APPENDIX D

MEDIUM TERM FINANCIAL STRATEGY

2019/20 - 2021/22

CONTENTS

FOREWORD

I am pleased to introduce Solihull Council's updated Medium Term Financial Strategy (MTFS), which covers the period from 2019/20 to 2021/22. 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.

In common with other local authorities, we continue to face considerable financial challenges, but at the same time there are funding sources and opportunities we must fully exploit as part of our business model.

We are now on the threshold of potentially significant changes to local government funding, with only one year remaining of the 2016/17 four year settlement and a great deal of uncertainty beyond 2019/20.

Our budget strategy reserve provides some protection against this uncertainty, but more important in the longer term is our policy of inclusive managed growth. Rather than an end in itself, we see growth as a means of achieving wellbeing through shared prosperity and it is important that all our residents feel the benefit.

Through the West Midlands Combined Authority, we are working with government and regional partners to capitalise on the opportunities presented by high speed rail, to bring substantial infrastructure and employment benefits to both Solihull and the wider region as part of the UK Central project.

Nationally, the challenges facing social care services – for both children and adults – as a result of factors such as increasing demand, complexity of need, capacity and market stability issues in the independent sector continue to represent the most significant risk to local authority finances. We have been able to invest substantial additional revenue resources in these critical service areas over the period of the MTFS in order to mitigate these pressures and protect the most vulnerable in our community. We will also be making significant investment in Solihull as a place, in order to maintain the attractive environment that we know is so important to the people who live and work here.

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.

In recent years we have demonstrated our ability to rise to the challenges presented by steep reductions in government funding and sustained and growing demand for our services, through managing demand, maximising locally generated income and reducing costs. The strategy sets out a deliverable and affordable approach to meeting the sustained and growing demand for our services, particularly in adult social care and children's services, despite increasingly constrained central funding and continuing economic uncertainty.

I would like to thank the cross-party Budget Strategy Group, as well as our officers across all directorates, without whose efforts this MTFS could not be delivered.

Councillor Bob Sleigh OBE
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 for the period to 2021/22 to explain how the Council plans to address the funding gap, whilst retaining focus on the strategic priorities.

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 the period covered by this strategy, not least because of the forthcoming Spending Review 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. 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 2019/20 is £147.711 million, funded 72% from council tax and 28% from business rates (net of the tariff payment, section 31 grant, anticipated contribution to the "no detriment" contingency and the forecast business rates deficit). The capital programme over the period from 2019/20 to 2021/22 has a projected value of £218 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 efficiency plan 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 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 approved by members in April 2018 and which was influenced by local priorities, input from public consultation, government policies, performance information and external inspections. In the light of future financial constraints it has become even more important that the Council moves towards a genuine alignment of increasingly limited revenue and capital resources with key policy priorities. This will involve the Council focusing more clearly on core services and priorities, whilst making some difficult decisions to reduce or cease activity in other areas.

2.1.2 The Council Plan looks forward to 2025, setting the direction of the travel for the authority and identifying five new priorities as shown below.

Securing inclusive economic growth	Planning and delivery for Solihull's low carbon future	Managing demand and expectation for public services	Developing and delivering our approach to services for adults and children with complex needs	Making the best use of our people and physical assets

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:

Revenue budget strategy	Capital strategy	Treasury management strategy
Details the revenue budget and council tax implications for 2019/20 and provides indicative budgets for 2020/21 and 2021/22	Sets out how the Council allocates available capital funding	Outlines the Council's approach to managing cash flows and borrowing requirements and limits to support the capital programme
Includes details of the savings proposals and 2019/20 budgets for each cabinet portfolio	Summarises the projected capital programme for each cabinet portfolio to 2021/22	Identiifies approved counterparties and sets out investment limits

2.1.5 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.

2.1.6 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.

2.1.7 Forecasts for the national economy remain uncertain, with much dependent on the effects of the UK's departure from the European Union which will become apparent over the coming years. A report published by the Department for Exiting the European Union suggested that the impact of the current Brexit proposals could reduce the economy by 3.9% over the next 15 years, while Bank of England analysis estimates that a "no deal" scenario could result in GDP falling by 8%.[1]

2.1.8 The Chancellor, in the 2018 Autumn Budget, which noted that the era of austerity is "coming to an end", announced some short term additional funding for local government services such as social care and roads maintenance, but the longer term funding envelope for local government as a whole will not emerge until the Spending Review. Meanwhile, the Fair Funding Review, which is expected to propose a new methodology for the distribution of resources across local government – including setting new parameters for the business rates retention system – is not expected to conclude until summer 2019. As at April 2019, the funding projections beyond the new financial year are based on estimates and assumptions, in stark contrast to the position three years earlier when provisional funding allocations provided welcome certainty for the coming four years.

2.1.9 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.

