy, efficiency and effectiveness

Recommendation 4

It is recommended that the Council should develop a procurement strategy document over a time period that captures all procurement information relevant to the Council and updates on reforms.

Why/impact

Although the Council has detailed the Procurement Strategy on the website, it would be helpful for the Council to develop a stand alone procurement strategy document that covers around 2-4 years. This should be continually refreshed and reviewed at the appropriate committee.

Auditor judgement

The Council procurement strategy is currently held on the website along with the Social Value policy and is not a stand alone document.

Summary findings

The Council should develop a procurement strategy document over a time period that captures all procurement information relevant to the Council and updates on reforms.

Management Comments

Agreed – The Council will look to produce a longer-term Procurement Strategy during 2023/24.



The range of recommendations that external auditors can make is explained in Appendix C.

Financial sustainability



We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Key findings

The Council has prepared an MTFs for the three financial years ending on 31 March 2025 based on prudent assumptions, clearly setting out the impact of demand on key services and assumptions regarding income. Members have been heavily involved through the Budget Strategy Group and have considered the risk around certain assumptions. The MTFs clearly articulates these risks, but also the mitigating factors, particularly the Budget Strategy Reserve which is specifically to smooth emerging pressures in the first two years of the MTFs in order to avoid short term decision making and adverse impacts on service delivery. At the time that the budget was set, the balance on this reserve was clearly adequate for the risks identified. However, inflationary pressures have arisen since then, in particular relating to fuel and energy costs, and the Council is currently assessing the impact of these on the current year's financial position and that for future years.

Quarterly finance reports to Cabinet include not only in-year financial monitoring, but also an update on the MTFs savings.

Children's Services

The most significant financial challenge the Council faces is in regard to Children's Services, and placements in particular. The latest reported position as at November 2022 has identified a forecast variance of £4.512m on the Core Council in relation to the Children and Education portfolio. This is the net adverse variance following full utilisation of the £2.5m Children's Services risk reserve.

In addition, the Council has a deficit on the Dedicated Schools Grant of £13.2m at 1 April 2022 and this is forecast to increase further to £16.8m by 31 March 2023. There is a plan that aims to bring this service back into annual financial balance by 2024/25. The government has confirmed that the current "statutory override" that allows this to be a ringfenced fund with the deficit presented in the financial statements as a negative reserve would operate until 31 March 2023 is to be extended. Whilst this defers the immediate risk that councils might be required to fund any deficit from their own funds this risk is recognised by the Council, who responded to a Department for Education consultation in August 2022. That response concluded "Continuation of the statutory override is essential to avoid a detrimental impact on vulnerable residents and / or the potential issuing of a S114 notice." A longer term solution will need to be sought through discussions between the sector and government.

Business Rates Retention Scheme

The Business Rates Retention scheme has been in place since 2017. Solihull Council has previously treated the windfall that has arisen as a result of this as not part of its core income. However, this has now changed as a result of cost pressures. The windfall has thus far been used one year in arrears, so the use of £8.6m in 2022/23 is from the windfall in 2021/22 (there is £9.1m in the windfall reserve at 1 April 2022).

The Council has been advised that the arrangement will continue for 2022/23 so that it continues to produce a windfall to use in 2023/24. The Treasury website indicates that the arrangement will continue for at least one more year after that, and possibly longer, so the Council is comfortable in using the windfall in 2024/25. Beyond that, it is the view of the Director of Finance that any change to the arrangement will require a full review of business rates, which will take a considerable time.

Financial Sustainability

As part of the 2022/23 budget setting process it was agreed that the windfall income forecast for 2022/23 and 2023/24 would be used to top up the Budget Strategy Reserve and support the overall budget position, although the amount included in the MTFS did not reflect the full amount forecast to be received.

It is now proposed that the entire windfall is to be treated as core income in the year in which it is received.

Budgeting process and risk management

The Council Plan, MTFS, Corporate Capital Strategy, and Treasury Management Strategy are closely aligned, ensuring, for example, that any additional staffing requirement and the revenue cost of capital projects are fed into the MTFS and hence the annual budgets. All are appropriately presented to Members and subject to scrutiny before final approval.

