Meeting date: 10 January 2023

Report to: Stronger Communities and Neighbourhood Services Scrutiny Board

Report title: MTFS Update – Budget Strategy 2023/24 – 2025/26

Report from: The Director of Resources and Deputy Chief Executive, Director of Economy and Instructure and Director of Public Health

Report author/lead contact officer:

Lauren Beach – Finance Manager lbeach@solihull.gov.uk
Andrea Santer – Finance Manager asanter@solihull.gov.uk
Anna Leggett – Senior Accountant aleggett@solihull.gov.uk

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:

---

1. Executive Summary

1.1 Each scrutiny board in January will receive a report outlining the budget proposals identified within their respective portfolios for the period from 2023/24 to 2025/26. The positions outlined in these reports, which have been endorsed by the Budget Strategy Group, are summarised in the table below.

Directorate	**2023/24 £'000**	**2024/25 £'000**	**2025/26 £'000**
Adult Social Care	0	2,910	3,089
Children's services	8,669	8,640	7,314
Economy and Infrastructure	0	1,425	1,064
Resources	(5,610)	(1,212)	(2,327)
Public Health	0	0	0
Total net funding pressure	**3,059**	**11,763**	**9,140**

1.2 The report outlines the forecast budget position in respect of these portfolios in more detail, explaining the pressures identified over the period to 2025/26 and the actions proposed to mitigate them.

1.3 Key pressures highlighted in the report include:

- Leisure centre income and costs
- Funding for the Employment and Skills Team
- Car parking income
- Strategic Environment Contract (SEC) costs

1.4 The main proposals to mitigate these pressures include:

- Renegotiation of Leisure centre contract
- Strategic review of future Employment and Skills offer
- Review of street lighting
- Review of Communities and Partnerships division
- One off favourable variances and use of directorate reserves

1.5 The report also draws members' attention to some particular risks relevant to the portfolio's budget position including operation of Leisure Centres, continuity of external funding, costs of trees in public realm and new requirements on waste disposal.

1.6 At its meeting in February, Full Cabinet will be asked to approve the fees and charges for each portfolio alongside the budget proposals. This report includes details of the proposed fees and charges for 2023/24.

1.7 Finally, the report highlights forecast funding gaps for the period from 2023/24 to 2025/26, as reported to the Budget Strategy Group and Members' Budget Seminar. As noted in the report, a fourth meeting of the Budget Strategy has been scheduled for January to consider the updated position following the conclusion of some outstanding matters.

1.8 Feedback on the budget proposals included within this report will be reported to the Resources and Delivering Value Scrutiny Board and Full Cabinet next month.

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 Full Cabinet in February 2023.

2.2 Consider the schedule of fees and charges proposed for 2023/24, as attached at Appendix B, and agree any comments to be fed back to the Resources and Delivering Value Scrutiny Board and Full Cabinet in February 2023.

1. Matters for Consideration

Communities and Leisure, Partnerships and Wellbeing and Environment and Infrastructure Portfolios

1.1 Appendix A sets out the current realised pressures facing the three portfolios considered by this Scrutiny Board including links to the Council's priorities. These are separated into those relating to the Council's Economy and Infrastructure Directorate and Public Health Directorate.

<u>Communities and Leisure Portfolio</u>

1.2 Within Public Health Directorate a new ten-year contract for the operation of the Council's two leisure centres started in June 2018. Financial risk was transferred to the provider in return for an annual concession fee paid to the Council. The contract was awarded on the basis of forecasts which assumed growth in profits across the centres during the latter part of the contract, following investment in facilities and changes to programming.

1.3 This contract has not yet reached the levels of income (the 'concession fee') assumed during the tendering process, as a result of factors including:

- Impacts of closures during COVID lockdowns & reduced activity during the pandemic.
- Changes in the leisure market including the expansion of budget gyms.
- Temporary closures to allow facilities upgrades to take place

1.4 In response to the enforced closure due to Covid from March 2020 and to support the re-opening of the centres, the Council issued a Deed of Variation (DoV) to the contract, agreeing to meet the net cost of operating the centres, with the operator agreeing to give open book access to financial records. This amounted to a Qualifying Change in Law under the contract and would therefore apply on-going and the loss of the concession fee income continues to be a pressure for the Council.

1.5 Through the MTFS update for 2022/23, it was agreed that the loss of the concession fee could be partially mitigated by use of reserves in 2022/23 and an on-going MTFS allocation from 2024/25. This reduces the annual concession fee target pressure to £121,000 during the new MTFS period.