[1] Department for Exiting the European Union, 2018. *EU Exit Long-term economic analysis*
Bank of England, 2018. *Financial Stability Report November 2018 (Issue No. 44)*

3. DRIVERS OF DEMAND

3.1 The economy

3.1.1 The Office for National Statistics (ONS) estimates that the UK economy grew by 1.7% in real terms in 2017. According to its updated forecasts for the Autumn Budget 2018, the Office for Budget Responsibility (OBR) expects the UK economy to continue to grow by 1.4% and 1.6% each year from 2019 to 2023.OBR forecasts for global growth for 2018 and 2019 are slightly lower than at Spring Budget 2018, reflecting increasing trade tensions and tightening financial conditions in emerging economies.[2]

3.1.2 Furthermore, the effects of the UK's imminent departure from the European Union remain unclear with ongoing uncertainty around the UK's future relationship with the EU. 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 2.3% in November 2018, will remain at or slightly above the Bank of England's target of 2% in the medium term. [3] The MTFS assumes general inflation of 2.0% in 2019/20 and future years accordingly. 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.

3.2 Rising demand for our services

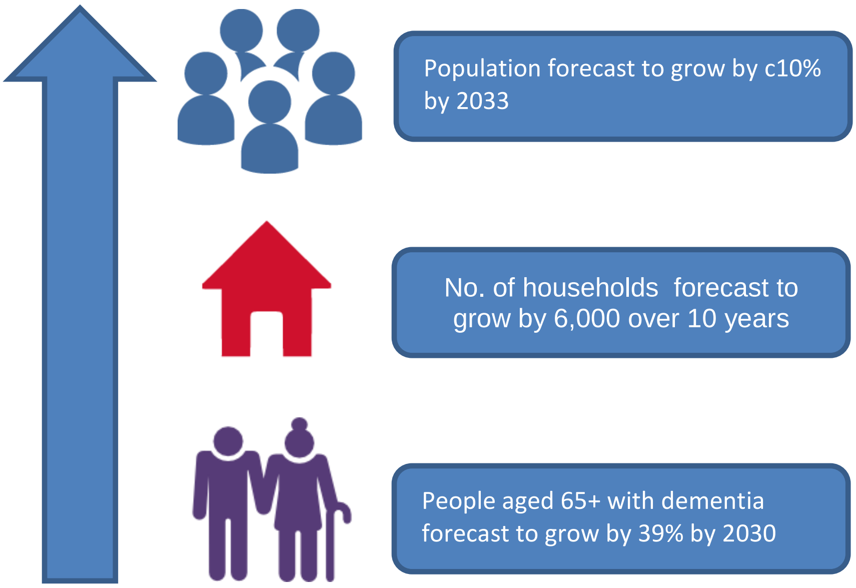
3.2.1 In common with other local authorities across the country, Solihull continues to experience significant pressures on social care services for both adults and children. The Council has always sought to set realistic and deliverable budgets through the three year budgeting process, and in accordance with that objective the MTFS allocates significant additional resources – totalling £7.197 million by 2021/22 – to adults' and children's services, and supports the creation of a new reserve to manage fluctuations in demand for children's services.

[2] HM Treasury, 2018. *Budget 2018*

[3] Ibid.

3.2.2 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 2033. 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.

3.2.3 Office for National Statistics projections suggest that the relative ageing of Solihull's population will continue and by 2033 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.



3.2.4 In June 2018, Full Cabinet approved the ring-fencing of 2017/18 business rates windfall income to temporarily support pressures across five service areas: the care at home contract, special educational needs and disability transport, children's placements, early help and the drug and alcohol service. A thorough review of these budgets during the course of 2018/19 demonstrated that it was unrealistic to assume that this level of funding could be found from within the relevant service budgets going forward, and so the MTFS provides permanent funding for these pressures in future years.

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.

3.3.2 Nationally, 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 government has provided additional temporary funding of £870,000 in 2019/20 and further funding for both adults and children's services of £1.487 million in 2019/20. In addition, councils with social care responsibilities were able to levy a precept on adult social care in 2019/20, the final year of four in which this was possible. The Council increased the precept by 1.0% in 2019/20, bringing the total additional income generated from the precept to £7.6 million per annum.

3.3.3 The MTFS approved in March 2018 included significant increases in resources for inflation and demographic growth (£4.5 million over three years), the impact of the

National Living Wage (£1.025 million) and other pressures identified through the 2018/19 budget process. Building on this investment and the windfall funding referred to at 3.2.4, the updated MTFS sets aside further corporate resources to mitigate the pressures to the adult social care and public health budgets as shown in the table below:

	2019/20 £'000 One-off	2020/21 £'000 One-off	2021/22 £'000 Ongoing
Additional funding for inflation and demographic growth	200	400	600
Care at home – permanent replacement for windfall funding	0	0	485
Potential net loss of external funding	0	0	1,200
Residual pressure from the 2018/19 budget process	0	0	714
Subtotal Adult Social Care	**200**	**400**	**2,999**
Drug and alcohol service – permanent replacement for windfall funding	0	0	250
Subtotal Public Health	**0**	**0**	**250**
Total	**200**	**400**	**3,249**

3.3.4 There is also an emerging risk relating to wage inflation for care staff. Although the MTFS provides for inflation, the inflation rates for the National Living Wage (NLW) have continuously outstripped that of general inflation, improving people's wages in real terms. Additional funding to meet the NLW pressure on care contracts was included in the MTFS for the four years up to 2019/20, when the NLW was projected to reach £9 per hour. Original expectations were that the NLW would then rise in line with general inflation each year from 2020, but the Office for Budget Responsibility now estimates that above-inflation increases in the NLW may continue until at least 2021/22. As low paid labour makes up the majority of the costs of care, this has a disproportionate impact on the inflation of social care costs. With over 70% of the directorate's costs spent on direct care provision in the independent sector, this creates a financial risk moving forward (currently estimated as £1.842 million by 2021/22). There are uncertainties about the full scale and timing of this risk as the forecasts for NLW increases have shifted over time.

