

Meeting date: 20 January 2021
Report to: Stronger Communities and
Neighbourhood Services Scrutiny Board



Subject/report title: MTFS Update – Budget Strategy 2021/22 – 2023/24

Report from: The Director of Resources and Deputy Chief Executive and the
Director of Economy and Infrastructure

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Wards affected:

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

Public/private report: Public

Exempt by virtue of paragraph: Select an Exemption paragraph from the Quick Parts drop-down list

1. Purpose of Report

1.1 To seek comments on the budget proposals identified for 2021/22 to 2023/24 within the Environment and Highways, Leisure Tourism and Sport, and Stronger and Safer Communities cabinet portfolios, to go forward to the Resources and Delivering Value Scrutiny Board and the Full Cabinet in February 2021.

2. Decision(s) recommended

- 2.1 Note the pressures and mitigating actions set out in Appendix A and agree any comments to be fed back to the Resources and Delivering Value Scrutiny Board and the Full Cabinet in February 2021.
- 2.2 Consider the budget proposals outlined in the report and agree any comments to be fed back to the Resources and Delivering Value Scrutiny Board and the Full Cabinet in February 2021.
- 2.3 Consider the schedule of fees and charges proposed for 2021/22, as attached at Appendix B, and agree any comments to be fed back to the Resources and Delivering Value Scrutiny Board and the Full Cabinet in February 2021.

3. Matters for Consideration

- 3.1 The focus of the budget strategy this year has been on reset and recovery in the light of the wide-ranging impact of the Covid-19 pandemic. To that end, cabinet portfolios have not been asked to propose savings to meet a corporate target, but instead have identified options for mitigating service pressures, which were considered by the Budget Strategy Group at three meetings in October and November.
- 3.2 As part of their work, the Budget Strategy Group considered some specific pressures and agreed to recommend the permanent realignment of budgets within the Children's Services and Skills and Economy and Infrastructure portfolios, at a cost of £4.050 million per annum from 2023/24. In addition, the Group received updates on the financial impact of Covid-19 on future years' budgets, and agreed to include £10.353 million of projected costs and associated grant funding in the updated medium term financial strategy (MTFS).
- 3.3 The government has confirmed that regional pilots of 100% business rates retention will continue into 2021/22. It is anticipated that the participating authorities will once again benefit from some temporary windfall income in 2021/22 as a result, which it is proposed would be contributed to a business rates windfall contingency as in previous years.
- 3.4 As the actual amounts receivable in respect of each year will not be confirmed until after the outturn position is reported, no commitment can be made in respect of the proposals for the 2020/21 windfall resources until June 2021. However, the Budget Strategy Group agreed to endorse the use of £2.250 million of the forecast windfall funding to top up reserves in the Children's Services and Skills and Economy and Infrastructure portfolios.

Budget proposals

- 3.5 As in previous years, the strategy is to manage any movement in the first two years of the MTFS as one-off adjustments, using the budget strategy reserve to smooth the profile of the funding pressures so that there is no impact on the savings targets already being delivered for 2021/22 and 2022/23.
- 3.6 The updates to the MTFS considered by the Budget Strategy Group, including the estimated impact of relevant announcements in the Spending Review, resulted in an ongoing funding gap for 2023/24 of £2.738 million. At the time of the Members' Seminar, significant uncertainty around future funding levels remained, with the announcement of the provisional finance settlement not expected until mid-December and the tax base and business rates forecasts yet to be finalised. It was therefore agreed to schedule a fourth meeting of the Budget Strategy Group for 11 January, once further clarity was available, to recommend a strategy for addressing the funding gap, and the outcome of this meeting will be reported to the Full Cabinet for consideration on 11 February.
- 3.7 This will not affect the pressures and mitigations detailed at Appendix A, on which the scrutiny board is asked to provide comments for consideration by the Resources and Delivering Value Scrutiny Board on 8 February. The overall position will then be reported to the Full Cabinet on 11 February, when members will be asked to agree a

budget recommendation to go forward to the Full Council on 25 February.

Service Pressures and Mitigations

- 3.8 It was reported to Budget Strategy Group that a number of areas within the Economy and Infrastructure Directorate were facing significant financial challenges prior to Covid-19 which had then been compounded by new pressures emerging as a result of the pandemic. To manage the financial position in 2020/21 unrelated to Covid it is proposed to use directorate reserves of up to £1.250million to balance the budget, with a recommendation as outlined in 3.4 to replenish those reserves from the business rates windfall for 2020/21. The Budget Strategy Group then agreed to recommend the permanent realignment of budgets through the MTFS from 2021/22.
- 3.9 This includes financial challenges within the scope of this Scrutiny Board which are detailed below. Those within the Climate Change, Planning and Housing and Growth and Infrastructure Delivery portfolios were considered by the Economic Development and Managed Growth Scrutiny Board on 18 January.

