

Appendix D
Medium Term Financial Strategy 2020/21-2022/23

CONTENTS

1. EXECUTIVE SUMMARY	2
2. INTRODUCTION AND OBJECTIVES	3
3. DRIVERS OF DEMAND	5
3.1 The economy	5
3.2 Rising demand for our services	5
3.3 Adult Social Care	6
3.4 Children's Services	7
3.5 The Place	9
4. RESOURCING	10
4.1 Revenue	10
4.2 Capital	14
4.3 West Midlands Combined Authority	16
4.4 Revenue funding gap	17
5. THE COUNCIL'S RESPONSE	19
5.2 Managing demand	19
5.3 Maximising income generated locally	21
5.4 Reducing costs	22
6. RISK MANAGEMENT AND RESERVES	24
6.1 Risk management approach	24
6.2 Reserves	25
6.3 Contingencies	27
7. CARBON REDUCTION	27
7.1 Background	27
7.2 Progress to date	27
7.3 Target 'budget' for 2030	27
8. MTFS CYCLE	28
8.1 Process	28
8.2 Consultation	29
8.3 Approval	30
8.4 Monitoring and review	30
9. CONCLUSIONS	30

10. GLOSSARY	32
APPENDIX A – SUMMARY REVENUE BUDGET	35
APPENDIX B – TEN YEAR REVENUE PROJECTIONS	36
APPENDIX C – TEN YEAR CAPITAL PROJECTIONS	37
APPENDIX D SUMMARY REVENUE RESERVES	38

FOREWORD



I am pleased to introduce Solihull Council's updated Medium Term Financial Strategy (MTFS), which covers the period from 2020/21 to 2022/23. The MTFS underpins the Council Plan, which is our key strategic document for identifying our vision, ambitions and priorities, and sets out the approach the Council is taking to deliver these priorities and manage our finances over the next three years.

This MTFS was prepared against a backdrop of continuing uncertainty over future funding, with local authorities receiving a one-year settlement for 2020/21 and the wider economic impact of the UK's departure from the European Union in January 2020 being as yet unclear. Delays to the planned reform of local government finance mean that the impact of the Fair Funding review and associated changes to the business rates retention scheme is yet to be confirmed. Future funding arrangements are also expected to address the pressures caused by increasing demand and complexity of need in both adults' and children's services, a challenge faced across the country.

However, while acknowledging these risks and putting in place plans for mitigation, the Council remains focused on its key priorities for the years ahead and is committed to delivering the programmes set out in the Council Plan. This MTFS enables us to "get on with the job", protecting services for our most vulnerable residents while providing significant new investment to promote inclusive managed growth to the benefit of all our residents.

We continue to work with government and regional partners through the West Midlands Combined Authority to maximise the opportunities presented by high speed rail. We are securing substantial investment to enable the delivery of new infrastructure, which will bring new jobs, businesses and housing to the borough.

We recognise that economic growth presents challenges, but also opportunities in respect of the carbon reduction agenda. In October 2019 the Council made a landmark Climate Change Declaration and commitment to reduce our carbon emissions to net zero by 2030, and for the first time we have produced a carbon budget alongside our financial budget, raising the profile of our carbon reduction strategy and integrating emissions planning into the wider budget cycle.

The strategy also sets out to maximise the capital funding which is available to the authority from a range of different sources and targets those resources at key investment projects which support the delivery of our priorities across the Council's services.

We have a strong track record of managing our finances well in the context of sustained demand for our services, funding constraints and economic uncertainty, whilst maintaining the distinctive and attractive character of the borough. I am proud of this achievement and that with this strategy we are once again able to present detailed budget plans for the next three years, placing us in a secure position from which to navigate the challenges of the coming years.

Finally, this MTFS represents the culmination of much work on the part of the cross-party Budget Strategy Group and officers across all directorates, and I would like to thank all those involved.

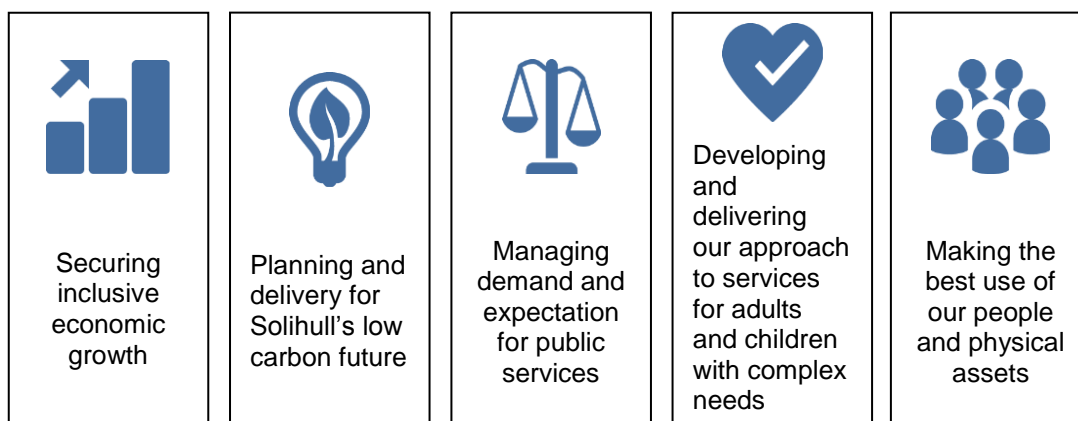
Councillor Ian Courts
Leader of the Council

1. EXECUTIVE SUMMARY

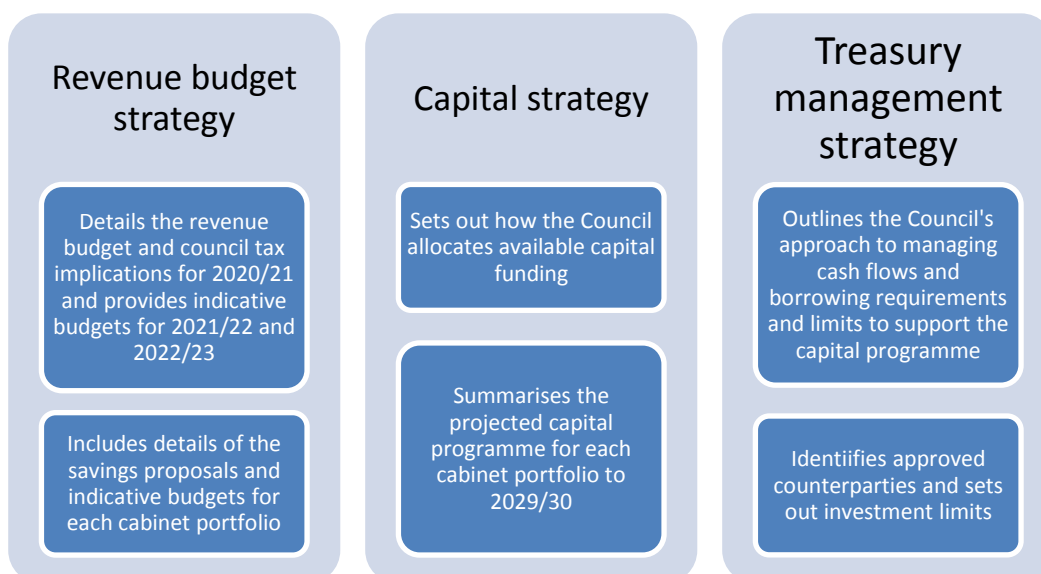
- 1.1.1 The Council's medium term financial strategy consists of this overarching document and more detailed revenue, capital (which itself includes the Council's policy on the flexible use of capital receipts) and treasury management strategies. The MTFS underpins the Council's medium term policy and financial planning process and outlines a deliverable and affordable approach to meeting the challenges presented by reductions in funding and sustained and growing demand for our services.
- 1.1.2 The purpose of the MTFS is to describe the environment within which the Council operates and bring together resource and cost projections to explain how the Council plans to address the funding gap, whilst retaining focus on the strategic priorities. As in previous years, our focus has been on planning in detail for the period to 2022/23, but we are starting to look beyond the medium term to help us assess and plan for the challenges we may face in the years ahead.
- 1.1.3 The key factors that the Council has identified as influencing current and future demand for our services are outlined in section 4. In particular, demographic changes such as an ageing population and increasing numbers of children with complex care needs mean that demand for social care continues to rise.
- 1.1.4 Section 5 explains the significant uncertainty that continues to exist around local government funding for both the next three years and beyond, not least because of the Spending Review expected in 2020 and changes to how local government funding is allocated. Local authorities' ability to plan for a balanced medium term financial position remains severely hampered by resource constraints imposed across the whole of the public sector and the lack of clarity about funding arrangements for future years. In addition, there are clear limitations to the funding that local authorities can raise locally through council tax and fees and charges, while our residents' needs and expectations are increasing.
- 1.1.5 However, Solihull is in a strong position to withstand these challenges. Although local demands on services remain high, the combination of a growing council tax base and exciting plans for inclusive managed economic development mean that the authority has new opportunities for growth. Section 6 outlines the Council's response to the current and forecast conditions in more detail.
- 1.1.6 The resulting revenue budget for 2020/21 is £159.172 million, funded 69% from council tax and 31% from business rates (net of the tariff payment, section 31 grant, anticipated contribution to the business rates windfall contingency and the forecast business rates surplus). The capital programme over the period from 2020/21 to 2029/30 has a projected value of £557 million.
- 1.1.7 The Council continues to work to ensure that investment and disinvestment decisions are driven by our policies and the needs of the borough. Our MTFS recognises the need to achieve significant value for money savings in service delivery and allows for ways of delivering services that are a departure from traditional models.
- 1.1.8 The Council has also begun to plan for a net zero carbon future and is developing a process for carbon budgeting as part of the financial budgeting cycle, as outlined in section 7.
- 1.1.9 Solihull is on a sound footing to meet the challenges ahead. We know that Solihull is well placed economically and we have ambitious plans to take us beyond self-sufficiency, putting the Council in a good position to deliver against its priorities for the people of Solihull.

2. INTRODUCTION AND OBJECTIVES

- 2.1.1 The strategic direction for the authority is set by the Council Plan, which was updated in April 2018 and refreshed annually. The Council Plan is based on an analysis of the borough's strengths, challenges and opportunities, and was influenced by local priorities, input from public consultation, government policies, performance information and external inspections. The plan outlines key programmes to be delivered in the medium term in support of the Council's priorities.
- 2.1.2 The Council Plan looks forward to 2025, setting the direction of the travel for the authority and identifying five priorities as shown below.



- 2.1.3 These priorities represent the major steps we need to take to move closer to achieving the Council's vision of a borough where "everyone has an equal chance to be healthier, happier, safer and prosperous through growth that creates opportunities for all".
- 2.1.4 The MTFs complements the Council Plan by defining the financial framework within which these priorities will be delivered. It outlines the factors which are expected to drive future costs and sets out the funding projections and our strategy for addressing the funding gap. There are three supporting strands to this strategy, which can also be read as standalone documents:



- 2.1.5 In addition, the Council has pledged to achieve net zero carbon emissions by 2030 and is working on a new carbon management plan which will set out our route to meeting this ambitious target. The intention for future years is to develop an annual emissions reduction budgeting process alongside the financial budgeting process, so that carbon emission reduction budgets can be updated annually and any investment requirements incorporated into the MTFs as necessary.
- 2.1.6 The core principles underlying the medium term strategy are as follows:
- The Council will seek to maintain a sustainable financial position over the course of the planning period, with detailed savings proposals for all years and no funding gaps;
 - The Council will make provision for growth so that budgets keep pace with demand;
 - The Council will strive to keep council tax at affordable levels;
 - The deployment of the Council's limited resources will be focused towards those activities which contribute most to improved outcomes for local people;
 - The Council will continue to focus on the on-going need to deliver significant savings each year.
- 2.1.7 Solihull Council has a strong track record of delivering savings and marshalling its resources effectively in order to maintain a balanced medium term financial strategy. However, national economic circumstances and the public sector funding position mean that local authorities will continue to be placed under considerable financial strain over the course of this planning period and beyond.
- 2.1.8 Forecasts for the national economy remain uncertain, with much dependent on the impact of the UK's departure from the European Union. The official departure date of 31 January 2020 will herald a period of further negotiation and so the effects are likely to emerge gradually over the coming years.
- 2.1.9 When the MTFs for 2019/20 to 2021/22 was published it was expected that the Fair Funding Review into local government finance would conclude during 2019 and that a three year spending review would set out the funding envelope for the sector as a whole, enabling local authorities to plan their finances with a degree of certainty around future funding levels. However, national political developments over the course of 2019 resulted in a single-year spending review and delayed the implementation of the Fair Funding Review until 2021/22. Once again, therefore, projections beyond the first year of the MTFs are based on uncertain assumptions. This strategy therefore assesses some of the key risks to the MTFs projections and considers the sensitivity of key cost drivers over a longer term period.
- 2.1.10 The MTFs supports the medium term policy and financial planning process at the heart of setting revenue and capital budgets. The main objectives of this strategy are:
- To provide a stable financial base from which to deliver the Council's priorities as set out in the Council Plan;
 - To ensure that the Council's strategic priorities are reflected in its capital programme and also that the capital programme is affordable;
 - To ensure that cash flows are adequately planned so that cash is available when required and the Council can meet its capital spending obligations; and
 - To set a sound financial planning framework to underpin the effective financial management of the Council.

