

Meeting date: 8 February 2021
Report to: Resources and Delivering Value Scrutiny Board



Subject/report title: Budget and Medium Term Financial Strategy 2021/22 – 2023/24

Report from: Director of Resources and Deputy Chief Executive

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Wards affected:

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

Public/private report: Public

Exempt by virtue of paragraph: N/A

1. Purpose of Report

- 1.1 To provide an update on the budget position for 2021/22 and subsequent years and to seek feedback on the budget proposals for Full Cabinet.
- 1.2 To update the Medium Term Financial Strategy and the Capital Strategy, and to recommend any amendments for approval by Full Cabinet.

2. Decision(s) recommended

- 2.1 Note the updated budget position as outlined in the report and pressures and mitigations detailed at Appendix A.
- 2.2 Note the comments arising from the scrutiny boards as detailed at Appendix B.
- 2.3 Note the proposal to create new reserves as outlined at paragraphs 3.13 to 3.18.
- 2.4 Consider the draft updated Medium Term Financial Strategy (MTFS) and Capital Strategy, as attached at Appendices C and D.
- 2.5 Note the fees and charges proposed within each portfolio and detailed at Appendix F (available online only).

- 2.6 Note the recommendation to approve a further £1.000 million of prudential borrowing for the Material Recycling Facility project (taking the total from £8.000 million to £9.000 million) as outlined at paragraph 3.28.
- 2.7 Note the recommendation to roll forward the management agreement with Solihull Community Housing (SCH) as outlined at paragraph 3.32.
- 2.8 Note the recommendation to Full Council in respect of the Council's carbon budget, as outlined at paragraph 3.33 and detailed in the report to the Budget Strategy Group attached at Appendix G.
- 2.9 Consider the strategic Fair Treatment Assessment, as attached at Appendix H.
- 2.10 Agree feedback to be presented to the Full Cabinet on 11 February.

3. Matters for Consideration

- 3.1 Each scrutiny board has now received a report outlining the overall budget process, headline information on the updated MTFS and specific budget proposals in respect of the relevant cabinet portfolios. The pressures, mitigations and budget proposals relating to each portfolio are included in the appendices to this report.
- 3.2 This report provides an overview of the budget proposals for the Council as a whole and an update on the latest forecast position in the MTFS.
- 3.3 The Budget Strategy Group (BSG) has agreed to endorse the following for recommendation to Full Cabinet:
 - The use of government grant received and anticipated in 2020/21 and 2021/22 to fund corporate and service pressures in respect of Covid-19 over the period of the MTFS;
 - Ongoing funding rising to £2.000 million per annum by 2023/24 to realign budgets in the Children's Services and Skills portfolio;
 - Ongoing funding rising to £2.050 million per annum by 2023/24 to realign budgets in the Economy and Infrastructure directorate;
 - The contribution of the balance of the 2019/20 business rates windfall income to the budget strategy reserve;
 - Proposals for the allocation of £2.250 million of forecast 2020/21 business rates windfall income to top up reserves in the Children's Services and Skills portfolio and the Economy and Infrastructure directorate;
 - A proposal to earmark the balance of the 2020/21 business rates windfall in a business rates volatility reserve to mitigate risks associated with the business rates projections.
- 3.4 The BSG also considered details of underlying pressures that are being managed by directorates as part of their overall financial position and which have influenced the development of budget proposals over the course of the last six months. Schedules of these pressures and the mitigating actions that are being employed are attached at Appendix A.

Funding gap

- 3.5 The updates to the MTFS reported to the Members' Seminar resulted in a funding gap for 2023/24 of £2.738 million. 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 Since the Members' Seminar, a fourth meeting of the BSG has taken place to consider the impact of the provisional finance settlement, which provided new specific grants and confirmed further funding in respect of Covid-19 pressures.
- 3.7 Other than these changes in government funding, the most significant movement in assumptions since the Members' Seminar relates to business rates forecasts, which were reviewed in detail as part of the NNDR1 return to central government for 2021/22. The BSG agreed at its fourth meeting to revise the assumptions relating to the impact of Covid-19 and it is now assumed for the purposes of the MTFS that sectors such as retail, leisure, hospitality and aviation will recover into 2022/23.
- 3.8 This change was made in order to achieve a balanced MTFS but it means that the MTFS carries more risk than previously. The BSG therefore proposed to earmark the balance of the 2020/21 business rates windfall in a business rates volatility reserve to protect against the risk of this assumption being substantially inaccurate. Officers will continue to monitor business rates projections closely and the reserve will be released if it is not required, in order to provide further investment opportunities. 2021/22 windfall resources will still be available for investment.
- 3.9 Since the fourth meeting of the BSG, there have been some further minor movements in the business rates, council tax and inflation figures. The current position, pending the publication of the final local government settlement and confirmation of the Environment Agency levy, is shown in the table below.

