Appendix E

CONTENTS

FOREWORD

To be added post Full Cabinet

1. EXECUTIVE SUMMARY

1.1.1 The Council's medium term financial strategy (MTFS) 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 next three years, but we also 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 3. The pressures on our children's social care services are acute and strengthening and improving our work in this area is a priority for the Council, which is reflected in the additional investment identified through the updated MTFS. Alongside these pressures, sustained demand for adult social care remains a key concern while the effects of increases in the cost of living on residents and businesses are also in the spotlight.

1.1.4 Section 4 explains the significant uncertainty that continues to exist around local government funding, certainly beyond the next two years. 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 good position to withstand these challenges. We have a comprehensive balanced MTFS that is supported by a strong business rates and council tax base, with the budget strategy reserve affording some protection against the uncertainty of the current environment. Section 5 outlines the Council's response to the current and forecast conditions in more detail.

1.1.6 The resulting revenue budget for 2023/24 is £192.579 million, funded 66% from council tax and 34% from business rates (net of the tariff payment, section 31 grant and the forecast business rates surplus). The capital programme over the period from 2022/23 to 2032/33 has a projected value of £670 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 value for money in service delivery and allows for ways of delivering services that are a departure from traditional models.

1.1.8 The Council is also planning for a net zero carbon future and has developed a process for carbon budgeting as part of the financial budgeting cycle, as outlined in section 7.

1.1.9 We know that Solihull is well placed economically to weather the current storm and the Council remains in a good position to deliver against its priorities for the people of Solihull.

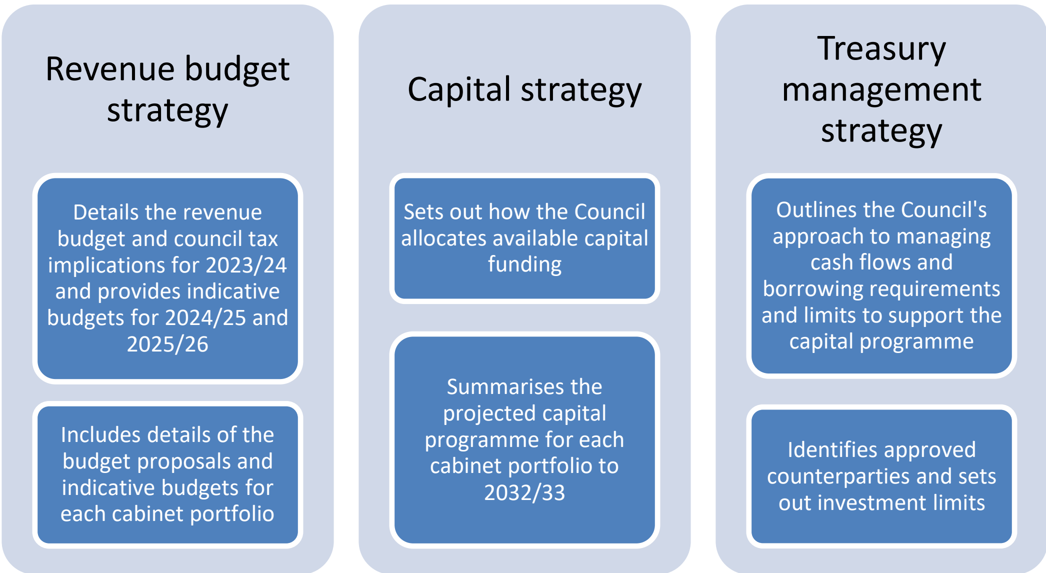
2. INTRODUCTION AND OBJECTIVES

2.1.1 The strategic direction for the authority is set by the Council Plan, which was last fundamentally reset in July 2020 and is updated annually. The Council Plan is based on an analysis of the borough's strengths, challenges and opportunities, and is influenced by local priorities, input from public consultation, government policies, performance information and external inspections. The 2023 update will outline seven 'key things to do' and a set of outcomes that we are seeking to achieve by 2025.

2.1.2 The Council Plan looks forward to 2025, setting the direction of the travel for the authority and describing the major steps that we need to take to achieve the Council's vision of a borough where "everyone has an equal chance to be healthier, happier, safer and more prosperous through growth that creates opportunities for all". Our Council Plan seeks to deliver what people need to thrive – for example, good health, purpose, power and connection with others - through inclusive growth. We will do this through our roles as employer, procurer, service provider and system influencer.

2.1.3 The Council's belief that economic development, environmental sustainability and health and wellbeing go hand in hand is reflected in the nine key priorities that the Plan sets out to achieve.

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, as part of our plan for achieving net zero carbon emissions by 2030, we set an annual carbon budget alongside our financial budget.

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 clear proposals for all years;
- 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.