3. DRIVERS OF DEMAND

3.1 The economy

- 3.1.1 The Office for National Statistics (ONS) estimates that the UK economy grew by 1.4% in real terms in 2018. In its forecasts for the Spring Statement 2019, the Office for Budget Responsibility (OBR) revised its forecasts for growth in the UK economy to 1.2% in 2019, 1.4% in 2020 and 1.6% thereafter. OBR forecasts for global growth for 2019 and 2020 are slightly lower than at Spring Budget 2019, reflecting weaker euro-area growth and contractions in some emerging markets.¹
- 3.1.2 Furthermore, the effects of the UK's departure from the European Union remain unclear with ongoing uncertainty as the details of the UK's future relationship with the EU continue to be negotiated. At a national level, despite strong global growth and the relative weakness of sterling, there is evidence that this uncertainty is affecting investor confidence, which could cause delays in businesses taking decisions on projects and investments. The potential impact on trading conditions across different sectors has not yet crystallised but if, as many commentators expect, the economy stagnates or even contracts as a result of Brexit, this would be expected to have an effect on the overall economic prosperity and employment prospects for the borough and the wider region. In turn this could affect demand for public services and also the resources available to the Council to deliver those services, particularly under a 75% business rates retention system where local authorities would be more exposed to volatility in business rates income.
- 3.1.3 However, the Council is working with partners, such as the West Midlands Combined Authority (WMCA), the Greater Birmingham and Solihull Local Enterprise Partnership (LEP) and central government, to make the most of the borough's opportunities for local and sub-regional economic growth, with the objective of ensuring that such growth is managed well for the benefit of all residents.
- 3.1.4 The cost of the Council's key contracts rises by inflation each year, as does the cost of general supplies and services, so the level of inflation is an important consideration for the MTFS. The inflation assumptions included in the MTFS are informed by monthly inflation forecasts collated and published by HM Treasury and by OBR forecasts, which suggest that inflation as measured by the consumer price index, which stood at 1.5% in October 2019, will be around the Bank of England's target of 2.0% in the medium term.² The MTFS assumes general inflation of 2.0% in 2020/21 and 2021/22, and 2.1% for future years, which is applied to around £17 million of spend. The Council also has a number of strategic contracts and other arrangements which attract a different rate of inflation – for those linked to RPIX the MTFS assumes an increase of 3.0% per annum. In 2020/21 these contracts account for over £18 million of the Council's expenditure.

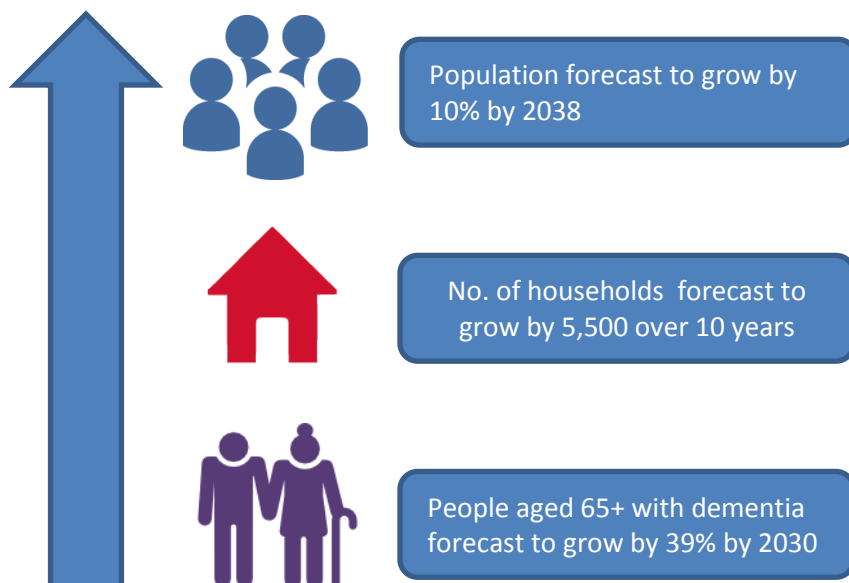
3.2 Rising demand for our services

- 3.2.1 The population of the borough has increased at a much slower rate than nationally over recent years but is expected to grow by around 10% by 2038. This growth will put considerable pressure on transport, housing, education and public service infrastructure and there is a shortage of affordable homes and homes which are suitable for older people, especially the increasing numbers living alone.

¹ Office for Budget Responsibility, 2019. *Economic and fiscal outlook*

² Ibid.

3.2.2 Office for National Statistics projections suggest that the relative ageing of Solihull's population will continue and that by 2038 those aged 65 and over will account for one in four of the population. The growth in numbers of residents aged 85 and over in particular represents a significant and growing challenge in terms of health and social care.



3.2.3 In common with other local authorities across the country, Solihull continues to experience significant pressures on social care services for both adults and children. The Council has always sought to set realistic and deliverable budgets through the three year budgeting process, and in accordance with that objective the MTFS allocates significant additional resources to mitigate pressures in children's services, whilst protecting adult social care from having to make further savings in 2022/23.

3.3 Adult Social Care

3.3.1 Nationally, the challenges facing adult social care services as a result of factors such as increasing demand, capacity and market stability issues in the independent sector and the impact of year-on-year savings requirements continue to represent a major risk to local authority finances. In the short term it is anticipated that these risks can be mitigated through the use of reserves and temporary government funding but it is difficult to develop a longer term strategy to address such risks in the context of continued uncertainty around future funding arrangements for adult social care.

3.3.2 The government has acknowledged that the growing demand for adult social care services is placing increasing pressure on council budgets. The long-awaited green paper on adult social care has yet to be published but in the meantime the 2019 spending review confirmed that grant funding totalling £1.613 million received in 2019/20 would continue into 2020/21. In addition, the Chancellor announced further funding for both adults' and children's services in 2020/21, £1.647 million of which has been allocated to the Adult Social Care and Health portfolio. This funding will be used to develop a new model for the provision of exploitation/safeguarding-related support services, particularly for young adults.

3.3.3 The government has also decided to allow local authorities to levy a precept on adult social care in 2020/21, the fifth year in which this has been possible. The Council is proposing to increase the precept by 2.0% in 2020/21, bringing the total additional income generated from the precept to £9.7 million per annum.

- 3.3.4 The MTFs already includes substantial funding for adult social care, approved in February 2019, and requires no new savings from the service in 2022/23. Instead, additional resources generated through the increase in the adult social care precept, the early delivery of savings already targeted for 2021/22 and increasing contributions to care costs will be reinvested in other priorities within the portfolio as outlined below.
- 3.3.5 The indicative budgets for the Adult Social Care and Health portfolio include £1.467 million in 2020/21 to manage the impact on care provider rates of the increase in the National Living Wage (NLW) above the level of general inflation. No further funding has been built into the budget plans for subsequent years, but at this stage forecasts suggest that increases in the NLW will slow in future years.
- 3.3.6 Recent trends indicate increasing pressure on services provided to younger adults with disabilities (especially learning disabilities and autism), as a result of greater numbers of individuals accessing support and the increased complexity of their needs. Similar pressures are being experienced on special educational needs and disabilities (SEND) budgets in children's services, indicating that this trend is likely to continue, with pressure sustained by the transition of young people from children's to adults' services. The indicative budgets include an increase of £500,000 per annum from 2021/22 to mitigate this pressure over the period of the MTFs.
- 3.3.7 The construction of a new care home on Tanworth Lane is now complete and as a result the annual value of the capital programme for the Adult Social Care and Health portfolio has fallen to £1 million. This funding will be focused on supporting people to stay in their own homes, helping to maintain their independence as long as possible.
- 3.3.8 We work closely with NHS partners to deliver social care services, for example through Live Healthy, Live Happy (the Birmingham and Solihull Sustainability and Transformation Partnership (STP)) and through pooling budgets with local NHS commissioners. The Partnership's vision is to help everyone in Solihull and Birmingham live the healthiest and happiest lives possible, by encouraging people to take responsibility for their own health and wellbeing from a young age. This requires a more joined up approach to health and care which is reflected in the Live Healthy, Live Happy plan, which sets out how the local authorities, NHS organisations and voluntary services across Birmingham and Solihull will work together on one set of priorities.
- 3.3.9 The Better Care Fund (BCF) is a budget to help local places improve the integration of health and care services that are currently commissioned by the NHS and local authorities. The conditions associated with the Better Care Fund require certain levels of ongoing investment by social care in key areas, particularly with respect to hospital delayed transfers of care improvements. The overall impact of reaching a successful agreement with health partners on BCF investment has been built into the revenue strategy. However, these agreements do not cover the full period of the MTFs as BCF allocations for the years beyond 2020/21 have yet to be announced by the government.

3.4 Children's Services

- 3.4.1 The challenges facing the Children, Education and Skills portfolio are largely unchanged from last year and are particularly driven by increasing demand in respect of children's social care placements and special educational needs and disabilities (SEND) transport. As part of the budget process for 2019/20, a new reserve was created to manage fluctuations in the cost of children's social care, which will be topped up by £2.045 million in 2020/21.

- 3.4.2 The number and unit cost of children’s placements has risen above the estimates used to inform the 2019/20 MTFS, a picture replicated across the country as cases increase in complexity. However, we currently do well with both the volume and timeliness of our adoptions and other court orders (that bring an end to a child being looked after). The weekly cost of placements across a range of provision compares favourably to our benchmark authorities and there is no evidence that we take children into care whom we should not. Our approach to addressing this pressure includes close monitoring of the most expensive placements, arrangements to step clients down from residential to fostering placements where possible and work on a new regional secure unit. In addition, the service will receive £1.650 million of new grant funding in 2020/21, part of which will be used to develop connected carer arrangements over the next two years.
- 3.4.3 The conversion of all former statements of education need to Education, Health and Care Plans (EHCPs) has now been completed but there is a requirement to review the plans annually and complete new plans within 20 weeks of a request. In addition, we have seen an increase in demand for local authority support under the new framework, both directly and through personal budgets.
- 3.4.4 The High Needs Block of the Dedicated Schools Grant (DSG) budget has been under significant pressure, resulting in a net adverse variance of £1.705 million in 2018/19. The main factors underlying this position relate largely to the combination of rising demand, increasingly complex needs and a shortage of specialist provision.
- 3.4.5 Full Cabinet will receive a recovery plan for the service in February 2020, underpinned by a contribution of £1.2 million from the budget strategy reserve. The recovery plan provides additional capacity in such areas as commissioning, performance management and legal support and to address the backlog of annual EHCP reviews.
- 3.4.6 The key issue with the SEND transport service is the level of SEND demand and the resultant impact on transport costs. With pressures on our internal placements (particularly around autism), transport to provision outside of the borough remains problematic but we also transport within the borough so this too needs addressing. There are a number of actions underway including a review to develop our internal capacity alongside emerging proposals on specialist sixth form provision. We are also reviewing other local authority models of transport for SEND to consider creative approaches adopted elsewhere.
- 3.4.7 In May 2019, the Home Office concluded a review of funding for unaccompanied asylum seeking children (UASC) by increasing the rates paid for children aged 17 and under. This was welcome recognition of the costs of supporting UASC but the arrangements for former UASC who are being supported as care leavers will not be addressed until the next spending review, leaving Solihull with a net deficit, based on current estimates, in the region of £200,000 per annum. This has been built into the MTFS from 2020/21.
- 3.4.8 The introduction of the National Funding Formula made changes to the way statutory council services provided to schools are funded. Those services provided to all schools (both academy and maintained – “Retained Duties”) are funded by the Education Services Grant. However, services provided specifically for maintained schools (“General Duties”) are no longer grant-funded, and there is an expectation that schools fund them. Approval is made annually by the Schools Forum but at a much lower level than the actual costs. In addition, as schools academise, this funding is lost. Additional ongoing funding (£326,000 by 2022/23) has been built into the MTFS in recognition of the grant shortfall.