1.6 However, the impact of energy price rises has brought additional financial pressures. This has created a forecast additional cost pressure of £269,000 being met from leisure reserves in 2022/23. With further gas increases forecast from April 2023, there is forecast cost pressure for utilities of £811,000 per annum from 2023/24. The Council does not hold utilities budgets for the leisure centres so these figures are in addition to corporate pressures relating to energy inflation.

1.7 Assuming the utilities risk is constant at £811,000 throughout the MTFS period, this gives a total annual pressure of £932,000 from 2023/24, including the £121,000 balance of the concession fee income target.

1.8 The other key pressure for this portfolio in the Public Health Directorate is related to

Public Health Grant for Substance Misuse Services. Like the majority of Public Health Grant funded contracts, existing contracts that come to an end during the MTFS were secured on fixed annual prices which do not provide for inflation. Given current and forecast inflationary pressures, this could result in operating pressures for providers which may lead to service restrictions if not addressed.

Partnerships and Wellbeing Portfolio

1.9 The Employment and Skills Team is largely funded from European Social Fund (ESF) grant administered by the Department for Work and Pensions (DWP). Following the departure of the UK from the EU, ESF funding ceases in December 2023.

1.10 Since the commencement of the current ESF funding stream in 2014, the Council has successfully bid for funding for a number of projects and the availability of the funding has enabled the service to grow to deliver a service that supports young people who are NEET or at risk of becoming NEET and older people who, for a number of reasons, are furthest away from the labour market, to access support to work and/ or training.

1.11 Where new posts have been created to deliver projects, they have been created on a temporary basis but due to project extensions, the majority of post holders now have the same employment rights as permanent staff.

1.12 In preparation for the ending of the ESF schemes, direct service provision currently provided by existing ESF programmes will be reduced through service redesign and a core team put in place to deliver a strategic skills function and to deliver a more focused set of activities. Without mitigation, maintaining current levels of activity without new sources of external funding would create a funding pressure of £333,000 in 2023/24, £1.371 million in 2024/25 and £1.452 million in 2025/26.

Environment and Infrastructure Portfolio

1.13 Within Economy and Infrastructure Directorate prior to the Covid-19 pandemic income from car parking activity of around £3.7 million was received per year. Following the Covid-19 pandemic the use of the car parks has remained at a reduced level. It is expected that commuter use of the car parks will never fully recover as many organisations, including the Council, have adopted a more flexible way of working with employees based at home for part of the week.

1.14 In addition to the general impact of changes in behaviour following Covid-19 the usage data shows a disproportionate reduction in customers at Marks and Spencer's (M&S) car park in Solihull Town Centre which can be attributed to the closure of the store in July 2021.

1.15 Measures have been taken to reduce costs on maintenance and cash collection in view of the lower usage, but this does not address the full scale of the reduction in income. Forecasting future demand for car parking remains challenging, but the estimated financial pressure from reduced income in future years is expected to be higher than allowed for in the current Medium Term Financial Strategy.

1.16 The other significant pressure for this portfolio is the rising cost of the Strategic

Environment Contract (SEC). High levels of inflation on vehicle prices and fuel costs have meant that the final contract price was higher than budgeted in the current year with pressures continuing into future years.

1.17 A reserve of £500,000 was established at the start of the contract to fund provisional items which are charged based on activity levels. This includes funding a waste collection service for sharps which was previously provided through GP surgeries and became a new responsibility for the Council in 2020/21 with an unknown level of demand. The forecast cost of this service for 2022/23 is £175,000 meaning that the reserve is expected to be exhausted faster than originally planned. A review is on-going to look at ways of delivering this service more efficiently.

Mitigations

1.18 To manage the pressures outlined above, a number of mitigations have been identified, as shown at Appendix A and summarised below.

1.19 **Communities and Leisure Portfolio**

1.20 Work commenced in July 2022 to agree a new financial model for the remaining period of the contract from 1st April 2023 to 31st May 2028. The overall strategic approach to the review is:

- To negotiate viable income and activity levels with the operator, capitalising on recent investment into local facilities.
- To manage unprecedented pressures on energy costs through a separate agreement and through a range of energy saving mitigations.