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2023/24 £'000
	One-off	One-off	One-off	Ongoing
Funding gap/(headroom) as reported to Members' Seminar	(6,089)	4,522	696	2,738
One-off contribution to/(from) budget strategy reserve	6,089	(4,522)	(696)	0
Savings target as reported to Members' Seminar	0	0	0	2,738
Impact of updated assumptions – as reported to 4 th BSG	2,776	(5,517)	137	(2,998)
Impact of updated assumptions – since 4 th BSG	20	(326)	0	16
Net funding gap/(headroom)	2,796	(5,843)	137	(244)
Further contribution to/(from) BSR	(2,796)	5,843	(137)	244
Total contribution to/(from) BSR to be approved through MTFS	3,293	1,321	(833)	244
Net position	0	0	0	0

- 3.10 As shown in the table above, there are one-off pressures in 2023/24 to be funded from the budget strategy reserve, plus a favourable ongoing variance of £244,000. This is included in the MTFS as a contribution to the budget strategy reserve, reducing the net one-off use of the reserve in 2023/24 to £589,000.
- 3.11 A summary of feedback from the scrutiny meetings that relate to the budget proposals is attached at Appendix B for information. Members are asked to review the pressures and mitigations identified across the Council as detailed at Appendix A and agree any feedback to be reported to the Full Cabinet on 11 February.

Budget Strategy Reserve

- 3.12 As outlined in paragraph 3.5, the budget strategy reserve is used to smooth the profile of movements in the first two years of the MTFS. The table below shows the forecast balance on the budget strategy reserve reflecting all proposed commitments, including the additional movements shown in the table at 3.9 above.

March 2021 £'000	March 2022 £'000	March 2023 £'000	March 2024 £'000
9,655	10,256	13,429	12,840

Other revenue reserves

- 3.13 There are proposed mitigations for pressures in Environment Services from releasing budgets for streetcare and Strategic Environment Contract provisional costs based on prior year favourable variances. These are essentially contingency budgets for ad-hoc costs which can change from year to year due to the uncontrollable and unpredictable nature of many of the service demands, a number of which are driven from people's behaviours and environmental (climate) factors that are outside of the services control.
- 3.14 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.
- 3.15 Members will be aware that the government has made a number of funding streams available to local authorities to mitigate the impact of Covid-19. The spending review in November announced that some of this support would continue into 2021/22, with allocations for the non ring-fenced emergency grant and local council tax support set out in the provisional finance settlement. The government has also announced funding to mitigate losses on council tax and business rates income relating to 2020/21 and extended the income loss relief scheme until June 2021, although the figures included in the MTFS for these schemes are estimates and will not be confirmed until the new financial year.
- 3.16 In accordance with new government regulations, the business rates and council tax losses relating to 2020/21 will be spread over three years, and it is therefore proposed to contribute part of the 2020/21 emergency funding and the new funding anticipated in 2021/22 into a Covid grant reserve, to be released over the period of the MTFS to match the forecast pressures. The current estimate of the balance of Covid-19 funding

after the anticipated commitments set out in the MTFS is £2.951 million, a reduction of £424,000 compared to the figure of £3.375 million reported to the fourth meeting of the Budget Strategy Group. Commitments against this funding will be closely monitored by the Aligning our Resources to our Priorities Board (ARTOP).

Business rates windfall

- 3.17 Solihull is unusual among the members of the West Midlands business rates retention pilot in that the Council has consistently contributed the additional income generated through our membership of the pilot to a separate windfall reserve, rather than using it to support the general budget. The BSG agreed to endorse requests to Full Cabinet for £2.250 million of funding from the business rates windfall income anticipated in 2020/21.
- 3.18 The windfall reserve provides the Council with a degree of flexibility, and while this reserve has in the past been used for investment, the current forecast balances are considered sufficient to underwrite the risk in our business rates assumptions. Cabinet will therefore be asked to endorse the proposal to contribute the remaining balance of the 2020/21 business rates windfall to a new business rates volatility reserve, as outlined in 3.8 above, although this decision cannot be formally taken until June 2021 when the amount of windfall income received is known.
- 3.19 The windfall income expected over the period of the MTFS is shown in the table below. The forecasts have been updated to take account of the latest business rates projections as reported to central government in the NNDR1 return. The table assumes that the balance of the 2019/20 windfall (£5.289 million) will be contributed to the budget strategy reserve and Full Cabinet will be asked to approve this at its meeting on 11 February.