3.4.9 This means there are two risks associated with the Education Services Grant: an annual reduction in General Duties funding as schools become academies, and the risk that all funding could be lost should there be no approval from the Schools Forum. Whilst schools value the services provided by the Council, the risk of losing some or all of this funding in the current financial climate is real and could have an impact of up to £1.6 million on the Council’s budget.

3.4.10 The focus of the capital programme in children’s services is on the maintenance and improvement of the schools estate, with specific projects to increase capacity and support the expansion of provision for children with special educational needs and disabilities (SEND).

3.5 The Place

3.5.1 There are also pressures on the Council’s “place-based” services, those that have a central role in making Solihull an attractive place to live and work. For example, continued growth in housing numbers has increased demand for waste collection and disposal services in particular, while economic development has put pressure on the highways network to the extent that additional repairs and maintenance spending is now required.

3.5.2 In June 2019 Full Cabinet approved £4.195 million of investment in the programmes identified in the table below, funded from the 2018/19 business rates windfall.

Area of Investment	Amount £m	Reason for Request
Local Plan Investment	0.900	Preparation of public examination, and building evidence base. Reserves have been exhausted.
Transport and Highways Infrastructure investment	0.300	To meet costs associated with the increase in, and the increased use of, the road network and associated deterioration.
Cleansing and Maintenance	0.700	Re-investment in public realm cleansing and improvements to manage maintenance budget reductions in previous years.
Environmental Services Contract review	0.985	To support the implementation of future service delivery across the Strategic Environment Contract.
Street Lighting LED replacement acceleration	1.310	To enable early delivery of the street lighting LED replacement in 2019/20 and 2020/21 instead of 2023/24. Total savings of £2.560m will be made, with £1.050m for the MTFS and £1.510m for investment in highway assets.
Total	4.195	

3.5.3 In addition, in June 2020, Full Cabinet will be asked to approve the allocation of £2 million from the anticipated business rates windfall to create a new place-making fund in order to support the promotion, sustainability and resilience of Solihull as an attractive place to live and do business. The fund, which will be controlled by Full Cabinet, will be used for:

- Promotion of the borough, including tourism
- Town centre resilience, specifically supporting the High Street
- Environmental protection and climate change, aligning Solihull’s strategy with that of the combined authority

- Monitoring to ensure that the attractiveness of the borough is maintained and maximised.

3.5.4 A significant element of the capital programme sits within the Managed Growth cabinet portfolio, the majority of which relates to programmes associated with the UKC project. In line with the Council's strategy for local transport, the capital programme also includes projects to expand cycle routes, improve public transport and maintain and improve the road network. The Council will also be working with key partners to support the delivery of high profile regional projects such as the Birmingham 2022 Commonwealth Games, the Coventry 2021 City of Culture and the Velo Birmingham cycle event.

4. RESOURCING

4.1 Revenue

4.1.1 Local government revenue spending is funded from three main sources: council tax, revenue support grant and a share of business rates income. As part of the West Midlands business rates pilot, Solihull has not received revenue support grant since April 2017 and instead retains a greater share of the business rates income we collect.

4.1.2 Local authorities also receive specific grants, mostly from central government or non departmental government organisations, in support of particular services, projects or activities. Significant grants include the Dedicated Schools Grant (DSG) and Public Health grant. Councils can also levy fees and charges for certain services, some of which are set nationally and others over which the Council has discretion. The general principle for discretionary charges is that they should cover the cost of providing a service rather than generating a profit. The Council presents its revenue budgets as net of specific grants and other income.

Retained business rates

4.1.3 Under the existing national system of partial rates retention, local government retains 50% of business rates income with the remainder payable to central government for redistribution through government grant. The proportion of business rates retained locally is set to increase to 75% from April 2021, and the revised scheme will incorporate funding previously made available through the revenue support and public health grants, with further details expected to emerge during 2020.

4.1.4 Alongside this change in the proportion of business rates retained locally, the baselines to redistribute resources between local authorities through the business rates retention scheme will be reset from 2021/22 based on a new assessment of relative needs and resources. The updated methodology will be informed by the government's Fair Funding Review, which will involve consultation with local government through a series of technical papers. It is anticipated that the effect of the resulting reset of baselines in the business rates retention scheme will be to shift resources away from councils such as Solihull which are considered to be relatively affluent, but at this stage it is not possible to quantify the possible impact.

4.1.5 For 2020/21, the West Midlands business rates retention pilot will continue in its existing form, where the region as a whole retains 100% of the business rates it collects. The West Midlands Combined Authority receives a share of the growth in business rates income, while the remainder of the business rates collected in the region is retained by the seven West Midlands metropolitan districts. The West Midlands Fire and Rescue Authority continues to receive 1% of the business rates collected.

- 4.1.6 For the purposes of the business rates retention pilot, the government has guaranteed that the region will not be any worse off than it would have been under the existing financing arrangements, under a principle referred to as “no detriment”. However, this guarantee applies only at a collective level and so should a situation arise where one or more of the member authorities finds themselves financially disadvantaged as a result of their involvement in the pilot, the remaining pilot authorities would be required to make good the financial position of their West Midlands counterparts before invoking “no detriment” support from the government. The risk that this presents to the Council’s MTFs is mitigated by windfall income received by the member authorities as a result of the way in which the Ministry of Housing, Communities and Local Government (MHCLG) measures business rates growth, which could be used to contribute towards the “no detriment” position of any of the member authorities if required.
- 4.1.7 The level of windfall income realised each year of the pilot depends on the business rates outturn position for each authority. In theory, any requirement to contribute towards the “no detriment” position of any of the other pilot authorities could reduce the windfall income available to the remaining authorities to nil. Because of this uncertainty, Full Cabinet agreed to contribute any windfall income to a contingency. Current estimates are that Solihull’s windfall for 2019/20 could be in the region of £9.5 million, but the final figure will not be confirmed until summer 2020 after the business rates outturn position is reported for each of the pilot authorities. The windfall income is not built into the MTFs and as such no expenditure can be incurred against this funding until the outturn position is confirmed at the end of year.
- 4.1.8 The table below shows the forecast windfall income and proposed future allocations as at February 2020.

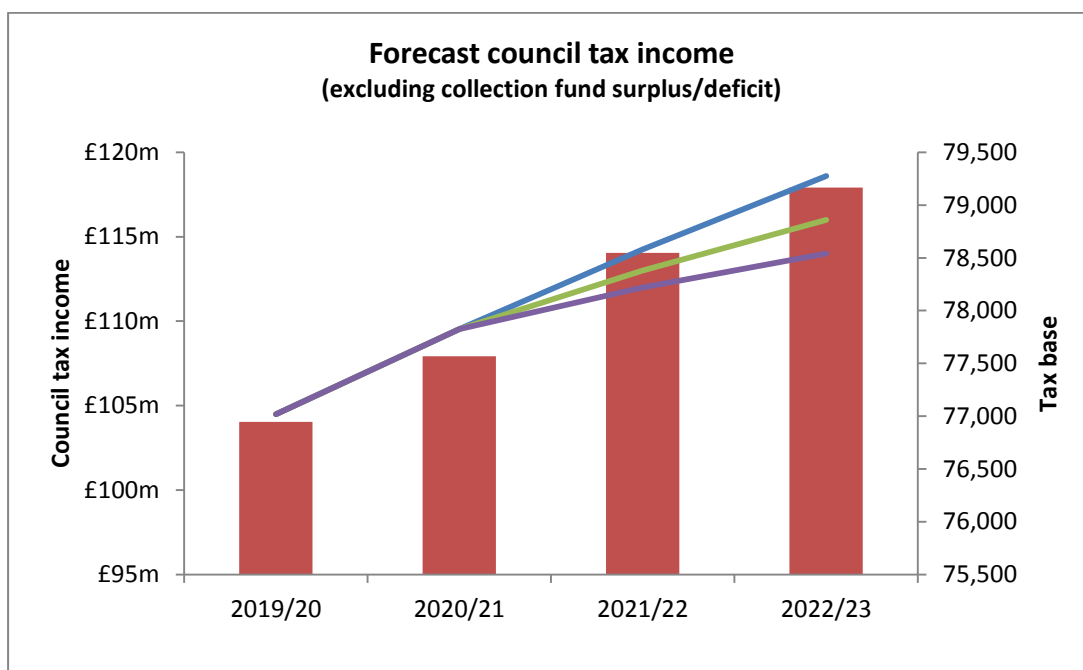
	2019/20 £'000	2020/21 £'000
Forecast windfall income for the year	9,468	9,197
Proposed allocation – business rates fluctuations	(45)	0
Proposed allocation – creation of place-making fund	(2,000)	0
Proposed allocation – short term support for recycling contract	(560)	0
Proposed allocation – to support capital spend at risk (will be returned to contingency when risk is removed)	(1,028)	0
Balance	5,835	9,197

Council tax

- 4.1.9 Council tax remains the most significant source of income for Solihull, funding 69% of the net revenue budget in 2020/21. The Council has experienced a sustained period of growth in the council tax base in recent years and the MTFs assumes this will continue, reflecting both the housing growth forecasts set out in the Local Plan and underlying trends in the council tax reduction support caseload.

4.1.10 The government has confirmed that the referendum threshold for increases in core council tax will be 2.0% in 2020/21, lower than in 2019/20, with a further increase of up to 2.0% allowed in respect of the adult social care precept. The level of increase ultimately recommended to Full Council each year will be determined through the budget process in the light of the prevailing financial conditions, but for planning purposes the MTFs assumes a 2.99% increase in 2021/22 and 2022/23. For illustrative purposes, an increase of 1% in council tax equates to just over £1 million of income (based on the 2020/21 tax base).

4.1.11 The columns in the chart below show the projected increase in the council tax base over the period, set against the overall forecast council tax income (shown as a blue line). In order to illustrate the effect of lower increases in council tax in 2021/22 and beyond, the green line shows the level of council tax income at an annual increase of 1.99% and the purple line shows the council tax income generated from an increase of 0.99%.



Non ring-fenced grants

4.1.12 The Council's most recent Accounting Statement detailed a total of £8 million of government grants received in 2018/19 that were not ring-fenced to specific services, largely accounted for by New Homes Bonus and business rates grants. The New Homes Bonus (NHB) scheme provides local authorities with a non ring-fenced grant, equal to the national average for the council tax band on each additional property built in its area, or on each long-term empty property that is brought back into use. The government sets a baseline (0.4% for 2020/21), below which growth is discounted for the purpose of calculating NHB entitlements. Solihull expects to receive NHB payments totalling £2.3 million in 2020/21, relating to the years from 2017/18 to 2020/21. The future of the NHB scheme beyond 2020/21 remains uncertain with the government considering plans to reform the basis of calculating the bonus, but in the absence of any firm proposals the MTFs assumes the continuation of the existing scheme, albeit with a higher baseline of 0.6% from 2021/22.

- 4.1.13 Historically councils received significant funding from central government through the revenue support grant (RSG), but the grant has fallen considerably since the introduction of business rates retention in April 2013. In February 2016, the government published provisional funding allocations for local authorities for the four years from 2016/17 to 2019/20, which showed a reduction of nearly 70% in government grant payable to local authorities over the period.
- 4.1.14 As a member of the West Midlands business rates pilot, Solihull no longer receives RSG from the government, but instead retains a greater share of business rates income. This share declines each year in line with the reductions in RSG over the four year funding offer period, which for Solihull equated to a reduction of £16.6 million since 2016/17. In September 2019, the Chancellor of the Exchequer published a one-year spending review which rolled forward the 2019/20 allocations for a further year. The MTFSS assumes there will be no further RSG receivable from 2021/22 onwards but, depending on the outcome of the Fair Funding Review, there may continue to be some residual or transitional funding allocated to local authorities beyond 2021.
- 4.1.15 Since the introduction of business rates retention in April 2013, the government has made a number of policy announcements affecting the amount of business rates the local authorities can collect, such as increasing the amount of relief available to certain businesses or restricting the increase in the multiplier. In order to protect councils from the impact of these decisions, the government compensates local authorities for the resulting loss in income through specific non ring-fenced grants. The value of these grants will increase each year, representing the cumulative impact of government policy decisions since 2013/14, until the business rates system is reset, when the baselines are expected to be updated.