The Council has robust and transparent arrangements for identifying risks and setting out how these are addressed in the MTFS. This includes service specific risks, risks taken from the Corporate Risk Register, and other known risks, such as business rates volatility. As well as a risk register for each major project, there is a Directorate level risk register, which is supported by the governance lead, and presented to Directorate Leadership Team each month. Where necessary these are fed into the Corporate Risk Register.

The Aligning Resources to Our Priorities (ARTOP) Board reviews savings schemes prior to them being included in the MTFS, and then receives regular updates on delivery. The detailed analysis supporting the reports shows individual schemes in each Directorate. In-year monitoring is robust and shows that schemes are on track. This is consistent with previous years. The Council is not at this stage overly reliant on non-recurring items or unsustainable uses of reserves. It uses the Budget Strategy Reserve to smooth short-term fluctuations while structural changes are made in order to achieve long term balance.

In light of current cost pressures the Council is proposing that the Budget Strategy Reserve be increased from its current minimum level of £5m to £7.5m.

Response to recently arising financial pressures

However, the Council acknowledges that in the light of recent inflationary cost pressures, the next three-year budget setting process will need to consider what services may need to be reduced. It is currently assessing the impact of those cost pressures as part of the next iteration of the MTFS.

If unmitigated, the cost pressures in 2022/23 are assessed to be £6.9m. It is anticipated that the 2023/24 budget setting process will identify opportunities for savings that can be made in the current year. Given that the financial year is already more than half complete, it is expected that the savings will be achieved by a combination of recurrent (e.g. permanent service changes) and non-recurrent (e.g. use of Directorate reserves) actions.

Opportunities to make savings have already been identified as a result of the change to hybrid working. The main Council office has space for 900 members of staff but at any one time there is usually no more than 200 on site. Therefore the longer term plan is to replace council accommodation (the “Eastgate” project). One property has already been exited and is available for letting as it is no longer required.

Conclusion

The MTFS demonstrates that the Council is aware of, and able to quantify, the costs and challenges of delivering core statutory services such as Adult Social Care and Children’s Services. For example, in Adult Social Care these include increasing demand, capacity and market stability issues in the independent sector and the impact of increases in the National Living Wage, as well as demographic pressures in younger adults’ disability services, especially Learning Disabilities and Autism, as a result of greater numbers of individuals accessing support and the increased complexity of their needs.

Moreover, the Council is fully aware of the financial environment in which it is operating. In recognition of the cost pressures it faces and potential responses and consequential risks, the budget setting process has been on cross-arty approach for a number of years and this has continued into 2023/24.

The Council currently has a balanced MTFS that is delivered through the use of reserves. This remains sustainable in the short-term and medium term as, based on the current MTFS the remaining reserves at the end of 2024/25 would be £48.2m. However, this is less than half the 2022/23 opening reserves balance of £96.9m and we will continue to monitor the Council’s financial sustainability moving forwards.

Following completion of our detailed work the provisional local government finance settlement was issued on 19th December 2022. This showed Solihull’s core spending power increasing from £174m in 2022/23 to £189m in 2023/24 (8.6%). This includes the ability for the Council to increase council tax by up to 4.99% (including the Adult Social Care precept). The Council has also recently been advised that the performance of the Coventry & Solihull Waste Disposal Company will result in an improved level of dividends. Our discussions with the Director of Resources & Deputy Chief Executive indicate that this will mean that the Council’s financial position will be better than is being reported to the Council’s Scrutiny Boards in January 2023. This should enable a balanced budget position to be delivered for 2023/24. Whilst significant uncertainty remains for future years, the Council’s forecasts for the later years of its MTFS will show an improved position compared to the forecasts prepared before the provisional finance settlement.

Governance



We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

Risk monitoring and effectiveness of internal controls

The Council has robust arrangements in place to monitor and assess risk at a Directorate and Corporate Level. The Council has an agreed Risk Management Policy for which the Corporate Leadership Team is accountable for the effective management of risks and monitors arrangements. The Audit Committee receives quarterly reports. Risk Management reports are presented to Cabinet which provide an annual update on the Council's corporate risk register. The annual risk management update for 2021/22 was June 2022 which covered a review of the strategic risks being both Corporate and Covid-19 risks.