3.3.5 The capital programme for the Adult Social Care and Health portfolio has a value of over £7 million. The most significant project in terms of value is the construction of a new care home on Tanworth Lane, which will specialise in dementia care to address the needs of the increasing number of older people in the borough. The implementation of a new social care information system for adults and children, which is included in the corporate ICT programme, will also be significant for this service area as it is expected to increase efficiency and improve the service delivered to clients.

3.3.6 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. 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, is currently being updated.

3.3.7 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 2019/20 have yet to be announced by the government.

3.4 Children's Services

3.4.1 During the course of 2018/19, significant financial pressures continued to emerge in children's services, particularly in respect of children's social care placements and special educational needs and disabilities (SEND) transport. Given these pressures, the cost of children's services has come under recent scrutiny through an independent financial review undertaken during summer 2018. This review assessed the key pressures in some detail and recommended investment in specific service areas through the MTFS. The review also recommended the creation of a reserve to manage fluctuations in the cost of children's services, should the opportunity arise, and this has been achieved through the use of additional business rates windfall income and the re-designation of an existing reserve.

3.4.2 The pressures in children's placements reflect the increase in local looked after children (LAC) in Solihull, changes to the placement mix (the proportion of high need, high cost placements in comparison with low need, low cost placements has increased) and the reduced proportion of lower cost internal foster placements compared to higher cost external foster placements. 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. There are a number of mitigating actions underway including investment in a new Edge of Care Service and new commissioning models for children with high end needs including a Step-Down Fostering scheme, a new output driven Internal Fostering model and a small Care Homes project led by a neighbouring council.

3.4.3 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.

3.4.4 The table overleaf summarises the significant funding allocated to children's services through the 2019/20 budget process, which is in addition to the resources already provided for inflation and demographic growth in respect of children's placements and home-to-school transport and the windfall funding referred to at 3.2.4 above. The service also has the benefit of a new reserve totalling over £1.5 million, created in February 2019 to manage fluctuations in the cost of providing services to looked after children.

	2019/20 £'000 One-off	2020/21 £'000 One-off	2021/22 £'000 Ongoing
Home to school transport	600	600	600
Home to school transport – permanent replacement for windfall funding	0	400	400
Special educational needs and disability service	430	430	430
Early Help – permanent replacement for windfall funding	0	0	425
Savings target relating to children's placements removed as undeliverable	1,000	1,000	1,000
Children's placements - permanent replacement for windfall funding	0	1,000	1,000
Residual pressure from the 2018/19 budget process made permanent	0	0	93
Total	**2,030**	**3,430**	**3,948**

3.4.5 The focus of the capital programme in children's services is on maintenance and improvement of the schools estate, with specific projects to address service priorities, such as the development of specialist provision for pupils with autistic spectrum disorder (ASD) at Alderbrook Academy.

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 Over the course of the 2019/20 budget process, proposals to address key funding pressures across the Managed Growth and Communities portfolios were developed. Full Cabinet will be asked to approve the allocation of £4.195 million from the anticipated 2018/19 business rates windfall to invest in the place-based priorities shown in the table below, subject to the outturn position being confirmed in summer 2019.

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 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. 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 and the Coventry 2021 City of Culture.

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. It was expected that this system would be replaced by full local business rates retention from 2020, but it was announced in December 2017 that instead the proportion of business rates income retained locally would increase to 75% from April 2020. The revised scheme will incorporate funding previously made available through the revenue support and public health grants, with further details expected to emerge during 2019.

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 2020/21 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 2019/20, 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 2018/19 could be in the region of £7.672 million, but the final figure will not be confirmed until summer 2019 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 allocations as at February 2019.

	2018/19 £’000	2019/20 £’000
Forecast windfall income for the year *(2018/19 amount includes element relating to 2017/18)*	7,672	7,250
Proposed allocation – business rates fluctuations	(2,149)	0
Proposed allocation – investment in the Place	(4,195)	0
Proposed allocation – allocation of 2017/18 element to children’s services	(639)	0
Balance	**689**	**7,250**