Ring-fenced grants

- 4.1.16 The Council received £224 million of revenue grants from government that were ring-fenced to specific services in 2018/19. The majority of the specific grants received by the Council are in respect of education services: £108 million in Dedicated Schools Grant, which funds maintained schools, and £11 million in additional grants to fund such activity as PE and sport in schools, sixth forms, pupil premium and universal free school meals for infants.
- 4.1.17 The Council also receives Public Health grant which is intended to support local authorities in their statutory duty to improve the public health of their populations. The grant has been reduced each year since 2015/16 with the amount available nationally falling by 9.7% (£331 million) by 2021/22, on top of an in-year cut of £200 million announced part way through 2015/16. The government has indicated there will be a real terms increase in the grant in 2020/21 but the allocations have yet to be announced. The Council's spending on public health is largely committed to contracts for specific services, which has meant that managing the impact of these funding reductions has been challenging. From 2021/22 local authorities' public health responsibilities are expected to be funded from the revised business rates retention scheme.
- 4.1.18 The Better Care Fund (BCF) is a national programme set up to encourage health and social care integration by requiring clinical commissioning groups and local authorities to enter into pooled budget arrangements and agree integrated spending plans. The pooled budgets are made up of CCG funding as well as local government grants, one of which is the improved Better Care Fund (iBCF). The iBCF was first announced in the 2015 Spending Review and was increased in the 2017 Spring Budget. In addition, the 2019 spending review announced that the minimum contribution received from health budgets through the BCF will increase by 3.4%

above inflation in 2020/21. No funding allocations for either the BCF or iBCF have been published for the years beyond 2020/21 but the MTFS assumes that this income will continue at existing levels.

- 4.1.19 The Council currently has nine projects with funding agreements in place for receipt of European Union funding under the European Structural Investment Fund (ESIF) 2014-2020, with current approved delivery programmes continuing into 2022/23. The value of grants approved for these projects is £16.3 million. Project extension requests and new projects, with grant totalling £5.4 million receivable into 2023/24, have been submitted for approval.
- 4.1.20 The draft withdrawal agreement between the UK and the EU published in March 2018 provides that the UK would continue to participate in ESIF 2014-2020 programmes until all programmes end in 2023, subject to a final negotiated agreement. The government has confirmed that the funding will remain in place post the EU exit date.
- 4.1.21 For the purposes of the MTFS, most specific service grants are shown as net nil, as the income is matched against an equivalent amount of forecast expenditure.

Fees and charges

- 4.1.22 The Council receives nearly £110 million per annum in income from fees and charges. This income supports the expenditure of individual service areas and as such each service area has responsibility for determining appropriate fees and charges for recommendation to Full Cabinet for approval. Although the MTFS assumes a general inflationary increase for fees and charges income, increases in the fees and charges set for individual services vary depending on any statutory requirements, specific market considerations and also on the objectives a particular service may be trying to achieve through its charging structure (for example to encourage or discourage certain behaviour).

Investment income

- 4.1.23 One of the objectives of the Council's treasury management function is to ensure that cash is available when needed to meet the Council's obligations. As outlined in the Treasury Management Strategy, surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, with security and liquidity taking priority over investment return. For 2020/21, the target rate of return on investments is 0.75%, which will be monitored throughout the year. As at 31 December 2019, the Council held investments totalling £90 million.

4.2 Capital

- 4.2.1 Funding for the capital programme primarily consists of a combination of prudential borrowing, specific capital grants and capital receipts from the sale of council assets. The Council's capital programme is divided into two parts, the corporate and the self-funded programme.
- 4.2.2 Prudential borrowing and receipts from the disposal of assets (with the exception of those related to housing and schools) are considered corporate resources which are utilised to fund the corporate capital programme. The self-funded capital programme is supported by grant allocations and any revenue or third party contributions.

- 4.2.3 The Council continues to face the challenge of effectively prioritising and managing capital investment. To ensure the capital programme is affordable, the Corporate Capital Strategy must take into account the level of funding both from government and future capital receipts. It will consider the existing capital programme commitments and ensure they are still relevant in meeting the Council's priorities.
- 4.2.4 The Council will explore all sources of capital funding to facilitate the delivery of the Council's priorities. The Council recognises that the co-ordination of bids for external funding is a key requirement to both maximise the level of external funds the Council receives and to improve the strategic focus of the bids made to enable the delivery of key initiatives.

Capital grants and third party contributions

- 4.2.5 The Council received just £19 million in capital grants and contributions in 2018/19, the majority of which related to schools and highways projects. Specific grants and third party contributions are usually subject to conditions determining the purposes for which they must be used. Service areas may also make contributions to specific capital projects from their revenue budgets. In future years it is anticipated that grant income could increase significantly as WMCA funding is received.
- 4.2.6 Increasingly, large capital projects are dependent on external grants, specific government funding or partnership arrangements. Examples in the capital programme include Wildlife Ways, Solihull town centre heat networks and the Kingshurst and Chelmsley Wood town centre projects.
- 4.2.7 The Council commenced charging a community infrastructure levy (CIL) on new development in July 2016. Income raised from CIL can be used to support development by funding infrastructure improvements across the borough. This can include transport schemes, flood defences, schools, health and social care facilities, parks and green spaces and cultural and sports facilities.

Capital receipts

- 4.2.8 The Corporate Capital Strategy is supported by the Council's corporate Asset Management Plan which includes an objective to optimise the Council's land and property portfolio through proactive estate management and effective corporate arrangements for the acquisition and disposal of land and property assets.
- 4.2.9 The outlook for receipts from corporate asset disposals is improving compared to recent years, contributing to a forecast surplus over the next three years as shown in the table below.

	2020/21 £m	2021/22 £m	2022/23 £m
Forecast cumulative surplus	3.255	1.654	1.742

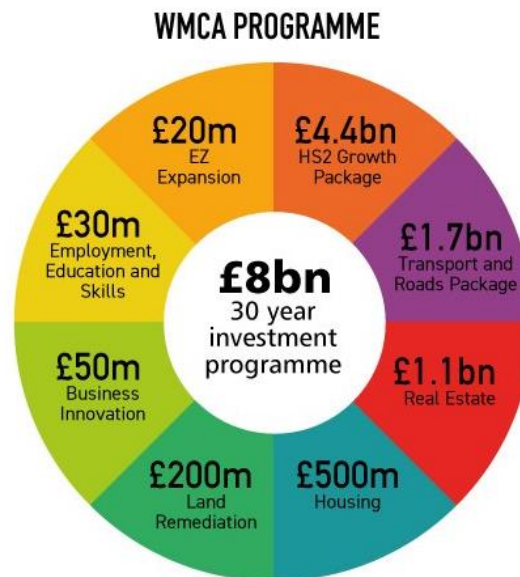
- 4.2.10 The Council will continue to realise the value of any properties that have been declared surplus to requirements in a timely manner, having regard to the prevailing market conditions. Full Cabinet is responsible for deciding how corporate capital receipts are to be utilised in line with Council objectives and the Corporate Capital Strategy.

Prudential borrowing

- 4.2.11 Prudential borrowing provides some flexibility in relation to funding for the capital programme. It has been used to support the delivery of major projects such as the North Solihull Regeneration programme, a replacement care home at Tanworth Lane and ICT projects.
- 4.2.12 The current MTFS includes £568,000 of additional revenue funding over the period, to support prudential borrowing of £7.1 million in respect of property services and ICT projects. As the capital programme is updated, any new prudential borrowing requirements will be determined and built into the MTFS as required.

4.3 West Midlands Combined Authority

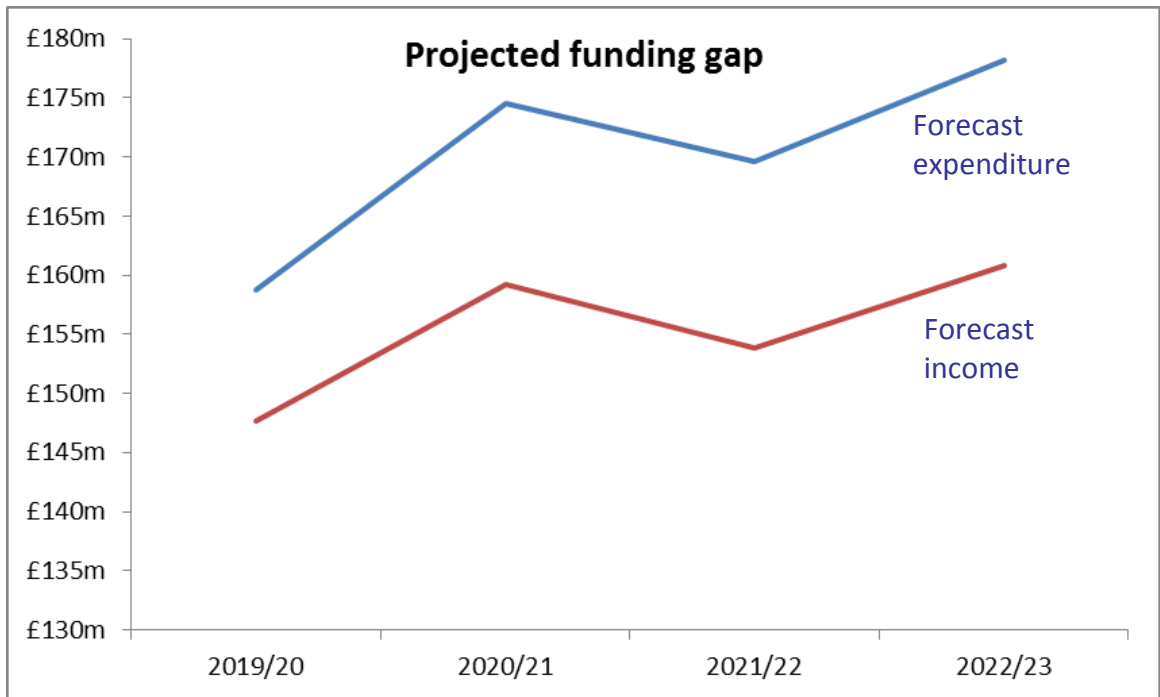
- 4.3.1 The West Midlands Combined Authority (WMCA) was formally established in June 2016 with the responsibilities of the Integrated Transport Authority. The WMCA is led by the elected mayor, Andy Street, and the leaders of the seven West Midlands metropolitan districts. The WMCA also has non-constituent members, including the region's three local enterprise partnerships and other neighbouring local authorities.
- 4.3.2 Since the WMCA was established in 2016 it has secured two devolution deals that will see the wider region receive £1.8 billion of government funding over the next 30 years. The Strategic Economic Plan (SEP) sets out the WMCA's vision and explains how the WMCA will use its devolved powers to strengthen the region and improve the quality of life for those who live and work in the West Midlands. The figure below shows the breakdown of the WMCA's 30 year investment programme, £636 million of which is direct investment into Solihull. By March 2021, membership of the WMCA will have provided around £100 million of investment in the borough.