The Council has an internal audit function which is in-house which is adequately resourced and effective. The Internal Audit team report quarterly to the Audit Committee. The reports have a score of 1-5 with 1 being full assurance and 5 being no assurance. An annual report is provided at the Audit Committee which provides an overall opinion for the year. For the 2021/22 financial year the overall opinion is moderate assurance. In year, the Council received two 5 ratings these were:

- Solihull Music Services and;
- Children's Placements Finance

The Council has appropriate arrangements and policies in place to prevent and detect fraud. The Annual Governance Statement highlights the ethical framework reinforced by the Code of Conduct for Councillors, Code of Employee Conduct, Resolution Policy, Whistleblowing Policy, Anti Money Laundering Policy, Counter Fraud and Corruption Strategy and Prevention of Bribery Policy, with processes in place to report, investigate and act on any breaches.

Annual budget setting process

The budget for 2022/23 was presented at the February 2022 Cabinet with the purpose to provide updates and seek recommendations for the full Council. There is evidence that Cabinet is heavily involved in the budget setting process. We can see that the budget is informed by the Medium Term Financial Strategy (MTFS) and is updated throughout the year based on financial position. In setting the budget, finance teams in each Directorate work with their lead officers initially to identify pressures and opportunities for savings. The Directorate leadership teams work with the Cabinet Portfolio Holder to establish pressures and mitigations within each services. There is adequate arrangements in place for both internal and external engagement in the budget setting process. Budget proposals are presented to the Budget Steering Group after consideration.

The Council holds both internal and external consultations as part of the budget setting process. There is a cross party budget meeting which meets to discuss proposals and the Corporate Leadership Team run a budget workshop. The October meeting's focus was looking at current pressures which feed into the Budget Strategy Steering Group. In terms of external consultations, the Council consults with all local businesses.

Governance

Decision Making and Performance Reporting

The Chair of the Audit Committee has remained stable and there has been no unexplained turnover. In addition to this, attendance at Audit Committees throughout the year do not highlight any governance issues.

Relevant information is provided to decision makers before major decisions are made for challenge. Directors or Cabinet Members can be considered as decision makers in line with the delegations of authority for the relevant committee. Before Cabinet meetings, reports are written by the appropriate author and are signed off by the directorate head. This way the head of service/directorate have had a chance to input all relevant information and ensure it is reviewed and challenged before going to Cabinet/Scrutiny. Cabinet members are briefed on the report and a decision is noted.

We have noted that service information is currently not reported within the quarterly financial reports to Cabinet. The performance data drives the financial reports but the links are not made in the financial reports. Separate reports go on KPI's for individual services instead.

The finance reports explain variances however we believed there is scope to improve the reports to Cabinet with relevant non-financial activity such as service activity and workforce information. During our work we explored potential improvements in the way in which the Council integrate non-financial and financial reporting to Cabinet due to the lack of links between the performance data and the financial reports. This was discussed with management and the Council have previously explored integrating financial and non-financial reporting information and concluded that, due to the diverse nature of local authority business, that a standard reporting format is not necessary. Cabinet receive reports on both financial and non-financial information for the Council which means that we are satisfied that Cabinet are well informed, even if the reports are not integrated.

Monitoring and ensuring appropriate standards

The Council has an in house legal team that provide expert Counsel when required. This ensures there is monitoring in place with legislation and regulatory standards. The Code of Conduct outlines the legislation and regulatory standards which is communicated to staff. During the year, there has not been any instances identified of significant non-compliance with the body's constitution or legislation and regulatory standards.

The Code of Conduct covers arrangements for where the Council procures or commissions services.

The Council's Conflict of Interest Policy is held at Section 11 of the Code of Conduct that was reviewed June 2022. Councillors can declare an interest at any time and declarations are held at Councillor level on the Council's website so that they are 'real-time' and can be updated as the Council moves through its meetings cycle. Declarations of interest are also held on the same register as gifts and hospitality on the 'All Declarations Register'. We have reviewed the 2021-22 Declarations Register and noted that the register on the Solihull Council website contains some out of date information. To further transparency and accountability the Council should ensure that out of date information is removed, the register streamlined and the most up-to-date version of the register is accessible via its website.

Children's Services

The recent joint targeted area inspection (JTAI) report published Feb 2022 noted 'Weaknesses in the joint strategic governance of the multi-agency safeguarding hub MASH have led to the lack of a cohesive approach to structuring and resourcing the MASH. The internal audit report for 21/22 highlights this and states that the Children, Families and Young people service area will be the highest level of concern going into the next financial year.