1.21 The current proposal is that all risks, except for utilities price risk forecast at £811,000, are met by the operator. With the utilities price risk being met by the Council, the operator is able to pay a concession fee to the Council, with the proposed concession fee providing for growth during the MTFS period. Further mitigation can be provided on-going by the leisure service from unallocated revenue budget.

1.22 The forecast balance on leisure reserves as at 1 April 2023 is £741,000 and it is proposed to use reserves in full to offset the net funding pressure in 2023/24 and 2024/25 and partially offset the pressure in 2025/26. The balance of the pressure in 2025/26, £108,000, can be offset by an additional one-off contribution from Public Health Grant.

1.23 The impact of inflation on Public Health Grant funded contracts, including Substance Misuse, must be met from the annual Public Health Grant allocation. It is therefore proposed that inflation built into extended / new contract terms is limited to annual increases in Public Health Grant. For the purpose of the MTFS budget, the forecast inflation has been estimated at 3.5% for 2023/24 and 2% thereafter in line with the corporate estimate of pay inflation.

1.24 Although inflation provided in the budget for core funded contracts is higher, forecast pay inflation is considered a better approximation to forecast increases in Public Health Grant due to expected government pressures on funding allocations.

1.25 Within Economy and Infrastructure Directorate the Stronger Communities service has seen considerable growth in recent years in the number of new government programmes with associated grant funding. Many programmes piloted during Covid-19 have continued post pandemic, and there have been new streams of funding for sustainable warmth and for refugees and asylum seekers.

1.26 Recruitment activity is on-going to add a number of temporary posts to the structure in order to deliver all of these new requirements in addition to business as usual. This has created some one off favourable variances against various team budgets in 2022/23. On an on-going basis it will be possible to fund the equivalent of one core funded post from a number of these grants creating a £40,000 saving against the core staffing budget from 2023/24.

Partnerships and Wellbeing Portfolio

1.27 Public Health Directorate have identified a mitigation plan for the funding risks for Employment and Skills. Although ESF grant funding for projects will end in December 2023, some project staff will be required to support the claims process which should be concluded by March 2024. Reserves will be utilised in 2023/24 to partially offset the funding deficit. Further employment support activity will be funded in 2024/25 from an allocation of £755,000 from the UK Shared Prosperity Fund (UKSPF), though further UKSPF funding beyond 2024/25 is uncertain. The scope of UKSPF is narrower and excludes unemployed people who are available and looking for work which currently makes up the majority of the team's customers. Devolution funding will also be explored.

1.28 The above leaves a net pressure of £55,000 in 2023/24, £616,000 in 2024/25 and £1.452 million in 2025/26, currently to be delivered from service redesign. If the Council successfully bids for further funding opportunities presented, this will reduce the mitigation required. Service redesign options, which will be delivered in multiple stages due to changes in funding across the MTFS, will be presented to Members during 2023/24.

Environment and Infrastructure Portfolio

1.29 Within Economy and Infrastructure Directorate it is proposed to review the current approach to street lighting to turn off street lights which are not critical to safety between midnight and 5am. This will require an upfront capital investment in technology with the expectation being that this would be funded from prudential borrowing which is allowed for in the estimated savings figures.

1.30 The proposals would have a positive environmental impact through reducing the use of electricity and providing darker conditions at night which is beneficial to nocturnal wildlife. This would also reduce the Council's exposure to increases in electricity prices. Potential impacts on safety will be considered as part of taking these plans forward.

Cross cutting mitigations over a number of portfolios

1.31 Within Economy and Infrastructure Directorate a review is underway of the Communities and Partnerships staffing structure which delivers priorities within

Climate Change, Planning and Housing, Communities and Leisure, Partnerships and Wellbeing and Resources portfolios. This is expected to deliver an on-going saving of £50,000 from 2023/24.

1.32 All of the proposed mitigations will enable a balanced position for the Economy and Infrastructure Directorate for 2022/23 and 2023/24. Beyond this there are still net pressures of £1.425 million one off in 2024/25 and £1.064 million on-going from 2025/26 which are contributing to the overall Council funding gap.

1.33 In Public Health Directorate, the mitigations outlined are being supplemented by existing Public Health Directorate reserves to enable a balanced budget position during the period of the proposed MTFS. However, the reserves are a finite resource and will not address the long-term recurrent pressures identified.

Risks and key assumptions

1.34 Under CIPFA's Financial Management Code, the authority must demonstrate that it understands its prospects for financial sustainability, including the potential impact of key risks on its budget plans.