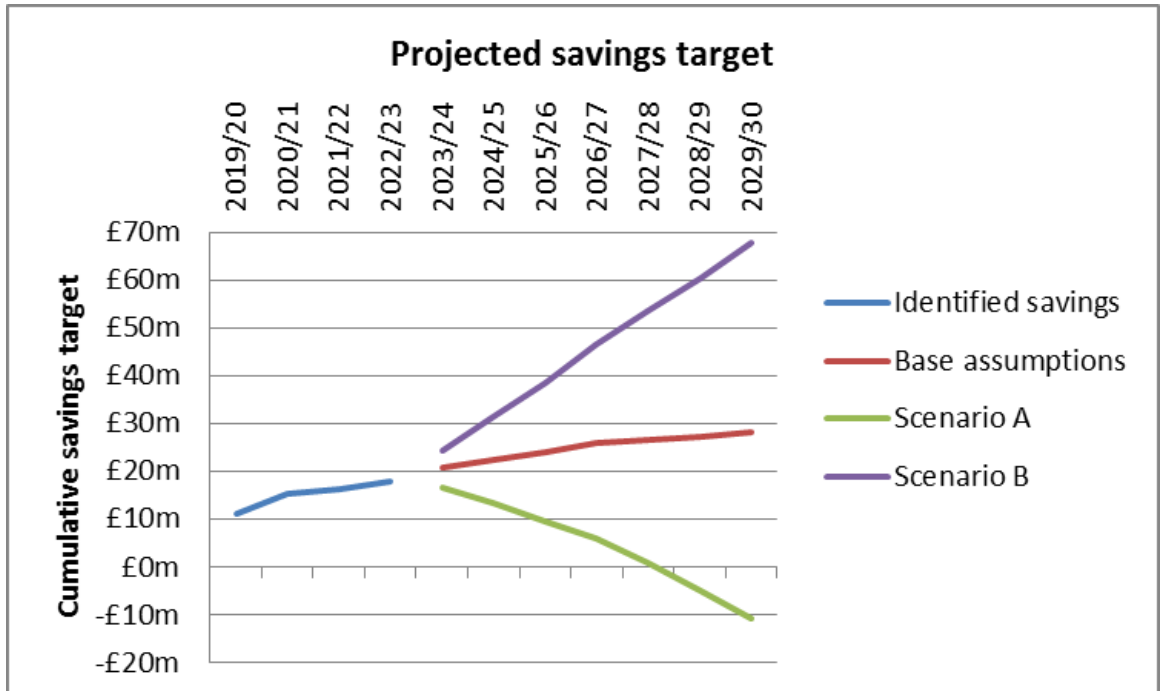
- 4.3.3 The arrival of high speed rail in the region in 2026 represents an opportunity which Solihull, in partnership with the WMCA, is keen to maximise. The interchange station and Hub at UK Central in Solihull will provide an international gateway with seamless integration between HS2, Birmingham Airport, the NEC and rail and metro services, within a carefully designed and environmentally responsive development. Membership of the WMCA is delivering funding to enable Solihull to deliver priorities such as the UK Central Hub faster than would otherwise have been possible. We are seen as a key economic driver for the region given our location, economic assets and high quality environment. The Urban Growth Company (UGC) is a special purpose delivery vehicle created specifically to allow the full economic potential of the Hub to be realised, including promoting and coordinating the required infrastructure.
- 4.3.4 However, two of the funding streams originally anticipated by the WMCA – the mayoral precept and the supplementary business rate – have not been introduced, and only £802 million of the £1.8 billion funding package is available in the period to March 2020, all of which is fully committed. At this stage there is no further funding available but there are significant funding expectations in the investment programme. The approval process for new funding and change requests can also be lengthy and Full Cabinet has approved in principle that the Council can incur expenditure of up to £5 million at risk in respect of UK Central projects, on the assumption that the WMCA will eventually approve reimbursement. This spend at risk is backed by the business rates windfall contingency.
- 4.3.5 Solihull is also a member of the Greater Birmingham and Solihull Local Enterprise Partnership (GBSLEP), set up in 2010 between business, local government and education with three strategic priorities for the city region: to become a world leader in innovation and creativity, to exploit our role as an international gateway and to spread opportunity and prosperity to all sections of society. The LEP has agreed three Growth Deals with government, leveraging in £433m of Local Growth Fund – a pipeline of capital investments that will generate jobs, improve transport links, create homes and upskill local residents.

4.4 Revenue funding gap

- 4.4.1 The Council has also experienced a period of sustained increase in demand for some of the key services it provides to the most vulnerable members of the community, particularly within adult social care and children's services. There is no sign of the growth in these areas declining in the foreseeable future and based on the current evidence it is more likely that growth will continue in the period covered by this plan.
- 4.4.2 The graph below shows projected revenue expenditure and income for the period to 2022/23. The total projected funding gap by the end of the four years, if no action was taken to address it, would be in the region of £18 million.



4.4.3 Looking ahead to the longer term, the chart below shows the savings identified to date and the projected cumulative savings requirement over the next ten years based on the current assumptions in the MTFs. The chart also shows the impact of varying some of the key assumptions under alternative scenarios, with a more optimistic projection shown as Scenario A (the green line) and a more pessimistic projection as Scenario B (the purple line).



4.4.4 The key assumptions varied in each scenario (compared to those used in the MTFS) are summarised in the table below.

	Base assumption	Scenario A	Scenario B
Council tax base growth	0.50%	1.50%	0.00%
Council tax increase	2.99%	3.99%	1.99%
Business rates increase	3.00%	5.00%	0.00%
Pay inflation	2.00%	1.50%	3.00%
Contractual inflation – core	2.10%	1.50%	3.00%
Contractual inflation - specific contracts	3.00%	2.00%	4.00%
Contractual inflation – children’s placements & transport	2.30%	1.30%	3.30%
Emerging pressures	£2m	£1.5m	£3m

4.4.5 It should be noted that in the absence of a spending review and a distribution methodology for 2021/22 and beyond, any projections into either the medium or longer term are speculative and should be treated with caution. This is compounded by the ongoing uncertainty over national economic forecasts for the period.

5. THE COUNCIL’S RESPONSE

5.1.1 The Council’s strategic response to the projected funding gap is to employ three interventions:

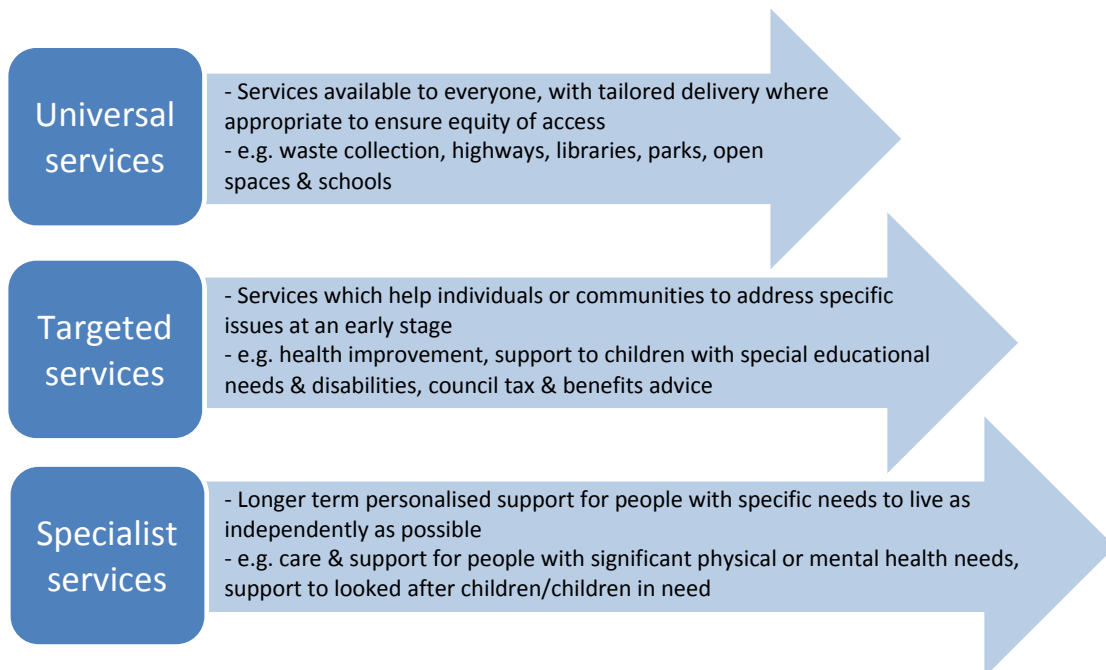
- Managing demand;
- Maximising income generated locally; and
- Reducing costs.

5.2 Managing demand

5.2.1 Our borough has great strengths, including a thriving economy and high quality places to live but also faces challenges: meeting the needs of our changing population, managing spending within constrained budgets and ensuring that growth generates opportunities for all.

5.2.2 The current Council Plan, which was updated in April 2019 and will be refreshed in April 2020, sets out a strategic and operating model for the Council to 2025. Underpinning this new operating model is a renewed focus on making best use of data to identify who is accessing our services, how and why. This will include customer mapping and segmenting the population into groups of key service users, with whom we will work in different ways according to their needs.

5.2.3 As a local authority we provide a range of services, some of which are used by or available to every resident in the borough and others which are only used by a small number of people with specific needs. In designing our offer for the future we have divided our services into three categories (universal, targeted and specialist), each with a different focus and a different proposal. Each of these categories is underpinned by support services which need to be equally efficient and focused.



5.2.4 Enabling independence is a theme that runs throughout these offers. This means encouraging and supporting residents to do as much as possible for themselves, looking out for those around them and coming together with others to tackle local issues. We will also work creatively with partners to deploy our resources more effectively, each partner doing what they are best placed to do. Transparency, honesty and truth will underpin this partnership approach.

5.2.5 One of the ways in which Solihull is responding to the inevitable increase in demand across its core client groups and services is to use its policies, strategies and service models with the intention of eliminating what is classed as “avoidable demand”. Avoidable demand is a demand for our services which has been caused by not doing something or not doing something right for the customer. By reducing avoidable demand the authority can concentrate on prevention and early help measures to ensure that the contact that we have with our customers is at the right time, for the right level of service in the future.

5.2.6 The focus of the 2020/21 budget process has been supporting services to vulnerable adults and children while identifying resources to invest in Solihull as a “place”, in order to support the promotion, sustainability and resilience of Solihull as an attractive place to live and do business. The resources provided through the MTFS to sustain critical services and support new projects will enable the Council to continue on its journey towards the realisation of the objectives set out in the Council Plan. The table below summarises the additional funding directed to our priorities in the MTFS.

Priority	Total funding provided by 2022/23	
	Ongoing funding provided through the MTFS £'000	One-off funding provided through the windfall contingency £'000
Securing inclusive economic growth	0	7,473
Planning and delivery for Solihull's low carbon future	0	560
Developing and delivering our approach to services for adults and children with complex needs	9,757	5,759

Priority	Total funding provided by 2022/23	
	Ongoing funding provided through the MTFS £'000	One-off funding provided through the windfall contingency £'000
Managing demand and expectation for public services	327	0
Making the best use of our people and physical assets	568	0
Total	10,652	13,792

5.2.7 This is supported by the capital programme, which includes significant investment in support of the Council's priorities through a range of projects which aim to deliver improvements for the borough and our residents beyond the period covered by the MTFS.

5.3 Maximising income generated locally

5.3.1 The second strand of the Council's approach is to maximise the income it generates from business rates and council tax.

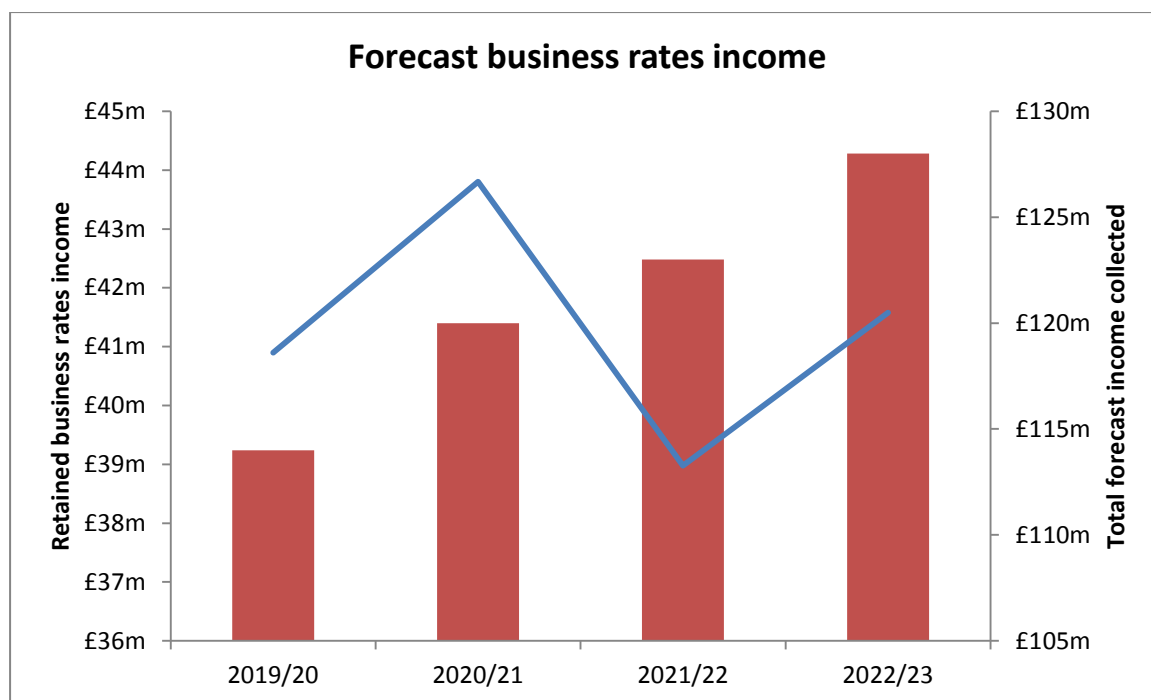
5.3.2 Solihull's unique concentration of strategic economic assets (the international airport, the National Exhibition Centre, Jaguar Land Rover, the business parks, the town centre, transport infrastructure and the environment/ green belt) give it a critical role in the regional economy – with analysis demonstrating that for every job these assets support in Solihull, there is another one in the West Midlands.