As part of the ongoing response to this report, the Council have set up the Improving Outcomes for Children in Solihull Board which is independently chaired. This provides scrutiny over the Improvement Plan and includes partner organisations. Therefore we are satisfied that there are appropriate governance arrangements in place to ensure outcomes are achieved.

Following a review by the Department of Education the Council were issued with a Statutory Direction and a commissioner was appointed by DfE, due to the lack of progress being made against the Improvement Plan for Children's Services. We have identified this as a significant weakness within the Economy, Efficiency and Effectiveness element of our Value for Money work.

VfM 2020/21 Improvement Recommendation Follow Up

We recommended that the Council should consider whether risk management reporting would be enhanced by including for each risk reported to Audit Committees, how that risk impacts on the achievement of one or more of the 'Key things to do by 2025' as set out in the Council Plan 2020-2025.

The risk management process has now been changed to add this in to the corporate risk register updates.

Improvement recommendation



Governance

Recommendation 5

The Council has arrangements in place for officers and members to make declarations of interest which are held at both Councillor level and on the same register as gifts and hospitality. To further transparency and accountability the Council should ensure that out of date information is removed, the register streamlined and the most up-to-date version of the register is accessible via its website.

Why/impact

The Council's Conflict of Interest Policy is held at Section 11 of the Code of Conduct that was reviewed June 2022. Councillors can declare an interest at any time and declarations are held at Councillor level on the Council's website so that they are 'real-time' and can be updated as the Council moves through its meetings cycle. Declarations of interest are also held on the same register as gifts and hospitality on the 'All Declarations Register'. We have reviewed the 2021-22 Declarations Register and noted that the register on the Solihull Council website contains some out of date information. To further transparency and accountability the Council should ensure that out of date information is removed, the register streamlined and the most up-to-date version of the register is accessible via its website.

Auditor judgement

The Council has appropriate arrangements in place for officers and members to capture and make declarations of interest. To further transparency and accountability the Council should ensure that out of date information is removed, the register streamlined and the most up-to-date version of the register is accessible via its website.

Summary findings

The Council captures appropriate declarations of interest that are used to inform internal decision-making but it can further improve them by ensuring the most up-to-date versions are on its public website.

Management Comments

Agreed – The Council's Audit Services Team will look to remove any out of date information and to ensure that there is one source of information for declarations of interest.



The range of recommendations that external auditors can make is explained in Appendix C.

Follow-up of previous recommendations

| | Recommendation | Type of recommendation | Date raised | Progress to date | Addressed? | Further action? |
|---|---|-------------------------------|--------------------|---|-------------------|------------------------|
| 1 | The Council should review the arrangements in place during the pandemic to determine whether any of these could result in cost savings | Improvement | November 2021 | Discussion with Paul Johnson (s.151 officer) that arrangements have been reviewed. | Yes | No |
| 2 | The Council should consider whether risk management reporting would be enhanced by including for each risk reported to Audit Committees, how that risk impacts on the achievement of one or more of the 'Key things to do by 2025' as set out in the Council Plan 2020-2025 | Improvement | November 2021 | Discussion with Paul Johnson (s.151 officer) that the risk management process has been changed to add this in and now goes in all reports.. | Yes | No |

Opinion on the financial statements



Audit opinion on the financial statements

We plan to provide an unqualified opinion on the Council's financial statements in January 2023, once we have completed our remaining work.

Other opinion/key findings

We reported the detailed findings from our work on the Council's financial statements in our Audit Findings Report presented to the Audit Committee on 14 November 2022. There were no significant issues at that stage.

Audit Findings Report (AFR)

More detailed findings can be found in our AFR, which was published and reported to the Council's Audit Committee on 14 November 2022.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

We have not yet undertaken any work in this area as the detailed guidance has not been issued by the government department. We expect the Council to be below the threshold for detailed work (£2bn in 2020/21).

Preparation of the accounts

The Council provided draft accounts in line with the national deadline and provided a good set of working papers to support it.