Environment Services

- 3.10 The introduction of a commingled waste recycling service in September 2014 increased the annual cost of the Strategic Environment Contract (SEC) within Environment Services. Additional government funding from the Weekly Collection grant was used to offset this but the remaining funding was exhausted in 2019/20.
- 3.11 During the life of the current SEC contract there have been uplifts to the contract as a result of service growth due to an increase in the number of properties from new residential developments. This has not previously been recognised in the budget process.
- 3.12 Disposal costs for recycling have increased due to the impact of a new variable price mechanism dependant on the global waste and recycling market. In the longer term the Council is investing in a regional Materials Recycling Facility (MRF) which when operational will allow more visibility and control of these costs.
- 3.13 Directorate reserves have been used in prior years to meet costs arising from the issue of defective brown bins. Additional costs from replacing bins are expected to continue over the period of the MTFS. A legal case seeking compensation from the manufacturer of the bins is in progress, and the requested settlement to cover costs previously incurred is included as a mitigation in 2021/22. The risk of this compensation not being received is to be recognised within the overall MTFS as it would not be realistic to find in year savings to offset this amount if the case were not to be settled in 2021/22.
- 3.14 The retender of the Strategic Environment Contract presents an opportunity to mitigate some of the pressures detailed above. An external review estimated that this would deliver on-going savings of around £1.200 million from 1 April 2022 when the new contract commences.
- 3.15 There are proposed mitigations from releasing budgets for streetcare and SEC provisional costs based on prior year favourable variances. These are essentially contingency budgets to deal with events such as serious fly tipping incidents which occur infrequently but can cost around £50,000. To manage the risk in releasing these

budgets it is proposed to contribute forecast favourable variances in 2020/21 and 2021/22 to establish a reserve of £300,000, allowing a permanent saving of £162,000 to then be released from 2022/23.

Highway Services

- 3.16 Prior to Covid-19 restrictions, an underlying pressure on car parking income had already been recognised as a result of reduced customer numbers. The long term impact of the pandemic is likely to be an acceleration of the existing shift towards more online retail and working from home, both of which will reduce demand for town centre and high street parking. The impact of this needs to be considered as part of the long term masterplan for the town centre which could include releasing land currently used for parking for business premises or housing, which would offset the lost revenue from the car parks.
- 3.17 Other income streams have also reduced, including enforcement, Traffic Regulation Orders and advertising income. In 2020/21 the impact of this has been significantly reduced through claiming from the government's income loss relief scheme.

Customer Services

- 3.18 Over time there has been a trend in customer behaviour towards increased number of cremations and fewer burials. The budget in Bereavement Services is no longer representative of actual activity and this has resulted in adverse variances in recent years. It is proposed to address this in the MTFs with additional investment into the service.
- 3.19 During the first four months of 2020/21 Bereavement Services saw significant one off increases in numbers of burials and cremations. This increase in activity led to increased costs but these were offset by additional income. Covid-19 emergency grant funding was used to purchase equipment to provide web casting of funerals for those who could not attend due to Covid restrictions.
- 3.20 The Registration Service saw additional demand in registering of deaths during 2020/21, but suspended marriage ceremonies in line with national restrictions. Ceremonies are now permitted to take place, but with continued restrictions on attendance demand has reduced, thus reducing income. If restrictions lift from 1 April 2021 there will be a delay before income returns to normal levels as ceremonies need to be pre-booked and many people will not make bookings while there is still uncertainty.
- 3.21 Libraries were closed at the beginning of 2020/21 and had started to reopen with social distancing in place from September, although these are now closed under the current restrictions. There were modest savings in running costs whilst buildings remained closed, which were offset by loss of income from fees and charges and fines.
- 3.22 A review of library fines was already underway prior to the pandemic with the aim of rationalising the current system of charges to avoid discouraging customers from accessing the service and reduce the administrative costs of the current processes. This would aim to mitigate the potential permanent reduction in income for the service.
- 3.23 The Core theatre closed in March 2020 and has not yet reopened. Current restrictions create challenges for performers to meet in order to rehearse as there is a risk that if one member of the performance tests positive for Covid that other cast members and

production crew would need to self-isolate, leading to short notice cancellations. Allowing for social distancing of one metre reduces the theatre capacity to 37% which makes it almost impossible for performances to even cover costs.

- 3.24 If Covid restrictions lift from April 2021 there will be a delay in resuming a full theatre programme until September 2021 to allow time for larger productions to be scheduled and rehearsals to take place. Cinema equipment has been installed during the period of closure, which will allow the venue to reopen sooner with a different offer until the full theatre programme resumes.