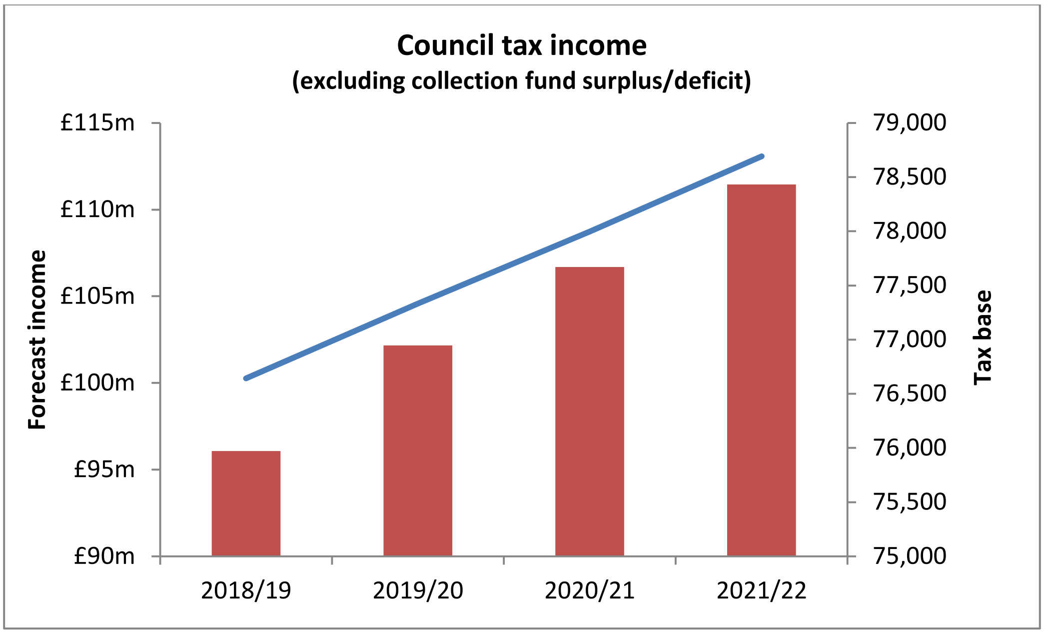
4.1.9 Solihull has been a member of the Greater Birmingham and Solihull (GBS) business rates pool since the introduction of rates retention in April 2013, but the dissolution of the pool was triggered in December 2018 by the creation of new one-year business rates pilots for the Worcestershire and Staffordshire authorities. The disbanding of the pool will end a key funding stream for the Local Enterprise Partnership, which had been able to retain a proportion of the levies payable by pool members on business rates growth. The impact is under evaluation but the MTFS does not currently provide for any further contribution to the LEP.

Council tax

4.1.10 Council tax remains the most significant source of income for Solihull, funding 72% of the net revenue budget in 2019/20. 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.

4.1.11 The government has confirmed that the referendum threshold for increases in core council tax will be 3.0% in 2019/20, as it was in 2018/19. 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 2020/21 and 2021/22 in line with the current referendum thresholds.

4.1.12 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).



Non ring-fenced grants

4.1.13 The Council's most recent Accounting Statement detailed a total of £9 million of government grants received in 2017/18 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 (confirmed at 0.4% for 2019/20), below which growth is discounted for the purpose of calculating NHB entitlements. Solihull expects to receive NHB payments totalling £2.8 million in 2019/20, relating to the years from 2016/17 to 2019/20. The future of the NHB scheme beyond 2019/20 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 2020/21.

4.1.14 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.

4.1.15 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. The MTFS assumes there will be no further RSG receivable from 2020/21 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 2020.

4.1.16 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

4.1.17 The Council received £210 million of government grants that were ring-fenced to specific services in 2017/18. The majority of the specific grants received by the Council are in respect of education services: £102 million in Dedicated Schools Grant, which funds maintained schools, and £12 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.

4.1.18 The Council also receives Public Health grant (£10.6 million in 2019/20), 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 2020/21, on top of an in-year cut of £200 million announced part way through 2015/16. 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 2020/21 local authorities' public health responsibilities are expected to be funded from the revised business rates retention scheme.

4.1.19 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. No funding allocations have been published for the years beyond 2019/20 but the MTFS assumes that this income will continue at existing levels.

4.1.20 The Council currently has seven projects with funding agreements in place for receipt of European Union funding under the European Structural Investment Fund 2014-2020, with current approved delivery programmes continuing into 2022/23. The value of grants approved for these projects is £14.7 million. Two project extension requests, with grant totalling £2.4 million, have been submitted for approval and further projects are under-consideration but not yet submitted.

4.1.21 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. In the event of a no-deal situation, the Government has confirmed that the funding will remain in place, and therefore projects that would have been funded under the ESIF programme will be funded by the Government, regardless of whether project approval is in place by the EU exit date.

4.1.22 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

4.1.23 The Council receives around £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

4.1.24 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 2019/20, the target rate of return on investments is 0.90%, which will be monitored throughout the year. As at 31 December 2018, the Council held investments totalling £77 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 under £20 million in capital grants and contributions in 2017/18, 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.