5.3.3 The Council is at the forefront of exciting plans to maximise the benefits of high speed rail with the development of UK Central, a multi million pound project which will deliver infrastructure and commercial improvements for the whole of the West Midlands. Coordinating this growth potential with investment and development at the NEC and the airport, together with investment in local and regional transport connectivity and a coordinated, long-term approach to skills will maximise benefits for the entire region and the UK as a whole.

5.3.4 We know that securing economic growth is not an end in itself, but is a means of achieving wellbeing, inclusion and shared prosperity – it is two sides of the same coin, a metaphor and principle we have put at the heart of the Council's policy making. We also want to manage economic growth to minimise the impact on the attractive living environment which is so important to our residents.

5.3.5 The Council's annual forecast of the business rates income it will collect, as reported to central government in the NNDR1 return, forms the basis of the payments the Council will make to the West Midlands Combined Authority (WMCA) and the fire authority for their share of business rates income. For future years the MTFS assumes an underlying level of growth in our net rates yield consistent with the government's assumptions for inflation, plus an estimate of the additional business rates income that would be generated from anticipated new developments in the borough over the period.

5.3.6 The graph below illustrates the forecast growth in business rates income over the period of the MTFS: the columns represent the total forecast rates collected in the borough while the line represents the income retained by the authority. The fall in forecast net retained income in 2021/22 reflects an estimate of the impact of the move to 75% business rates retention and the expected withdrawal of the revenue support grant. However, as noted elsewhere, at this stage there is insufficient detail as to the design of the future business rates retention scheme to be able to forecast the impact on the MTFS with any accuracy and so these forecasts should be treated with some caution.



5.3.7 The introduction of partial rates retention transferred significant risk to local authorities. In particular, backdated appeals have had a significant effect on our in-year projections of business rates income and continue to present a significant risk to the assumptions in the MTFS.

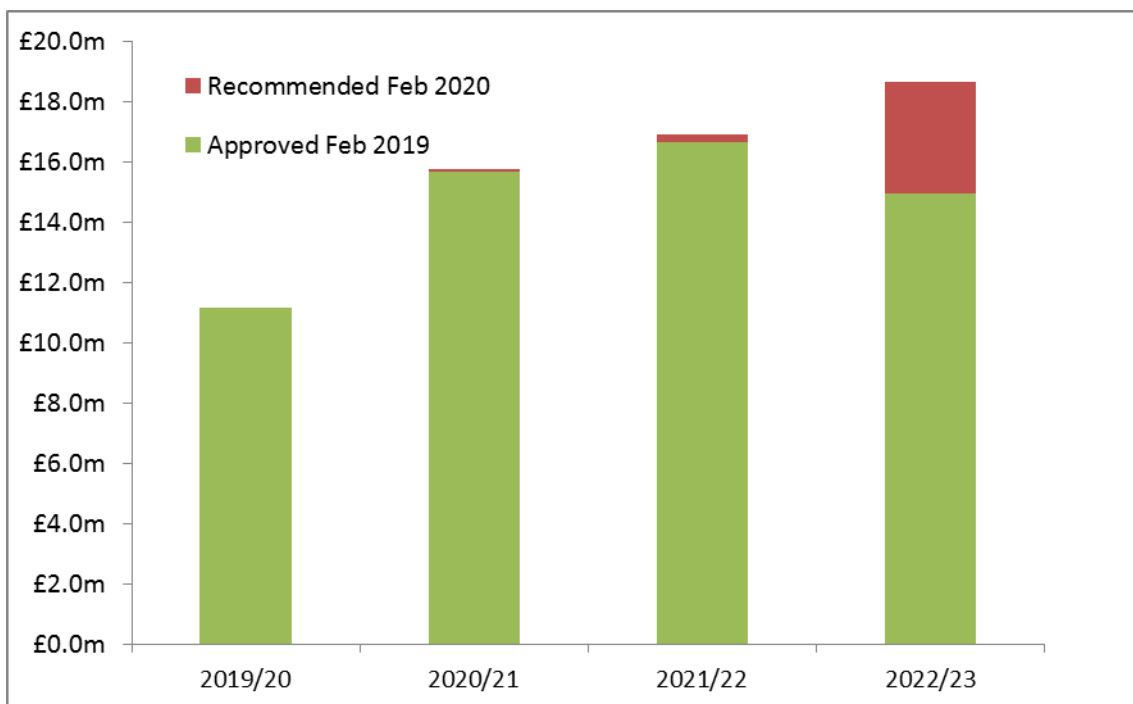
5.3.8 In recognition of the shortcomings of the current appeals system, the government is making various changes which it is hoped will provide greater certainty in forecasting business rates income from 2021/22 onwards. To date, appeals resulting from the 2017 revaluation have not materialised in the volume that was initially expected, which has enabled the Council to review the methodology for determining the appeals provision required and reduce the annual contribution. However, forecasts remain very sensitive to the impact of successful backdated appeals and there is an ongoing risk to the business rates base in the light of both the difficult trading conditions for the retail sector and the impact of continued uncertainty over Brexit on manufacturing in particular.

5.4 Reducing costs

5.4.1 The final element of the Council's response is to continue to target and deliver savings. Historically low levels of funding, both from central government and through a relatively low Band D council tax, have required the Council to adopt innovative approaches to improving efficiency. The focus for the updated MTFS has shifted slightly, such that the savings requirement is driven by specific pressures in adults' and children's services rather than a more general need to balance spending to forecast funding levels.

5.4.2 The Council has a three-year budgeting approach, which means that each year the budget process is focused on identifying the savings required and approving the indicative budget for the third year of the strategy (with the two earlier years having already been dealt with). This provides services with the stability and certainty they need and enables savings delivery to be properly planned, consulted upon and implemented. As a result of this approach, Solihull is in a resilient financial position despite the challenging climate for local government, with clear three-year savings plans set out to achieve a balanced budget up to 2022/23.

5.4.3 The approach is illustrated in the chart below, which shows (in green) cumulative ongoing savings of £16.6 million identified as at February 2019 for the period from 2019/20 to 2021/22. During 2019/20, the budget process for 2020/21 focused on the identification of savings for 2022/23, some of which could be delivered in earlier years - these are shown as red in the chart and bring the total targeted over the four years to £18 million.



5.4.4 In addition, a group of senior officers closely monitors the delivery of savings and supports the management and mitigation of any anticipated shortfalls throughout the year. Changes to the financial planning assumptions which affect years one and two of the MTFS are managed through a budget strategy reserve, which also mitigates risks around some of the key assumptions underpinning the MTFS and contributes to the financial resilience of the Council.

5.4.5 That said, the delay to the expected three year spending review has created some additional uncertainty around whether the savings proposals currently built into the MTFS for 2021/22 and 2022/23 will be sufficient once the funding envelope for those years is confirmed. This uncertainty is mitigated by the existence of the Council's budget strategy reserve, as outlined in section 6 below.

6. RISK MANAGEMENT AND RESERVES

6.1 Risk management approach

6.1.1 In setting the revenue and capital budgets, the Council takes full account of the known key financial risks that may affect its plans. The most significant financial risks are either being explicitly provided for in the 2020/21 budget or are covered by the budget strategy reserve, as shown in the table below.

Risk (extracted from the corporate risk register)	Mitigating action (extracted from the corporate risk register)	Provision through the MTFS
Failure to maximise Solihull's potential/interests as part of the West Midlands Combined Authority	Forecast spend and cash flow regularly monitored by SMBC finance team; quarterly funding claims made to WMCA; working with the WMCA on funding options; developing business case for additional government funding	Spend at risk in respect of UK Central projects is backed by the business rates windfall contingency on the basis of future reimbursement from the WMCA
Risks to MTFS delivery due to national budget cuts, Brexit and pressures in Adults' and Children's Services	Budget risks protected through Budget Strategy Reserve; three year budget delivery plans closely monitored by ARTOP; business rates windfall contingency	Specific investment to mitigate pressures in children's services plus unallocated reserves (Budget Strategy Reserve plus business rates windfall) available if required
Failure to meet statutory duties and deliver a balanced budget in the context of nationally recognised pressures facing Adult Social Care	Regular oversight of budget, performance and quality position	Share of additional social care grant funding Additional funding through adult social care precept
Failure to achieve a balanced budget in the context of unprecedented pressures in children's services, which could significantly limit the delivery of other services for children	Financial Recovery Plan	Share of additional social care grant funding Funding through budget strategy reserve to provide capacity to deliver the recovery plan Additional contribution to children's social care reserve to manage fluctuations in demand

6.1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) has developed 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. The index has been developed against a background of sustained pressures on the sector which have led to high profile problems at authorities such as Northamptonshire, with the intention of highlighting areas of potential risk to councils' financial stability and informing the judgement of the chief finance officer on the robustness of budgets. 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.

- 6.1.3 Solihull's results, compared to our statistical nearest neighbours, 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 relatively slowly, and this is reflected in the reserves sustainability indicator for which the Council has the lowest risk score of the group. Solihull's ratio of spending on social care to net revenue expenditure also suggests a relatively low risk, although the picture behind this is more mixed with the ratio for children's social care suggesting a higher risk than is the case for adults. It should be noted however that this picture is reversed when Solihull is compared to other metropolitan districts, with adult social care appearing to be higher risk than children's. This reflects the particularity of the borough's characteristics, which can make comparisons with metropolitan districts inappropriate and unhelpful, and provides an indication of the difficulties in drawing conclusions from such high level data.
- 6.1.4 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 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.
- 6.1.5 In addition, officers test the impact of varying key assumptions in the medium term financial strategy to assess the sensitivity of the indicative budget figures. This informs decisions about the level of working balances needed to provide assurance as to the robustness of the budget estimates.

6.2 Reserves

- 6.2.1 The Council is required to maintain adequate financial reserves to meet the needs of the organisation. The reserves we hold can be classified as either working balances, which are held to cushion the impact of uneven cash flows or unexpected events, or as specific reserves which are earmarked for a particular purpose.
- 6.2.2 The Council will seek to optimise the use of its reserve balances in delivering priorities, making decisions on a corporate basis and observing opportunities to maintain an appropriate balance between short term expenditure and long term investment.
- 6.2.3 More specifically, the approach will be informed by:
- The need to maintain working balances to mitigate the key risks faced by the Council, as expressed in our corporate risk register;
 - The requirement to hold some earmarked reserves to protect against specific known or potential liabilities, but kept to a minimum consistent with adequate coverage of those liabilities and reviewed annually as part of the budget process.

- A general assumption, to be applied flexibly subject to specific financial circumstances, that one-off resources will not be used to support on-going expenditure;
- The awareness that there is an opportunity cost of holding reserves (in that these funds cannot then be spent on anything else) – it is therefore critical that reserves continue to be reviewed each year to confirm that they are still required and that the level is still appropriate.

6.2.4 There are no plans to use working balances over the period covered by this strategy and as a result the anticipated balance at the end of each year is expected to remain at £6.0 million throughout.

6.2.5 However, as outlined above, there are considerable risks around a number of key assumptions underpinning the MTFs. The Council maintains a budget strategy reserve for the purpose of protecting against the non-delivery of targeted savings, manage any shortfalls against grant or business rates projections and provide a source of investment funding, for example to support managed growth, invest in prevention and early intervention and to finance capital projects.

6.2.6 The table below shows the forecast balance on the budget strategy reserve over the period.

	2020/21 £000	2021/22 £000	2022/23 £000
Anticipated balance as at 1 April	7,096	10,369	7,793
Contributions to / (from)	3,273	(2,576)	1,972
Anticipated balance as at 31 March	10,369	7,793	9,765

6.2.7 Together with the level of working balances, this reserve contributes to the financial resilience of the Council over the medium term.

6.2.8 The Council's earmarked revenue reserves are reviewed each year as part of the budget process. Any balances which are found to be no longer required are released to either mitigate in-year service pressures or to support the corporate savings requirement. A summary of the forecast position as at December 2019 is attached at Appendix D [note at this stage this does not reflect the 2020/21 budget recommendations in respect of reserves].

6.2.9 The Council also maintains capital reserves:

- The capital receipts reserve holds all receipts from the disposal of non-current assets, which can only be used to finance new capital investment or to repay debt.
- The major repairs reserve is held to meet the capital investment requirements of the Council's housing programme.
- The capital grants unapplied reserve holds capital grants without conditions, or where conditions have been satisfied but the grant has yet to be used to finance capital expenditure.

6.2.10 Taking into account the risks outlined above, the current and forecast level of reserves is considered adequate in the view of the Director of Resources and Deputy Chief Executive.