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, the cost-of-living crisis, economic uncertainty and the gloomy outlook for public spending 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 Although the local government finance settlement only included confirmed figures for 2023/24, the government published a policy statement in December 2022 which built on the funding commitments set out in the 2021 Spending Review and the 2022 Autumn Statement to give local government some certainty over funding for 2024/25. Although the sector will now have to wait until after the next election for any significant review of funding arrangements, this confirmation does in itself provide some stability.

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.

3. DRIVERS OF DEMAND

3.1 The economy

3.1.1 Globally and nationally, economic recovery from the coronavirus pandemic has been hit hard by the energy and food supply shocks resulting from the Russian invasion of Ukraine in February 2022. The UK government has again been required to help households and businesses through a financial crisis, this time through help with energy bills. In the UK, consumer price inflation reached a 40-year high of 11.1% in October 2022, falling back slightly to 10.7% in November. The Office for Budget Responsibility (OBR) expects inflation to ease over the course of 2023 to below zero the following year. High levels of inflation are forecast by the OBR to reduce living standards by 7% over the two years to 2023/24, wiping out the previous eight years' growth.[1]

3.1.2 The medium term fiscal outlook has significantly worsened since the OBR forecast in March 2022, reflecting a weaker economy, higher interest rates and higher inflation. In November 2022, when the Autumn Statement was published, the OBR forecast that GDP would fall by 1.4% in 2023, followed by rises of 1.3% in 2024 and 2.6% in 2025.

3.1.3 The impact of Brexit complicates the picture, with the OBR forecasting a lasting impact on both the volume of trade with the EU and the number of trading relationships between UK and EU firms.

3.1.4 90% of adults surveyed by the Office for National Statistics (ONS) in the Opinions & Lifestyle Survey for January 2023 said that the cost of living is an important issue facing the UK today. The survey also revealed around 65% of adults are spending less on non-essentials because of the rising cost of living, while around 4 in 10 adults (41%) reported spending less on food shopping and essentials. This concern is replicated locally: in the autumn of 2022, 70% of Solihull respondents to the Place Survey said that they were more worried about their financial situation than a year ago, rising to 75% among residents of North Solihull.

3.1.5 However, on the whole Solihull households are relatively well-placed to weather the impact of this crisis. On average, full-time wages and disposable income are higher in Solihull than nationally and fewer people are unemployed or receiving benefits such as universal credit or pension credits. The Council is monitoring the impact of cost-of-living pressures locally, through a range of different metrics, and working closely with partners in the public and voluntary and community sectors to provide support to those who need it.

3.1.6 The Solihull economy punches above its weight, with the highest GDP per head in the West Midlands (44% higher than the England average) and an increase in employee jobs of 20% between 2015 and 2021, compared to the England average of 4%. The largest sectors in the borough are financial and business services and manufacturing, with the public sector and retail notably smaller than average.

3.1.7 The Council continues to engage with Birmingham Airport, the NEC and Jaguar Land Rover as anchors of the local and regional economy. We plan to accelerate key investment priorities, focusing on the UKC Hub, housing developments and investment and marketing in order to support the recovery of the borough's towns and local centres and the revival of the visitor economy. Our aim is to ensure that recovery and growth are managed well for the benefit of all residents.

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[1] Office for Budget Responsibility. (November 2022). *Economic and Fiscal Outlook* *https://obr.uk/efo/economic-and-fiscal-outlook-november-2022/*

3.1.8 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 10.5% in December 2022, will start to fall in 2023.[2] The MTFS assumes general inflation for service contracts of 6.0% in 2023/24, which is applied to around £19 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 12.3% in 2023/24. In 2023/24 these strategic contracts account for nearly £24 million of the Council's expenditure.

3.1.9 Employee costs represent the biggest area of the Council's spend and so pay inflation is a significant cost for the authority. The MTFS provides for a pay award of 4.0% in 2023/24 (and 2.0% per annum thereafter) but given current inflation levels there is a risk that future pay awards may exceed budgeted provision. Should the pay award for 2023/24 exceed 4.0%, the in-year pressure would need to be funded from the budget strategy reserve.