	2019/20 £m	2020/21 £m	2021/22 £m
Forecast cumulative surplus	3.400	2.900	2.739

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

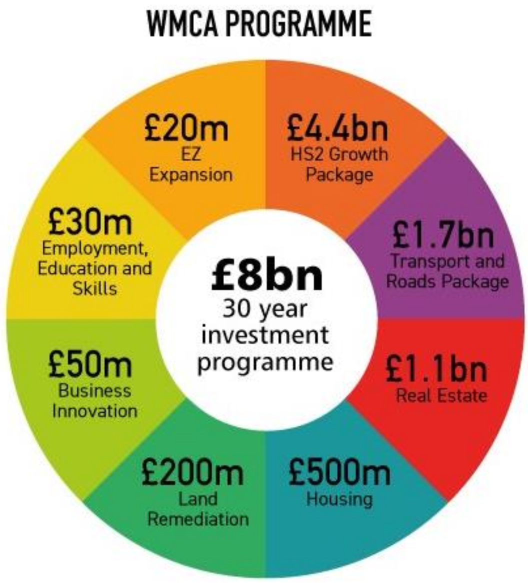
4.2.11 Prudential borrowing provides some flexibility in relation to funding for the capital programme. It has been used to support the delivery of major projects such as the North Solihull Regeneration programme, a replacement care home at Tanworth Lane and ICT projects.

4.2.12 The current MTFS includes £0.705 million of revenue funding over the period, to support prudential borrowing of £6.5 million in respect of property services and ICT projects.

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.



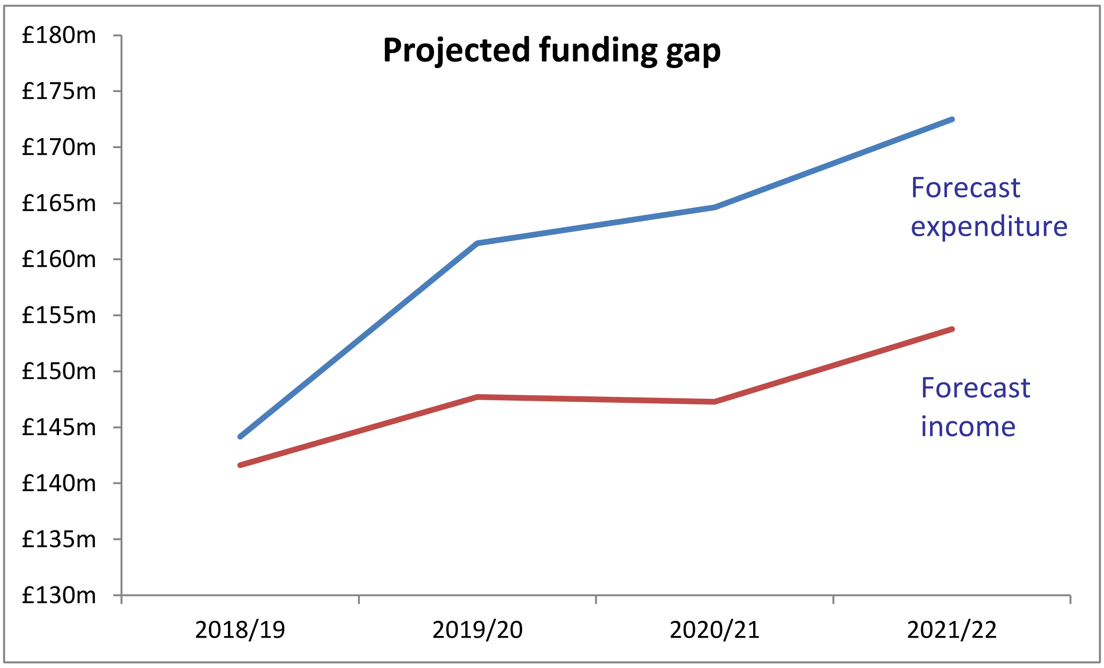
4.3.3 The arrival of high speed rail in the region in 2026 represents an opportunity which Solihull, in partnership with the WMCA, is keen to maximise. The interchange station and Hub at UK Central in Solihull will provide an international gateway with seamless integration between HS2, Birmingham Airport, 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 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, levering 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 2021/22. 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 £19 million.



5. THE COUNCIL'S RESPONSE

5.1.1 The Council's strategic response to this position is to employ three interventions:

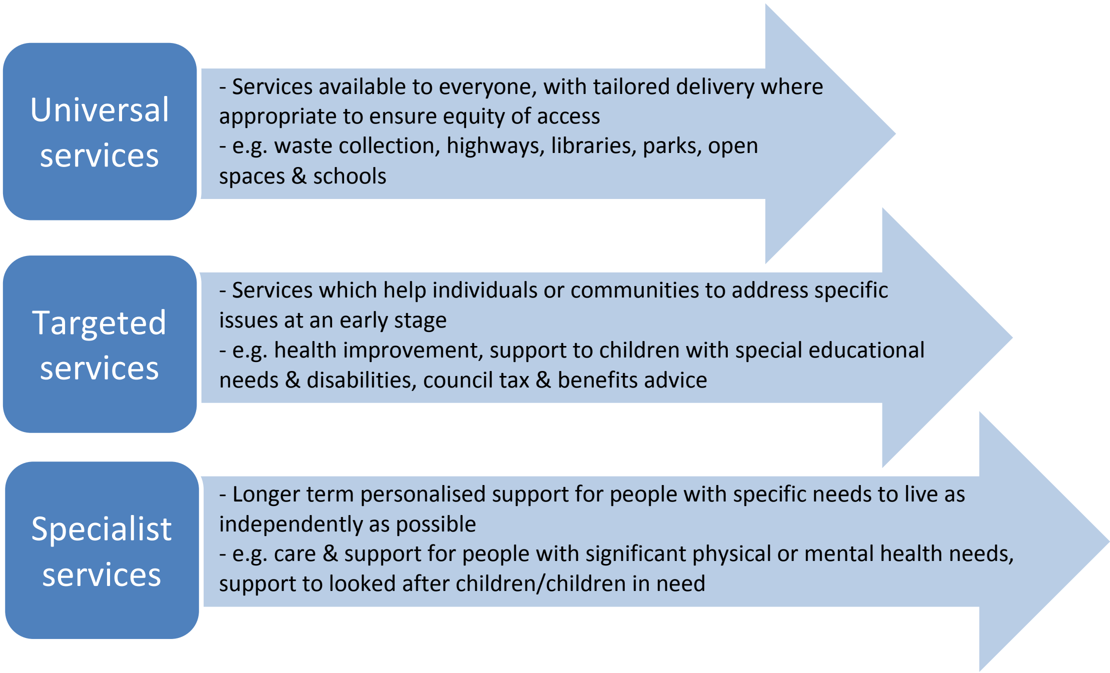
- Managing demand;
- Maximising income generated locally; and
- Reducing costs.