6.3 Contingencies

- 6.3.1 In addition to the business rates windfall contingency, the Council maintains separate contingencies, which represent working balances earmarked for specific purposes, for adult social care and public health.

7. CARBON REDUCTION

7.1 Background

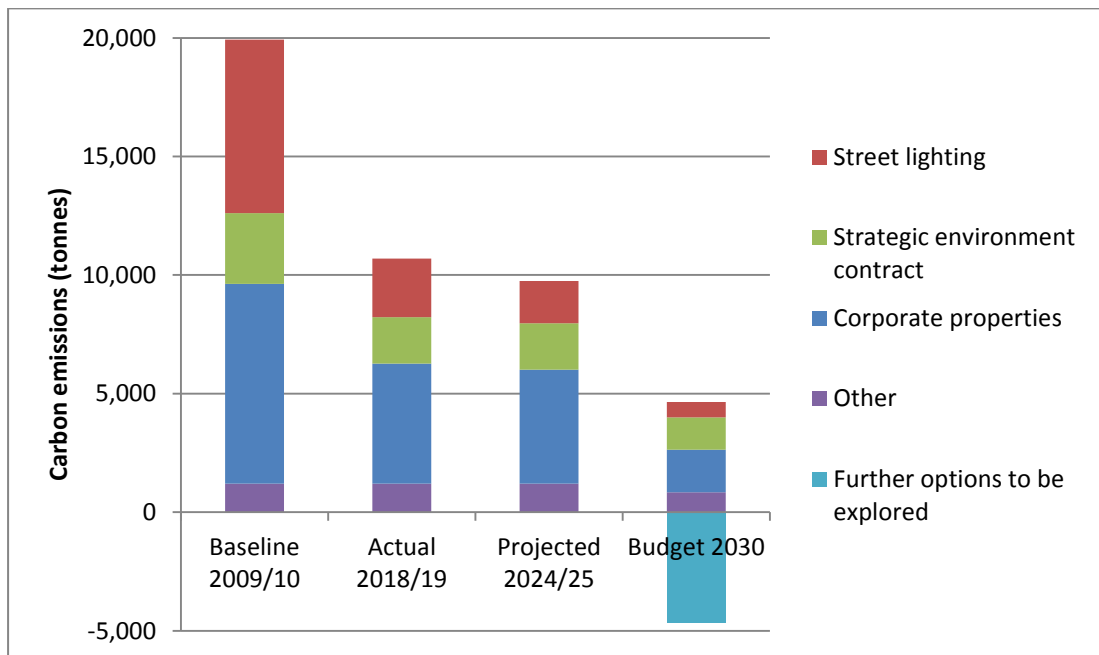
- 7.1.1 Carbon reduction is a cornerstone of the global response to the climate change agenda and the UK government has set a legally binding target to reduce net emissions to zero by 2050. The Council has been working for some time to reduce emissions by at least 50% by 2025 from the base year of 2009/10, but on 8 October 2019 the Council passed a motion to recognise the gravity of the climate change emergency and pledged to be “net zero carbon” as a Council by 2030.

7.2 Progress to date

- 7.2.1 Work to date has focused on the three areas which together account for approximately 90% of the Council’s emissions:
- Street lighting on all roads managed by the Council;
 - Corporate properties, including offices, public buildings and operational areas;
 - The strategic environment contract, including the collection and recycling of domestic waste and the management of parks and open spaces.
- 7.2.2 The Council’s emissions from the above areas have reduced by 49% to 9,744 tonnes in 2018/19. The remaining 10% of our emissions comes from transport, including corporate vehicles and vehicles used by contractors on council services.

7.3 Target ‘budget’ for 2030

- 7.3.1 The achievement of a net zero carbon position by 2030 will require a reduction of 8,544 tonnes from the three main areas identified above, plus approximately 1,200 tonnes from other services. This will require a new and more challenging strategy based on the following hierarchy of actions:
- Reduce the energy consumption of council operations through efficiency or service redesign;
 - Investigate and develop the Council’s ability to generate our own energy;
 - Buy green tariffs for ‘grid supplies’;
 - Buy carbon offsets for any remaining emissions.
- 7.3.2 The chart below shows the progress to date and the projected position to 2030 across each of the main areas identified above. In line with the budget process the intention is to review and update these figures annually as plans are refined.



8. MTFS CYCLE

8.1 Process

Revenue

8.1.1 The revenue budget cycle begins in the summer when directorate leadership teams consider options for the forthcoming budget cycle in the light of the previous year's outturn position. At the same time, the assumptions underlying the projections in the MTFS are reviewed and updated where possible so that the cross party Budget Strategy Group can agree a savings target for the third year of the MTFS. Senior officers work with their cabinet portfolio holders to develop proposals against the savings target which are reported to the Budget Strategy Group for consideration in October and November.

8.1.2 The Budget Strategy Group's recommendations are shared with all members at a seminar in December, following which they are reported to scrutiny boards for more detailed consideration. Full Cabinet receive scrutiny feedback alongside the Budget Strategy Group recommendations to enable members to agree a final budget recommendation to Full Council in late February or early March. Following Full Council approval of the budget, council tax bills are issued to households in the borough in advance of the new financial year.

Capital

8.1.3 The prioritisation of capital projects and resource allocation within Solihull depends partly on the source of funding. This strategy recognises that the current funding arrangements in place at a national level require that, in some cases, resources are allocated directly to specific service areas and schemes. In these instances service directorates are responsible for conducting option appraisals and deciding which projects deliver service outcomes whilst achieving value for money.

- 8.1.4 Where the Council has discretion over the allocation of resources, potential schemes are required to demonstrate how they will contribute to the achievement of council objectives and priorities before they are approved for inclusion in the programme. The detailed processes are summarised below.
- 8.1.5 With the exception of exemptions specified by statute, such as housing and school related disposals, capital receipts are treated as a corporate resource available to fund the corporate capital programme. Full Cabinet is responsible for deciding how corporate capital receipts are to be utilised in line with council objectives and the Corporate Capital Strategy.
- 8.1.6 Grant allocations from central government are provided via non-ringfenced capital support. Even though they are classified as non-ring fenced the allocation is targeted to deliver specific service priorities. As a consequence, Full Cabinet has agreed that these allocations will be earmarked to the relevant cabinet portfolio holder who that is then responsible for deciding which projects to fund from these resources. Unless the national framework changes it is intended that this methodology will continue for the next three year period.
- 8.1.7 Throughout the year, service managers identify further capital schemes for inclusion within the approved capital programme. This strategy recognises that the majority of capital grants are allocated on the basis that specific outcomes are met and that in these instances the Council will not have the discretion to allocate these resources to other projects. However where the Council does have the discretion or flexibility to allocate self-funded resources it is a requirement that the project must clearly demonstrate how it will lead to the achievement of the Council's objectives.
- 8.1.8 When these schemes are self-funded and have no impact on the corporate capital programme or any revenue or match funding implications for the Council, authority to approve the addition of a project to the capital programme is delegated to directors in conjunction with the Director of Resources and Deputy Chief Executive, up to a maximum value of £250,000.
- 8.1.9 Where a project does have implications for the corporate capital programme, match funding requirements or revenue implications, or where the scheme totals £250,000 or more, then approval from the relevant cabinet member will be required.

8.2 Consultation

- 8.2.1 The government expects that local authorities will be able to demonstrate that they have in place mechanisms to ensure that 'representatives of local people' are being appropriately informed, consulted or involved in services, policies or decisions that affect or interest them. In addition, local authorities are required under the Local Government Finance Act 1992 to consult representatives of business rate payers on their spending proposals.
- 8.2.2 Revenue budget proposals are shared with the unions and with local businesses, through the Confederation of British Industry, Solihull Chamber of Commerce and the Federation of Small Businesses, before any final decisions are made on the budget for the coming year.

8.2.3 The Council's three year budgeting approach means that the approval of the budget each year represents approval in principle of the savings proposals that have been put forward for the period of the MTFS. However, in many cases these proposals are at a relatively early stage of development and require further work before their implementation can be finally approved, so consultation on individual proposals is undertaken at a later stage in the process where required, once more detail is available. This allows for more meaningful engagement with residents and service users and means that there is time to revise or replace a savings proposal if necessary as a result of consultation and impact assessment. The Council considers that this focus on those proposals which particularly impact on service users and/or residents is the most effective approach.

8.3 Approval

8.3.1 The MTFS and supporting strategies are subject to approval each year by Full Council at the annual budget and council tax setting meeting in late February or early March.

8.3.2 The Treasury Management Strategy must be scrutinised by the Audit Committee each year before being reported to Full Council.

8.4 Monitoring and review

8.4.1 All approved capital projects have a nominated budget holder responsible for managing and monitoring the project against budget and delivering the agreed objectives.

8.4.2 Monitoring information relating to financial performance against both revenue and capital budgets is reported monthly to the Corporate Leadership Team and Directorate Leadership Teams (DLTs) and quarterly to Full Cabinet and the appropriate Cabinet portfolio holder. The reports highlight issues of financial significance and it is the responsibility of the budget holder/project manager and DLT to take remedial action when required.

8.4.3 For capital spending, this process enables adjustments to the programme in order to ensure budgets are not exceeded, and to allow resources that become available as a result of under spends or slippage to be redirected or rephased.

8.4.4 In respect of treasury management, Audit Committee receives quarterly updates and Full Council receives a mid year report amending indicators as necessary and highlighting any policies which need to be revised. The annual treasury management report details the actual indicators compared to the estimates at the beginning of the year.

9. CONCLUSIONS

9.1.1 The medium term challenge for the Council, in common with the wider local government sector, is to continue to deliver services which meet the needs of local people with limited financial resources. However, Solihull is in a good position to rise to this challenge.

9.1.2 We know that Solihull has a relatively high council tax base and as such relatively less reliance on central government support, and we know that our collection rates for council tax and business rates income are among the best in the country. Other aspects of local authority finances are less straightforward to analyse but the data that is available does not indicate any areas of financial weakness.

- 9.1.3 The Council is keen to maximise the benefits to our communities of the creation of the West Midlands Combined Authority and the opportunity that brings for more money and powers for the region and for Solihull. Our ambitious UK Central programme and the integration of services with our public sector partners in the borough will add further strength to our comprehensive approach to managing resources in Solihull.
- 9.1.4 The measures outlined in this strategy seek to give the authority a sound financial base and provide a solid platform from which the Council can deliver its priorities.

10. GLOSSARY

Adult Social Care Precept

A flexibility introduced by the government in 2016/17 to allow local authorities to increase council tax, in addition to the general amount of council tax, to be spent entirely on adult social care services.

Annual Percentage Rate (APR)

An annual rate of interest charged for borrowing or earned through an investment.

Asset

An item that the Council has acquired or purchased and that has a monetary value. It can be a physical asset such as land and buildings or a right to an asset such as a copyright or licence to use IT software.

Business Rates

A charge on local businesses, at a rate set by the government, collected by local authorities. Under the West Midlands business rates pilot, Solihull will pay 1% of the income collected to the fire and rescue authority and will also pay a tariff to central government. The Council will also pay a share of any growth since April 2016 to the WMCA. Prior to the introduction of the pilot, the Council would have paid 50% of the income collected to central government.

Capital Expenditure

Spending on items that are expected to provide benefit for at least a year (known as assets), such as roads and buildings.

Capital Financing Requirement (CFR)

This is the underlying need to borrow for a capital purpose. Essentially the Council has undertaken expenditure on capital items over time. Some expenditure is funded immediately from capital receipts and grants etc. The remaining balance is the CFR. This provides a measure of the Council's level of long term debt used to finance capital expenditure.

Capital Receipts

Money received from the sale of assets, land or the repayment of loans. The Council is allowed to use capital receipts earned to fund capital expenditure.

Council Plan

The Council's key strategic document for identifying our vision, ambitions and priorities as a council. The current Council Plan is available at <http://www.solihull.gov.uk/About-the-Council/ourvision-priorities/councilplan>.

Council Tax

A tax paid by residents of the borough to the Council, based on the value of their property, to be spent on local services. The level of council tax income required is determined by the difference between the funding received from retained business rates and what the Council has set as a budget for the year.

Council Tax Requirement

The amount of council spending to be financed by council tax payers, calculated as the budget requirement less income from retained business rates.

Counterparty

The persons or institutions entering into any financial contract are called the counterparties.

Dedicated Schools Grant

Schools are funded separately from other council services. The Council receives a Dedicated Schools Grant (DSG) direct from the government, which is paid over to schools.

Finance Lease

An agreement to pay for an asset, for example a vehicle, in regular instalments where the person paying the lease (the lessee) is deemed to own the asset.