	2020/21 £'000	2021/22 £'000
Forecast windfall income for the year as at Members' Seminar	(4,399)	(6,220)
Updated forecast windfall income for the year	(3,874)	(6,739)
Windfall share of forecast local tax income guarantee grant (Covid-19)	(4,029)	0
Use of Covid-19 emergency funding to meet the windfall share of the residual forecast deficit	(1,294)	0
Proposed contribution to Children's Services and Skills	1,000	0
Proposed contribution to Economy and Infrastructure portfolios	1,250	0
Proposed contribution to business rates volatility reserve	6,947	0
Forecast balance	0	(6,739)

- 3.20 Taking these proposed allocations into account, the revised forecast balance on the windfall reserve as at March 2022 would be £6.739 million.

Budget 2021/22

- 3.21 The resulting budget for 2021/22 would be £150.828 million, as summarised below.

	2021/22 £m	2022/23 £m	2023/24 £m
Base budget	159.077	150.828	161.856
Funding commitments	6.334	5.205	6.870
Savings approved in previous years	(0.589)	(1.729)	1.450
Net Covid-19 pressures/(funding)	(5.005)	14.935	(6.709)
Government grants (excluding Covid-19)	0.666	(0.975)	(0.044)
Contributions to/(from) working balances and reserves	(10.256)	(9.581)	4.060
Contribution to budget strategy reserve (previously approved contributions plus amendments proposed through this budget process)	0.601	3.173	(0.589)
Recommended/indicative budget	150.828	161.856	166.894
Total funding	(150.828)	(161.856)	(166.894)
Maximum assumed general council tax increase	1.99%	1.99%	2.99%
Increase in council tax to fund adult social care	1.00%	1.00%	-

3.22 It should be noted that this position is subject to change should there be any new announcements included in the final settlement.

Medium Term Financial Strategy (MTFS)

3.23 The MTFS has been updated and a draft is attached for comment at Appendix D. The MTFS represents an overarching strategy document, supported by three separate strategies for revenue, capital and treasury management.

3.24 The corporate Capital Strategy has also been updated and a draft is attached at Appendix E. The Capital Strategy incorporates the Council's updated strategy on the flexible use of capital receipts and the Minimum Revenue Provision Policy Statement, which will require the specific approval of Full Council. The updated Treasury Management Strategy was considered by Audit Committee on 5 January 2021 and is attached at Appendix F.

3.25 The Revenue Strategy, which will set out the budgets for each cabinet portfolio and provide more detail on council tax levels, will be completed following Full Council's approval of the budget for 2021/22. All three strategies will be published on the Council's website alongside the MTFS itself.

3.26 It should be noted that the figures within the MTFS are based on the budget assumptions outlined above, and to the extent that those assumptions change as a result of Full Cabinet's recommendation on council tax or the final settlement, this will affect the figures included in the MTFS. The MTFS and capital strategy will be revised if necessary following this meeting and final versions will be submitted to Full Council on 25 February, alongside the budget and council tax recommendations.

Prudential borrowing

3.27 The MTFs includes £412,000 of additional revenue funding for prudential borrowing in 2021/22, in support of a number of projects on the corporate capital programme. As decisions on the use of prudential borrowing tend to be taken by members outside the budget process, the table below summarises what is included in the MTFs to provide members with a complete picture of the Council's commitments.

	2021/22 £'000	2022/23 £'000	2023/24 £'000
Council House refurbishment	104	0	0
ICT Projects	110	0	0
ICT Agile	90	0	0
Urban Growth Company	108	0	0
Total	412	0	0

3.28 In September 2019, Full Cabinet approved the business case for the multi-Council Material Recycling Facility project, including approving prudential borrowing of up to £8.000 million. Since that time, there have been a number of developments on the project resulting in the need to secure a further £1.000 million of prudential borrowing to ensure the project delivers its outcomes. Subject to Cabinet approval of this additional borrowing, the business case that was approved in September 2019 will be updated and taken for approval to the Director of Resources and Deputy Chief Executive in consultation with the Cabinet Member for Resources, per the delegated authority agreed at that Cabinet session. Officers are confident that the business case will remain viable when compared to tendering for this contract on an individual basis. The Capital Strategy attached at Appendix E does not reflect this additional borrowing requirement but, subject to Cabinet approval, future iterations of the strategy will be updated to include this amount.