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 approved in April 2018, 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 2019/20 budget process has been on the identification of savings on such a scale as to support investment in areas of high demand in adults’ and children’ services. Investment in Solihull as a “place” is also vital if the Council is to achieve the objectives set out in the Council Plan and to that end proposals for the use of forecast business rates windfall income were developed through the budget process for member consideration.

5.2.7 The capital programme 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.

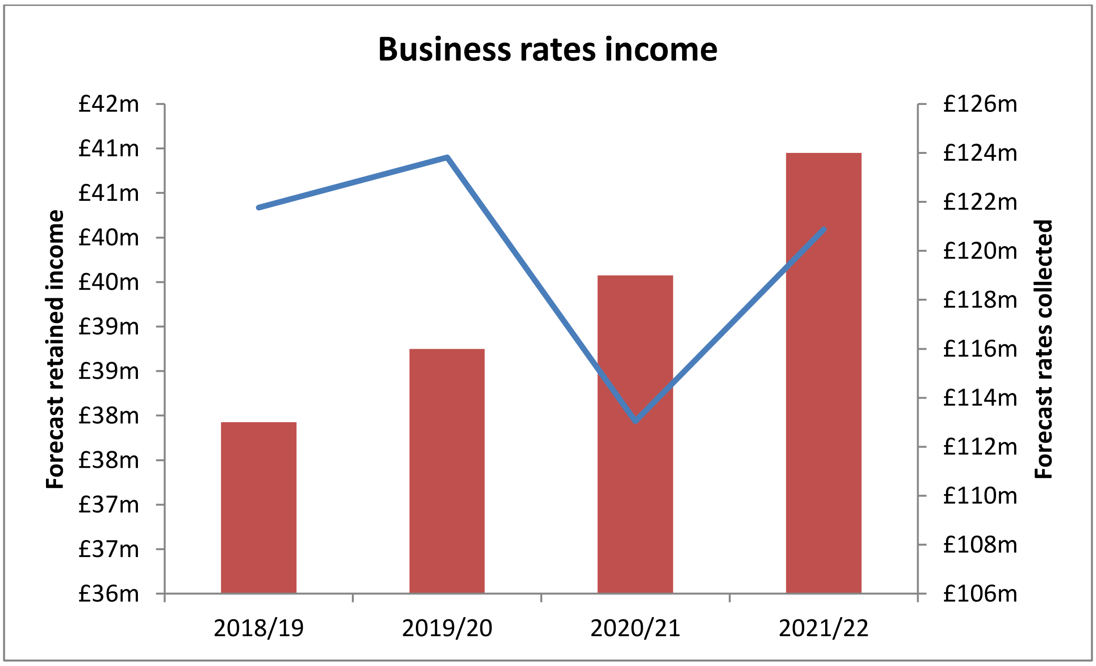
5.3.2 Solihull’s unique concentration of strategic economic assets (the international airport, the National Exhibition Centre, Jaguar Land Rover, the business parks, the town centre, transport infrastructure and the environment/ green belt) give it a critical role in the regional economy – with analysis 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 in the settlement, 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 2020/21 reflects an estimate of the impact of the move to 75% business rates retention. 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 As local government moves towards a system of 75% business rates retention, the impact of appeals on the Council's ability to accurately forecast business rates income presents an increasingly significant risk to the assumptions in the MTFS. 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.