Issues arising from the accounts:

There were no major issues arising from our audit. Our opinion was delayed owing to a national issue around the accounting for and valuation of infrastructure assets. Our work on journals testing also took longer than we had planned, and we made some improvement recommendations in this area.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation



Appendices

Appendix A – Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

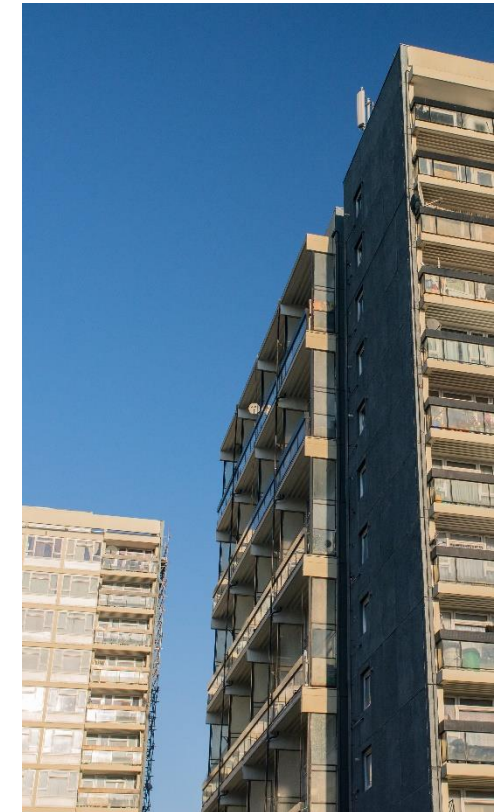
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Appendix B – Risks of significant weaknesses, our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

| Risk of significant weakness | Procedures undertaken | Findings | Outcome |
|---|---|--|---|
| Financial sustainability was identified as a potential significant weakness. | We reviewed the Council's arrangements with regards to its financial sustainability, MTFS and proposed use of reserves. | We are of the view that there is no significant weakness with regards to financial sustainability but will continue to monitor this as part of our value for money work. | Appropriate arrangements in place, no further action taken. |
| Improving economy, efficiency and effectiveness was identified as a significant weakness, with regards to Children's Services in Solihull | We have reviewed the steps taken by the Council to address the findings of the Joint Targeted Area Inspection and the findings of reviews from the Department of Education. | Based on the Council being subject to a Statutory Direction and a commissioner being in place to support the Council and report back to DfE, we have determined that there is a significant weakness with regards to the Council achieving value for money in the economy, efficiency and effectiveness of addressing findings from regulators in its Children's Services. | Significant weakness in arrangements have been identified and a key recommendation has been made. |

Appendix C – An explanatory note on recommendations

A range of different recommendations can be raised by the Council’s auditors as follows:

| Type of recommendation | Background | Raised within this report | Page reference |
|------------------------|---|---|------------------------------|
| Statutory | Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. | None raised in this report | N/A |
| Key | The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as ‘key recommendations’. | Yes – one raised in this report with regards to the Statutory Direction that the Council is currently subject in relation to Children Services. | Page 6 |
| Improvement | These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council’s arrangements. | Yes – Four Improvement recommendations raised with regards to Economy, Efficiency and Effectiveness and one in respect of Governance | Pages 11, 12, 13, 14 and 19. |

Appendix D – Sources of evidence



Staff involved

Nick Page – Chief Executive

Tim Browne – Interim Director of Children's Services

Paul Johnson – Director of Resources and Deputy Chief Executive

Julie Cooper – Director of Financial Operations

Adam Paterson – Finance Manager

Charlotte Kings – Head of Procurement



Documents Reviewed

- Medium Term Financial Strategy 2022/23 to 2024/25
- Revenue Strategy 2022/23 to 2024/25
- Treasury Management Strategy 2022/23 to 2031/32
- Corporate Capital Strategy 2-22/23 to 2031/32
- Council Plan 2020 to 2025 – 2022/23 update
- Draft Financial Statements for y/e 31 March 2022
- 2012/22 year end outturn report
- Dedicated Schools Grant statutory override consultation response
- Draft Annual Governance Statement 2021/22
- Internal Audit Report 2021/22
- Review of Accounting Policies 2021/22
- Gifts & Hospitality Register
- Declaration of Interests
- Risk Management Policy



Meetings Observed

- Audit Committee meeting – 3 August 2022 but the audit team also attend all meetings.