Fees and Charges

- 3.29 Under the Council's fees and charges policy, every charge levied by the Council needs to be approved annually as part of the budget setting process. A schedule of proposed fees and charges is available, online only, as Appendix F to this report.
- 3.30 There have been two changes to these appendices since fees and charges were reported to the relevant scrutiny boards: in Adult Social Care and Health, the interest rate set by the government in respect of deferred payment charges has now been confirmed; and in Stronger and Safer Communities, cabinet member approval for the removal or replacement of some of the charges for library services has now been obtained. These changes are reflected in the detail at Appendix F.
- 3.31 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 inflation levels and particular service circumstances. Members are asked to note that, in line with the MTFs, standard assumptions for income levels have been built into the base budgets and any variations to fees and charges impacting on the assumed financial position will have to be managed within individual cash limits.

Review of Management Agreement with Solihull Community Housing

3.32 The Council has a five year management agreement with Solihull Community Housing (SCH) in respect of its role as the delivery vehicle for the Council's housing landlord functions. The management agreement is rolled forward annually providing that there has been satisfactory financial and service delivery. The Quarterly Monitoring Board considers SCH performance to have met these criteria and so Full Cabinet will be asked to agree the roll forward of the management agreement at its meeting on 11 February.

Carbon budgeting

3.33 In October 2019 the Council committed to reducing its net carbon emissions to zero by 2030 and agreed to set annual carbon emission reduction budgets. Further details are outlined in the report received by the BSG which is attached at Appendix G, but the proposed budget for 2021/22 is summarised below.

Service area	Forecast 2020/21 (tonnes)	Proposed budget 2021/22 (tonnes)
Corporate properties	4,810	4,665
Street lighting	888	0
Strategic environment contract	1,959	1,959
Other	1,200	1,200
Total	8,857	7,824

Summary

3.34 In summary, the budget proposals provide a balanced budget across all years of the MTFS, with:

- A balanced budget across the three years of the MTFS, with net headroom of £244,000 contributed to the budget strategy reserve in 2023/24;
- No additional corporate savings required of cabinet portfolios;
- Funding for identified Covid-19 pressures across the three years of the MTFS;
- Recommendations for top-ups to reserves in children's social care and the Economy and infrastructure directorate;
- A new business rates volatility reserve, to protect against the risk of fluctuations in forecast income;
- A forecast balance on the budget strategy reserve of £12.840 million by March 2024;
- Forecast uncommitted business rates windfall monies totalling £6.739 million in respect of 2022/23; and
- A council tax assumption in 2021/22 of 1.0% for adult social care and 1.99% for core council.

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 BSG, the directorate leadership teams worked with the cabinet portfolio holders to establish the pressures and mitigations within each service area.
- 4.2 The BSG then considered the options for closing the funding gap on an ongoing basis. The overarching principle of the budget process this year was recovery from the impact of the coronavirus pandemic. In view of this, the Group agreed that it would be appropriate to take on greater risk in terms of the business rates assumptions rather than use service reserves or require savings.

5. Reasons for recommending preferred option

- 5.1 As outlined in section 4 above, the recommendations of the BSG 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:
<p>Economy:</p> <ul style="list-style-type: none"> 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. 	<p>The budget and MTFS address all of the Council's priorities, with additional resources provided specifically in support of this priority through the permanent realignment of budgets.</p>
<p>Environment:</p> <ul style="list-style-type: none"> 4. Enhance Solihull's natural environment. 5. Improve Solihull's air quality. 6. Reduce Solihull's net carbon emissions. 	<p>The budget and MTFS address all of the Council's priorities, with additional resources provided specifically in support of this priority through the permanent realignment of budgets.</p>
<p>People and Communities:</p> <ul style="list-style-type: none"> 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. 	<p>The budget and MTFS address all of the Council's priorities, with additional resources provided specifically in support of children's services through the permanent realignment of budgets, and the continuation of additional funding for adult social care.</p>

6.2 Consultation and Scrutiny:

6.2.1 The budget proposals relating to each cabinet portfolio have been reported to the relevant scrutiny boards and feedback is included at Appendix B.