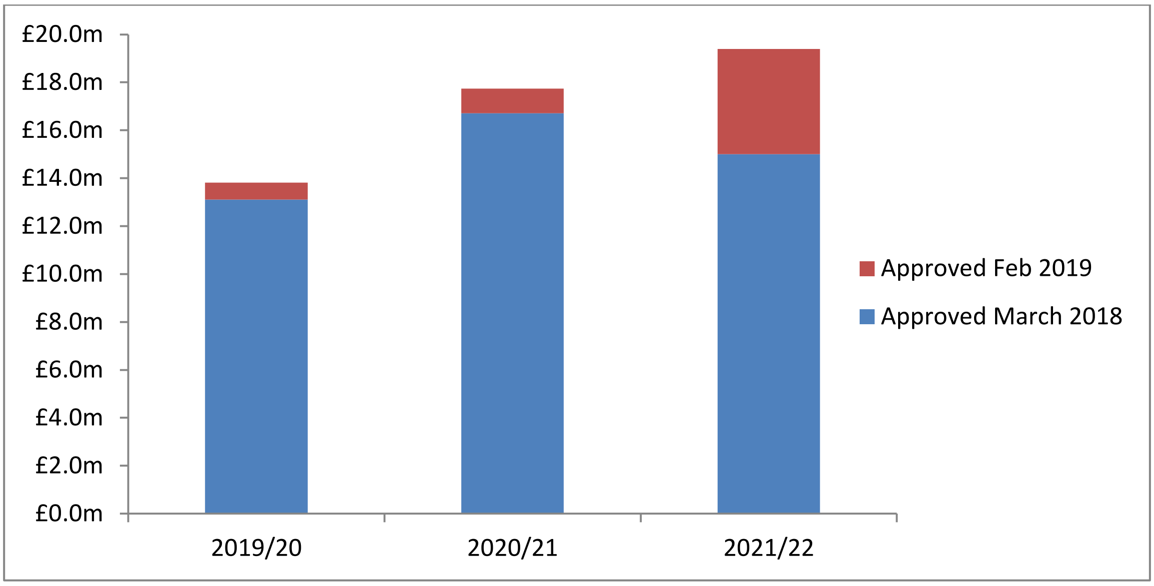
5.3.8 In recognition of the shortcomings of the current appeals system, the government is making various changes which it is hoped will provide greater certainty in forecasting business rates income from 2020/21 onwards. To date, appeals resulting from the 2017 revaluation have not materialised in the volume that was initially expected, which has enabled the Council to review the methodology for determining the appeals provision. 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 2021/22.

5.4.3 The approach is illustrated in the chart overleaf, which shows (in blue) cumulative ongoing savings of £15.0 million identified as at March 2018 for the period from 2018/19 to 2020/21. During 2018/19, the budget process for 2019/20 focused on the identification of savings for 2021/22, 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 £19.4 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 expiry of the four year settlement in 2019/20 has created some additional uncertainty around whether the savings proposals currently built into the MTFS for 2020/21 and 2021/22 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 2019/20 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 meet statutory duties and deliver a balanced budget in the context of nationally recognised pressures facing Adult Social Care	Complete a review of financial plans and specific actions as part of the 19/20 budget setting and MTFS refresh process	£2.999m of ongoing revenue funding for adult social care by 2021/22, in addition to funding already included in MTFS for inflation and demographic growth (see 3.3.3 above) Share of £1.487m of additional grant announced in Autumn Budget 2018
Lack of national confirmation that BCF monies will continue at 18/19 levels, as assumed in the MTFS	Keep watching brief on national developments	Discussions with CCG underlining the importance of consistency of funding arrangements for social care and the avoidance of shocks. National developments may increase conditions on the

Risk (extracted from the corporate risk register)	Mitigating action (extracted from the corporate risk register)	Provision through the MTFS
		funding / change the delivery vehicle and therefore clarity of impact with partners should prevent a sudden funding pressure
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	Arms' length review of Children's Services finances Financial Recovery Plan	Share of £1.487m of additional grant announced in Autumn Budget 2018 £3.948m of additional revenue funding by 2021/22, in addition to funding already included in MTFS for inflation and demographic growth (see 3.4.4 above) New reserve of £1.566m created to manage fluctuations in demand
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	Specific investment as referred to above plus unallocated reserves (Budget Strategy Reserve plus 2019/20 business rates windfall) available if required

6.1.2 The Local Government Association (LGA) has for the last few years provided "spidercharts" summarising each council's financial position relative to their comparator group across a range of indicators. This analysis suggests that Solihull is positioned in the middle of the metropolitan districts in terms of the risk indicators used, which include the rate of business rate appeals, exposure to short term liabilities and debt as a proportion of long term assets.

6.1.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) has also recently developed a methodology for assessing the financial resilience of individual local authorities. This tool, which is currently available in draft form, sets out a number of indicators of financial stress, again does not suggest any areas of concern for Solihull, although it does suggest relatively high levels of spending on adult social care as a proportion of net revenue expenditure. The proportion of net expenditure funded from business rates income is low relative to other metropolitan districts, but this is a result of the Council being a tariff authority, unlike most authorities in our comparator group.

6.1.4 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.

	2019/20 £000	2020/21 £000	2021/22 £000
Anticipated balance as at 1 April	3,734	7,191	6,781
Contributions to / (from)	3,457	(410)	648
Anticipated balance as at 31 March	**7,191**	**6,781**	**7,429**

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, which have a projected total balance of £11.4 million by March 2021 (excluding treasury management), 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.

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 The Council also maintains separate contingencies, which represent working balances earmarked for specific purposes, for adult social care and public health.

7. MTFS CYCLE

7.1 Process

Revenue

7.1.1 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.

7.1.2 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 BSG 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

7.1.3 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.

7.1.4 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.

7.1.5 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.

7.1.6 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.