Leisure Services

- 3.25 Leisure Services, which sit within the Public Health Directorate, have been impacted by the legislative requirement to close Leisure centres during Covid-19 lockdown periods and social distancing has restricted the range and customer demand for services when opening has been permitted.
- 3.26 The operation of the Leisure centres is undertaken by a third party provider under a ten year contract awarded from June 2018. Under the contract, the operator pays the Council an annual concession fee agreed through the tender process. As closure has been a requirement of law, contract clauses have been invoked whereby income risk is transferred from the operator to the Council, with the operator required to give Open-Book access to their financial records. To facilitate the reopening of the centres, an Interim Operating Agreement was put in place, which has now been formalised in a Deed of Variation (DoV) to the original contract. A new financial model accompanied the revised arrangements, which forecast the operating position for 2020/21 as a loss of £1.6million (including the loss of the concession fee) which is being monitored throughout the year. The loss must be borne by the Council, but is being mitigated in 2020/21 by the receipt of government relief. The DoV contractual arrangements remain in place until either party gives notice to agree a revised financial model, which then gives up to 12 months to reach agreement before termination could commence.
- 3.27 Although an improvement in the operating position is forecast once Covid restrictions are lifted and customer confidence returns, there is expected to be some on-going shift in demand, particularly in the fitness sector with the increase in on-line provision. The recovery of the concession fee is considered at risk, which presents a pressure for the service. Mitigation has been modelled through use of service reserves during the MTFS period, though there is a forecast ongoing pressure of £0.450 million.

Fees and charges

3.28 As part of the Council's fees and charges policy, the charges levied by the Council need to be approved annually as part of the budget setting process. A schedule of fees and charges for this scrutiny board is attached at Appendix B to this report. These fees and charges take into account the guidance set out in the Council's policy and have been reviewed in the light of the pressures faced by the Council and with reference to current and forecast inflation.

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

4.1 In developing the budget proposals for review by the Budget Strategy Group, the directorate leadership teams worked with the cabinet portfolio holders to establish the scale of the pressures and identify mitigating actions within each service area. Background information was provided for each cabinet portfolio to give the Group further context for the consideration of the budget proposals.

4.2 The indicative budgets for the services relating to this scrutiny board are attached at Appendix C, together with an overview of the projected reserves position. This information will assist members in considering the budget proposals put forward as part of this process.

5. Reasons for recommending preferred option

5.1 As outlined in section 4 above, the recommendations of the Budget Strategy Group are based on the consideration of the particular financial constraints and service delivery context of each individual service area. In determining its recommendations the Group sought to balance the requirements of each service area within the forecast funding envelope set out by the updated MTFS.

6. Implications and Considerations

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

Priority:	Contribution:
Economy: 1. Revitalising our towns and local centres. 2. UK Central (UKC) and maximising the opportunities of HS2. 3. Increase the supply of housing, especially affordable and social housing.	The MTFS provides the financial framework which supports the delivery of the Council Plan.
Environment: 4. Enhance Solihull's natural environment. 5. Improve Solihull's air quality.	The MTFS provides the financial framework which supports the delivery of the Council Plan.

6. Reduce Solihull's net carbon emissions.	
People and Communities: 7. Take action to improve life chances in our most disadvantaged communities. 8. Enable communities to thrive. 9. Sustainable, quality, affordable provision for adults & children with complex needs.	The MTFS provides the financial framework which supports the delivery of the Council Plan.

6.2 Consultation and Scrutiny:

6.2.1 The budget proposals have been shared with all members at a seminar in December 2020 and each scrutiny board is now asked to consider the proposals which relate to their cabinet portfolios in more detail.

6.2.2 In response to a question raised at the members' seminar, the Director of Resources and Deputy Chief Executive explained that it is considered unlikely that the business rates windfall for 2020/21 will be less than the £2.250 million proposed use to top up service reserves, as outlined in paragraph 3.4 above, but no commitments will be approved until the windfall is confirmed in June 2021.

6.2.3 The Budget Strategy Group has agreed that consultation with the public will take place on key specific savings proposals. There are no savings proposals as such this year, but the budget recommendations outlined here have been shared with the unions and feedback will be presented to the Resources and Delivering Value Scrutiny Board on 8 February and the Full Cabinet on 11 February.

6.3 Financial implications:

6.3.1 In order to set a balanced budget, the authority's limited resources need to be targeted at the Council's priorities and any unfunded service pressures will have to be met from corresponding budget reductions elsewhere.

6.4 Legal implications:

6.4.1 The budget proposals attached at Appendices A to C were developed with regard to legal implications where applicable.

6.5 Risk implications:

6.5.1 Based on the information provided, it is officers' opinion that the significant risks associated with failure to deliver the medium term financial strategy have been identified and assessed

6.6 Equality implications:

6.6.1 The budget proposals will be screened for 'due regard' to equality and, where appropriate, will be subject to a Fair Treatment Assessment before implementation.

7. List of appendices referred to

7.1 Appendix A: Economy and Infrastructure Directorate and Public Health Leisure Services Pressures and Mitigating Actions 2021/22 to 2023/24

7.2 Appendix B: Proposed Fees and Charges 2021/22

7.3 Appendix C: Indicative Service Budgets 2021/22

8. Background papers used to compile this report

8.1 None

9. List of other relevant documents

9.1 None