1.35 Key risks relevant to the budget proposals within these portfolios are summarised below:

Leisure Centres

1.36 The agreement of a concession fee receivable by the Council reduces the Council's exposure to risk. Officers are continuing to refine details of proposals with the operator to ensure best value is delivered through the agreement. The operator is looking at service changes that could improve the financial forecast which would in turn improve the concession fee. In addition, a profit share agreement is being scoped that will yield a return to the Council if the operator achieves a surplus.

1.37 The utilities pressure remains a significant risk. The forecast utilities cost has been included at a constant level throughout, based on the forecast cost for 2023/24, as we are working with the provider to identify a number of energy efficiency measures that should contain the overall cost of energy. However, if utility prices increase further and costs cannot be offset from energy efficiency measures or profit share, additional costs would need to be met from other Directorate reserves.

1.38 The revised financial model will be in place for 5 years from 2023/24 and therefore extends beyond the end of the MTFS period. Although currently there are forecast net pressures identified beyond 2025/26, officers are exploring options to enable further review of the agreement post implementation to ensure a balanced funding position is delivered on-going.

Public Health Grant allocations

1.39 The annual Public Health Grant allocation included in the MTFS is based on a forecast, and although the MTFS forecast is considered prudent, actual allocations may be below forecast. The grant is issued by the DHSC and is therefore subject to national prioritisation and decision-making which is a potential risk in the light of anticipated cross Government departmental savings requirements. At present the

Council has sufficient Public Health Grant reserves to manage variations to the MTFS forecast. There are however risks around reserves which may be subject to Government clawback.

Employment and Skills loss of external grant funding

1.40 As projects progress towards completion, it is likely that some staff find alternative employment. Whilst this reduces the pressure on service redesign, loss of staff before completion of projects could impact on delivery of projects and grant receipts.

1.41 Depending on the outcome of service redesign and staff remaining in post during the MTFS period, there are likely to be redundancy costs. It is not currently possible to make an estimate of the likely cost but there could be a need to call on corporate resources to provide funding.

UK Central Programme

1.42 The West Midlands Combined Authority has indicated that the funding required to fully deliver all of the projects within the UK Central Programme is unlikely to be available as originally envisaged. All the funding which has been approved to date, along with an additional ring- fenced allocation, remains available to be drawn down, which will enable business cases to be developed for all projects. However, at this time, it is the expectation that for the majority of projects, additional or alternative sources of funding will need to be secured to fund project delivery.

1.43 Of particular note, this includes the proposed redevelopment of the Kingshurst Village Centre for which there is currently a significant forecast funding gap. The costs and revenues of the project are currently being refined, with the expectation being that the full business case will be finalised and presented to Cabinet in 2023. Officers continue to work with the WMCA and other funding bodies to manage the funding and cash flow position for both for the Kingshurst project specifically (for which we are currently awaiting the outcome of a Levelling Up Fund (LUF) bid) and the wider UKC programme as a whole.

Trees in the Public Realm

1.44 The Council has pledged to plant 250,000 trees over a ten year period with the programme currently in year three. Funding has been used from the £2 million Placemaking fund of £250,000 for phase 1 of the Healing Woodland in Shirley South Ward and £220,000 for tree planting. To achieve the 250,000 target, it is likely that further funding will need to be identified. Options for this would include accessing external grants and working with partners to deliver tree planting through social value commitments in contracts. The Council has recently been successful in a grant bid to the Department for Environment, Food and Rural Affairs (DEFRA) Woodland Creation and Accelerator Fund for additional staffing resource to focus on this agenda.

1.45 Ash tree die back is a highly destructive disease affecting ash trees and there is a possibility that the government will issue a directive to remove all ash stock in order to help manage the spread. Approximately 15% of SMBC tree stock are ash trees and the costs of removing these would be significant. This could also result in additional costs to continue to meet current tree planting targets. Work is on-going to quantify the potential impact and implement an Ash Die Back Management Plan.

Homeless Funding

1.46 The Council's work on homelessness is a statutory responsibility and is funded through a combination of government grants and base Council budget. The service relies on around £1.2 million grant funding each year and the government have currently not released details of grant funding available beyond the current financial year.

1.47 In order to manage this risk, contracts are tendered allowing for a break clause in the event of cuts in funding, but it is recognised that to cease activity around homelessness would result in the Council failing to meet statutory requirements. To mitigate against this risk a Homeless reserve is held which currently contains £774,000.