7.1.7 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.

7.1.8 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.

7.1.9 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.

7.2 Consultation

7.2.1 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.

7.2.2 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.

7.2.3 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, 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. The Council considers that this focus on those proposals which particularly impact on service users and/or residents is the most effective approach.

7.3 Approval

7.3.1 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.

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

7.4 Monitoring and review

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

7.4.2 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.

7.4.3 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.

7.4.4 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.

8. CONCLUSIONS

8.1.1 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.

8.1.2 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.

8.1.3 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.

8.1.4 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.

9. 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. The total percentage increase in the adult social care precept between 2017/18 and 2019/20 must not exceed 6.0%.

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 or Non-Domestic Rates (NDR)
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 easily 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).

Localisation of council tax support
The term used to refer to the government's decision to replace council tax benefit with local schemes for council tax support. Previously council tax benefit was a national welfare benefit delivered by local authorities but funded and regulated by central government. Since April 2013 local authorities have been required to set up their own schemes for supporting local residents. Full details of the scheme operated by Solihull are available on the Council's website at http://www.solihull.gov.uk/Resident/Council-tax/counciltaxreduction.

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. Provisional allocations of RSG up to 2019/20 were published in February 2016, 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 2019/20 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 2019/20 to 2021/22	2019/20 £'000	2020/21 £'000	2021/22 £'000
Base Budget	**141,605**	**147,711**	**147,266**
Add back reserves utilised in previous year	1,584	(1,890)	3,045
Other Corporate Commitments			
Local Enterprise Partnership - retained levy	934	2	0
Levies	(4)	5	5
Treasury management - revenue required to support borrowing	345	160	200
Pressures and Policy Developments			
Adult Social Care pressures	6,685	2,167	2,900
Adult Social Care additional one-off funds from precept 2017/18	(948)	0	0
Children's pressures	3,120	(7)	387
Inflation, pensions and national insurance	3,173	3,761	1,667
Other service specific pressures	1,023	1,040	(1,028)
Government Grants			
New Homes Bonus	278	534	56
Improved Better Care Fund	(889)	0	0
Adult social care support grant	544	0	0
Share of surplus on levy account	(456)	456	0
Savings – 2019/20 MTFS			
Savings identified by Budget Strategy Group - ongoing	(710)	(318)	(2,612)
Savings identified by Budget Strategy Group - one off	0	0	(750)
less savings included in tax base	36	45	287
Savings – previous years			
Savings approved in 2018/19	(1,669)	(6,359)	1,699
Savings approved in 2017/18	(10,490)	3,210	0
Savings approved in 2016/17	300	40	0
Savings approved in 2015/16	275	275	0
Amendments to savings previously approved	1,085	(521)	0
Use of Reserves			
Contribution from business rates reserve (timing differences)	367	0	0
Additional contribution to severance reserve	1,000	0	0
Contribution to/ (from) windfall reserve	(2,934)	(2,635)	0
Contribution to/ (from) budget strategy reserve	3,457	(410)	648
Net Budget Requirement	**147,711**	**147,266**	**153,770**
Business rates retained income	*(48,150)*	*(37,938)*	*(40,092)*
Anticipated contribution to "no detriment" contingency	*7,250*	*0*	*0*
Net Business rates	**(40,900)**	**(37,938)**	**(40,092)**
Council tax	(104,587)	(108,728)	(113,078)
Collection fund (surplus)/deficit	(2,224)	(600)	(600)
Total Resources	**(147,711)**	**(147,266)**	**(153,770)**
Assumed general council tax increase	**1.99%**	**2.99%**	**2.99%**
Increase in council tax to fund adult social care	**1.00%**	**0.00%**	**0.00%**

APPENDIX B – SUMMARY CAPITAL PROGRAMME

Corporate capital programme by portfolio

Cabinet Portfolio	*2018/19 £m*	2019/20 £m	2020/21 £m	2021/22 £m
Adult Social Care and Health	*5.140*	**5.516**	0.830	0.830
Children, Education and Skills	*9.290*	**12.269**	6.863	2.250
Environment and Housing	*1.390*	**1.600**	1.350	1.376
Leisure, Tourism and Sport	*0.406*	**0.200**	0	0
Managed Growth	*8.726*	**24.702**	29.036	53.003
Resources and Delivering Value	*5.391*	**7.249**	2.691	2.600
Stronger Communities & Partnerships	*0*	**0.500**	2.600	2.100
Transport and Highways	*7.047*	**4.348**	3.970	5.091
Total Cabinet Portfolios	*37.390*	**56.384**	47.340	67.250
Housing Revenue Account	*17.556*	**16.066**	16.707	14.041
Total Council Capital Programme	***54.946***	**72.450**	**64.047**	**81.291**

Summary of funding sources 2018/19 to 2021/22

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Prudential borrowing	*9.752*	**14.875**	7.270	4.400
Grants	*14.504*	**37.203**	30.294	31.456
Capital receipts	*8.733*	**3.081**	0.250	0.250
Contributions	*5.515*	**3.090**	11.139	29.924
Revenue	*16.442*	**14.201**	15.094	15.261
Total funding	***54.946***	**72.450**	**64.047**	**81.291**