Gilts/Gilt Yields

A UK government bond, issued by HM Treasury. A gilt yield is the amount of cash (in percentage terms) that returns to the owners of the security.

Government Grants

Most government grants are service based and are specific to the services that they support (see also Revenue Support Grant).

Housing Revenue Account (HRA)

A statutory account that contains all expenditure and income relating to the provision of Council Housing for rent. The HRA is a ringfenced account outside the general fund.

Instrument

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Investment Property

Interest in land and/or buildings which are held for their investment potential rather than for operational purposes.

Liquidity

The ability or ease to buy or sell a security, at a competitive price. The more liquid an asset, the easier it can be bought or sold.

Local Enterprise Partnership (LEP)

A partnership created to increase economic output, create jobs and stimulate growth and investment across the area. Solihull is a member of the Greater Birmingham and Solihull Local Enterprise Partnership (GBSLEP).

Medium Term Financial Strategy (MTFS)

A high-level plan for revenue and capital spending over a three year period.

New Homes Bonus (NHB)

A scheme that provides local authorities with an unringfenced grant for each additional property or long-term empty property brought back into use.

Private Finance Initiative (PFI)

Government initiative under which the Council buys the service of a private sector supplier to Design, Build, Finance and Operate a public facility.

Prudential Borrowing

The set of rules governing local authority borrowing. Borrowing must conform to the Prudential Code and requires that borrowing undertaken be affordable and prudential.

Prudential Code

The statutory code of practice for capital finance in local authorities introduced in 2004.

Prudential Indicators

A set of indicators required by the prudential code designed to evaluate financial decisions and aid decision making.

Public Works Loan Board (PWLB)

A statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury; which issues loans to local authorities.

Revenue Support Grant (RSG)

The main government grant which helps support council services. The amount of RSG is determined through a funding formula. Local authorities have received one-off allocations for RSG for 2020/21 which for Solihull have been incorporated into the funding the Council is receiving through business rates under the West Midlands business rates retention pilot.

Sustainability and Transformation Partnerships (STP)

Under sustainability and transformation partnerships (STPs), which cover all aspects of NHS spending in England, NHS organisations have come together with local authorities and other partners to develop 'place-based plans' for the future of health and care services in their area.

Tariff

Under the business rates retention scheme, each authority is set a funding baseline (intended to measure spending needs) and a business rates baseline (which represents the authority's ability to raise business rates income locally) by the government. As Solihull's funding baseline is higher than our business rates baseline, we pay the difference to the government as a tariff. This is used to fund top-up payments to local authorities whose funding baseline is lower than their business rates baseline. Our tariff has been increased for 2020/21 to offset our increased share of business rates income under the pilot.

Voluntary Aided School

A maintained school in which a foundation or trust (usually a religious organisation) contributes to building costs and has a substantial influence in the running of the school.

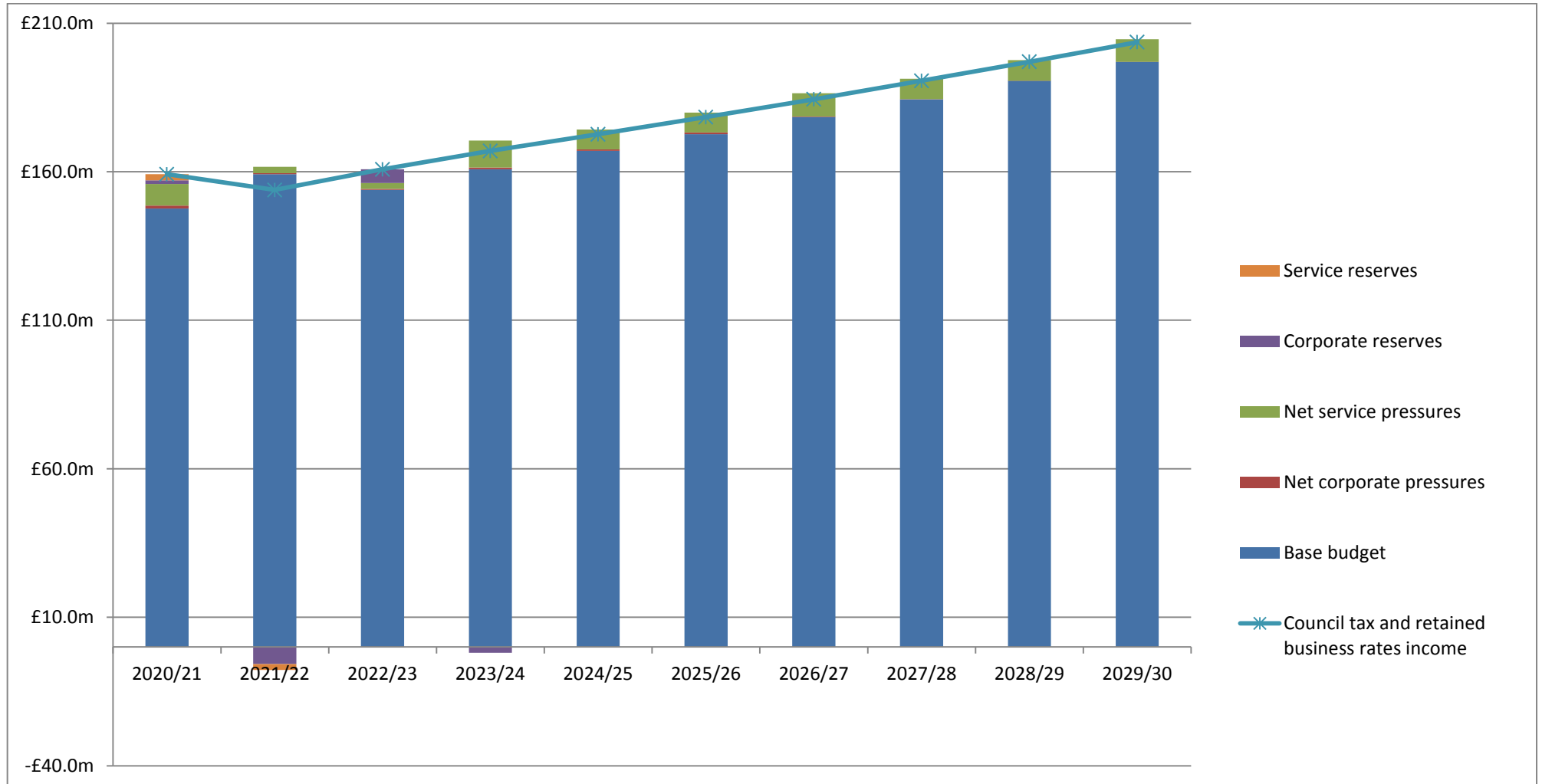
West Midlands Combined Authority

Under the government's devolution agenda, a number of local authorities have come together to create combined authorities to deliver services such as economic development and regeneration on a regional basis. The West Midlands Combined Authority (WMCA), which is made up of the seven West Midlands metropolitan districts plus a number of non-constituent members from the surrounding area, was established in June 2016 and took on the functions of the Integrated Transport Authority (Centro).

APPENDIX A – SUMMARY REVENUE BUDGET

Summary revenue budget 2020/21 to 2022/23	2020/21 £'000	2021/22 £'000	2022/23 £'000
Base Budget	147,620	159,172	153,870
Add back reserves utilised in previous year	(1,758)	(3,048)	2,673
Levies	(12)	5	5
Treasury management - revenue required to support borrowing	264	304	0
Adult social care net pressures	4,102	2,480	1,829
Children's services net pressures	1,368	(1,177)	65
Place-based services net pressures	853	(118)	(394)
Support services net pressures	2,241	(453)	(132)
Inflation and pensions	2,939	2,245	2,335
Other service specific pressures	(172)	0	0
New Homes Bonus	484	27	318
Share of surplus on national levy account	456	0	0
Savings identified by Budget Strategy Group - ongoing	0	0	(2,209)
Savings identified by Budget Strategy Group - one off	(113)	(150)	(1,200)
less savings included in tax base	0	0	0
Savings approved in 2019/20	(231)	(3,075)	750
Savings approved in 2018/19	(6,835)	1,724	930
Savings approved in 2017/18	3,250	0	0
Savings approved in 2016/17 and prior years	275	0	0
Amendments to savings previously approved	(652)	652	0
Contribution from business rates reserve (timing differences)	(153)	0	0
Additional contribution to children's social care reserve	2,045	(2,045)	0
Additional contribution to severance reserve	0	1,000	0
Contribution to/ (from) business rates windfall	(72)	(1,097)	0
Contribution to/ (from) budget strategy reserve	3,273	(2,576)	1,972
Net Budget Requirement	159,172	153,870	160,812
<i>Business rates retained income</i>	<i>(53,002)</i>	<i>(38,975)</i>	<i>(41,576)</i>
<i>Anticipated contribution to business rates windfall</i>	<i>9,197</i>	<i>0</i>	<i>0</i>
Net Business rates	(43,805)	(38,975)	(41,576)
Council tax	(109,541)	(114,245)	(118,586)
Collection fund (surplus)/deficit	(5,826)	(650)	(650)
Total Resources	(159,172)	(153,870)	(160,812)
Assumed general council tax increase	1.99%	2.99%	2.99%
Assumed increase in adult social care precept	2.00%	0.00%	0.00%

APPENDIX B – TEN YEAR REVENUE PROJECTIONS



APPENDIX C – TEN YEAR CAPITAL PROJECTIONS

Summary of Corporate Capital Programme 2019/20 to 2029/30												
Cabinet Portfolio	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Adult Social Care and Health	5.481	2.107	0.990	0.990	0.990	0.990	0.990	0.990	0.990	0.990	0.990	16.498
Children, Education and Skills	9.117	8.182	6.340	0.900	2.900	2.900	2.900	2.900	2.900	2.900	2.900	46.839
Climate Change, Planning and Housing	0	0	0	0	0	0	0	0	0	0	0	0
Environment and Highways	9.028	6.963	7.181	5.450	3.700	3.700	3.700	3.700	3.700	3.700	3.700	54.522
Growth and Infrastructure Delivery	5.204	7.799	20.140	19.000	5.000	0.400	0	0	0	0	0	57.543
Leisure, Tourism and Sport	0	0	0	0	0	0	0	0	0	0	0	0
Resources	35.897	33.882	35.150	21.400	12.900	12.400	11.072	2.400	2.400	2.400	2.400	172.301
Stronger and Safer Communities	1.489	2.004	6.200	1.200	1.200	1.200	1.200	1.200	1.200	1.200	1.200	19.293
Total Cabinet Portfolios (Projection)	66.216	60.937	76.001	50.940	26.690	21.590	19.862	11.190	11.190	11.190	11.190	366.996
Housing Revenue Account	13.622	20.831	15.355	13.845	14.751	15.775	16.687	18.202	19.248	20.356	21.447	190.119
Total Council Capital Programme	79.838	81.768	91.356	64.785	41.441	37.365	36.549	29.392	30.438	31.546	32.637	557.115

APPENDIX D SUMMARY REVENUE RESERVES

[note that these figures are as at December 2019 and do not currently reflect the proposals in respect of reserves included as part of the 2020/21 budget process]

Cabinet Portfolio	Balance as at 1 April 2019	Planned / Forecast (contribution)/use;			Forecast Balance at March 2022	Forecast / Planned (contribution) / use beyond 2021/22	Proposed as part of 2022/23 MTFS	Forecast Remaining Balance
		2019/20	2020/21	2021/22				
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Adult Social Care and Health	(962)	(246)	130	(102)	(1,180)	75	0	(1,105)
Children, Education and Skills	(1,064)	624	(10)	(10)	(460)	10	0	(450)
Climate Change, Planning and Housing	(1,749)	(217)	17	500	(1,449)	1,449	0	(0)
Environment and Highways	(3,487)	(933)	2,200	379	(1,842)	1,842	0	0
Growth and Infrastructure Delivery	(1,157)	616	78	37	(426)	426	0	0
Leisure, Tourism and Sport	(1,534)	(717)	384	0	(1,867)	29	0	(1,838)
Resources	(8,421)	(944)	1,453	750	(7,162)	145	200	(6,817)
Stronger and Safer Communities	(1,186)	(337)	(44)	(91)	(1,658)	1,658	0	(0)
Contingency Funding - ASC & PH	(5,275)	(234)	(59)	(304)	(5,872)	5,665	0	(207)
Corporate reserves (incl TM, BSR and Windfall)	(20,854)	(598)	2,696	(514)	(19,270)	4,199	2,000	(13,071)
Total	(45,688)	(2,986)	6,843	645	(41,185)	15,498	2,200	(23,487)