New requirements on disposal of domestic seating

1.48 The Environment Agency have contacted authorities responsible for waste collection and disposal to set out requirements for the disposal of domestic seating. This will require all seating to be disposed of through being broken apart and incinerated to remove the risk of Persistent Organic Pollutants (POPs) being released into the environment.

Fees and charges

1.49 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 relevant to 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.

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

2.1 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.

2.2 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. It should be noted that the budget figures are provisional and likely to change, and that the reserves figures are as reported at Period 6 and may not therefore reflect proposals put forward as part of the budget process. This information will assist members in considering the budget proposals included in this report.

3. Reasons for recommending preferred option

3.1 As outlined in section 1 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.

3.2 The Group endorsed the inclusion in the updated MTFS of the net pressures summarised in this report in paragraphs **Error! Reference source not found.** to 1.43 and detailed in Appendix A. The net impact of the position across all the portfolios, together with increases in funding for inflationary pressures and other corporate items, is a forecast funding gap for each of the three years, as shown in the table below.

	2023/24 £'000	**2024/25 £'000**	**2025/26 £'000**
Net forecast funding gap	1,307	14,804	11,420*

** Net of one-off savings of £1.947m*

3.3 The Budget Strategy Group agreed to meet for a fourth time in January to consider final changes to the MTFS assumptions, including the impact of the provisional finance settlement, announced before Christmas, and final forecasts for business rates income and the council tax base. The Group will then agree a budget recommendation to be made to Full Cabinet in February.

4. Implications and Considerations

4.1 State how the proposals in this report contribute to the priorities in the Council Plan:

Priority:	Contribution:
People and Communities: 1. Improving outcomes for children and young people in Solihull. 2. Good quality, responsive, and dignified care and support for Adults in Solihull when they need it. 3. Take action to improve life chances and health outcomes in our most disadvantaged communities. 4. Enable communities to thrive.	The MTFS provides the financial framework which supports the delivery of the Council Plan. The high level implications of the proposed pressures, mitigations and savings for the Council's priorities are indicated in the tables in the appendices
Economy: 5. Develop and promote the borough's economy, with a focus on revitalising our town and local centres. 6. Maximising the opportunities of UK Central and HS2. 7. Increase the supply of affordable and social housing that is environmentally sustainable.	The MTFS provides the financial framework which supports the delivery of the Council Plan. The high level implications of the proposed pressures, mitigations and savings for the Council's priorities are indicated in the tables in the appendices

Priority:	Contribution:
Environment: 8. Enhance our natural environment, improve air quality and reduce net carbon emissions.	The MTFS provides the financial framework which supports the delivery of the Council Plan. The high level implications of the proposed pressures, mitigations and savings for the Council’s priorities are indicated in the tables in the appendices
9. Promote employee wellbeing	The MTFS provides the financial framework which supports the delivery of the Council Plan. The high level implications of the proposed pressures, mitigations and savings for the Council’s priorities are indicated in the tables in the appendices

4.2 Consultation and Scrutiny:

4.2.1 The budget proposals were shared with all members at a seminar in December 2022 and each scrutiny board is now asked to consider the proposals which relate to their cabinet portfolios in more detail.

4.2.2 Consultation with the public will take place on specific proposals where appropriate. 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 2 February and Full Cabinet on 9 February.

4.3 Financial implications:

4.3.1 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 reductions in spending.

4.4 Legal implications:

4.4.1 The budget proposals were developed with regard to legal implications where applicable.

4.5 Risk implications, including Risk Appetite:

4.5.1 Failure to deliver the MTFS is currently rated as a net nine risk on the Council’s corporate risk register. The report to Full Council in February will need to demonstrate how this risk has been mitigated.

4.6 Equality implications:

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

4.7 Linkages to our work with the West Midlands Combined Authority (WMCA), Local Enterprise Partnership or the Birmingham & Solihull Integrated Care System (ICS):

4.7.1 The budget proposals are consistent with existing joint working arrangements with partners.

5. List of appendices referred to

5.1 Appendix A: Pressures and Mitigating Actions 2022/23 to 2025/26

5.2 Appendix B: Proposed Fees and Charges 2023/24

5.3 Appendix C: Indicative Service Budgets 2023/24

6. Background papers used to compile this report

6.1 None

7. List of Other Relevant Documents

7.1 None