6.2.2 The Budget Strategy Group has agreed that consultation with the public will take place on key specific budget proposals where that is necessary and appropriate. The budget proposals presented here have been shared with the unions and representatives of the business community.

6.3 Financial implications:

6.3.1 In order to set a balanced budget, the authority's limited resources need to be targeted at priority areas and any unfunded service pressures will have to be met from corresponding spending reductions. Equally, if any of the mitigations in Appendix A are not supported, then alternatives will need to be identified in order to balance the budget.

6.4 Legal implications:

6.4.1 Under the Local Government Finance Act 1992, the Council must calculate its council tax requirement for 2021/22 before 11 March 2021. This decision is reserved to a meeting of the Full Council which this year will take place on 25 February; however, Full Cabinet is responsible for making a recommendation on the budget and associated council tax for the forthcoming financial year to Full Council which is scheduled for 11 February.

6.4.2 The budget proposals attached at Appendix A were developed with regard to legal implications where applicable.

6.5 Risk implications:

6.5.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) maintains an index of financial resilience for English councils which assesses each authority against a number of indicators, including levels of reserves, external debt and auditors' judgements, in order to illustrate each council's financial position relative to that of comparator authorities. CIPFA acknowledges that the index should not however be viewed in isolation and its interpretation will depend to a large degree on the local context specific to each authority.

6.5.2 The index is based largely on outturn figures reported through government returns, which means that there is a lag between spending decisions being made and the effect being visible in the index. This is particularly pertinent this year as the index is largely based on 2018/19 data, yet the context within which councils are operating has changed significantly since then.

6.5.3 Solihull's results, compared to our statistical nearest neighbours and other metropolitan districts, suggest that for the majority of the indicators used the authority falls in the average to low risk category. The index suggests that Solihull has relatively high levels of unallocated reserves (such as working balances and the budget strategy

reserve) which it is using at an average pace, and this is reflected in the reserves sustainability indicator for which the Council has the lowest risk score of the group.

- 6.5.4 The index does however suggest a relatively high level of risk in respect of business rates growth for Solihull compared to both our statistical nearest neighbours and other metropolitan districts. This indicator is calculated as growth in retained income as a percentage of the business rates baseline, and the implication is that high levels of business rates growth may not be sustainable or may suggest over-reliance on business rates income. As previously noted in budget reports, the Council is keenly aware of the risk of resource redistribution as a result of the government's ongoing review of local government funding and has attempted to assess the potential impact through the modelling of business rates income for the MTFS. The level of unallocated reserves and the new business rates volatility reserve held by the authority also provides some mitigation against this risk. It should also be noted that retained business rates income provides less than a third of the Council's funding, with the majority coming from council tax payers – a more stable and predictable funding stream.
- 6.5.5 The Director of Resources and Deputy Chief Executive has taken the findings of CIPFA's financial resilience index into account, together with the MTFS itself and the information provided through the budget and scrutiny process, in reaching his conclusion under section 25 of the Local Government Finance Act 2003 that he is satisfied with the robustness of the revenue estimates and the adequacy of the proposed financial reserves.

6.6 Equality implications:

- 6.6.1 A strategic fair treatment assessment, which takes a high-level overview of the potential impact of the budget and MTFS proposals on customers, staff and communities, is attached at Appendix H.
- 6.6.2 As set out in Appendix H, specific budget proposals will be subject to detailed fair treatment assessments, where applicable, before they are implemented.

7. List of appendices referred to

- 7.1 Appendix A: Pressures and mitigating actions 2020/21 to 2023/24
- 7.2 Appendix B: Summary of feedback from scrutiny board meetings, January 2021
- 7.3 Appendix C: Draft Medium Term Financial Strategy 2021/22 to 2023/24
- 7.4 Appendix D: Draft Corporate Capital Strategy
- 7.5 Appendix E: Draft Treasury Management Strategy
- 7.6 Appendix F: Fees and charges 2021/22 [available online only]
- 7.7 Appendix G: Carbon reduction emissions budget report to Budget Strategy Group 30 November 2020
- 7.8 Appendix H: Strategic Fair Treatment Assessment of the MTFS

8. Background papers used to compile this report

8.1 Budget Strategy Group papers from the meetings held on 19 October 2020, 9 November 2020, 30 November 2020 and 11 January 2021

9. List of other relevant documents

9.1 None