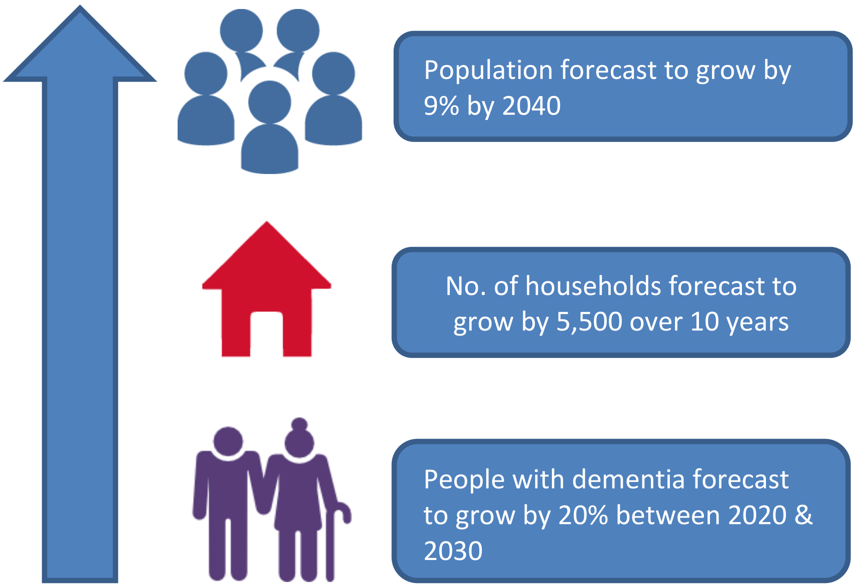
3.2 Rising demand for our services

3.2.1 Three years after the emergence of coronavirus, we continue to experience increased demand for our services as a result of the short-term effects on health and wellbeing. The restrictions put in place to manage the spread of the virus have particularly affected those whose resilience was limited by their health, employment status or other personal circumstances. We need a renewed focus on protecting those who need us most: vulnerable children, young people and adults. In the longer term, we need to work to protect our population from the social, economic and cultural effects of the pandemic.

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 9% by 2040. 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 that by 2040 those aged 65 and over will account for nearly 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.

[2] Office for Budget Responsibility. (November 2022). *Economic and Fiscal Outlook* https://obr.uk/efo/economic-and-fiscal-outlook-november-2022/



3.2.4 In common with other local authorities across the country, Solihull continues to experience significant pressures on social care services for both adults and children, while some of our universal services are also under strain from growing demand and the effects of sustained spending restraint. 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 additional resources to mitigate pressures across its services.

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 increases in inflation and the National Living Wage continue to represent a major risk to local authority finances.

3.3.2 These long-standing pressures have been exacerbated since 2020 by higher operational costs relating to Covid-19 and by the impact of sustained pressures on local health services (for example delays in access to health care, including emergency care, deferred operations and untreated conditions) on demand for social care services. There are also concerns over the impact on vulnerable households of the rising cost of energy, food and other essentials, and the possible implications for residents' physical and mental health. In addition, it is anticipated that as people struggle with the rising cost of living, they may be less able to make contributions to their care. An estimate of the potential impact on the Council's income is included in the MTFS.

3.3.3 The Autumn Statement announcements in November 2022 included confirmation that the introduction of charging reform will be delayed by two years until October 2025. Funding included in the 2021 spending review for associated costs has been repurposed, with a new hospital discharge fund, a market sustainability and improvement fund and increases to the social care grant announced. The Council will receive a total of £12 million in social care grant in 2023/24, of which nearly £5 million will be utilised for adult social care. The balance will be spent on children's social care, reflecting budget decisions reached in previous years.

3.3.4 The market sustainability and improvement fund supersedes the market sustainability and fair cost of care fund that was introduced in 2022/23. The scope of this grant has been widened to support local authorities to "address discharge delays, social care waiting times, low fee rates, workforce pressures and to promote technological innovation" in adult social care. As part of the "People at the Heart of

Care" white paper, local authorities were required to complete a Fair Cost of Care exercise to determine a median cost of providing care and in line with that exercise the Council has undertaken to use the government funding provided to increase the rate paid for care.

3.3.5 A number of national policy and statutory developments underway or anticipated will have implications for the social care sector. The Health and Care Act, which came into force in April 2022, includes new requirements in terms of how the NHS and local government will come together to plan and deliver health and care services. There are financial risks associated with these changes, both because the significant income received by the Council from the local NHS could be at risk and because any reduction in local NHS services is likely to trigger additional demand for social care services. Whilst plans are underway to mitigate against these via early engagement with health partners, there is still considerable uncertainty relating to the impact of the statutory changes and what will be possible.

3.3.6 The Act also introduced a duty for the Care Quality Commission (CQC) to assess local authorities' delivery of social care services, empowering the Secretary of State for Health and Social Care to intervene where there is a risk of failure to meet social care duties. The implications of this relate to the understandable expectation that all services must be sustainable and of good quality, and that extra capacity will be needed to fulfil the significant business intelligence reporting demands expected from the future process.

3.3.7 In addition to the broader challenges outlined above, there are also a number of specific issues that have been considered as part of developing the MTFS proposals, including:

- Maintaining safe care and good quality infection prevention and control (IPC) practices remains of high importance and it is assumed that if the risks associated with Covid-19 continue within care settings, requiring specific control measures and testing, then government funding will follow.
- The impact of assumptions about increases to the National Living Wage (NLW) and other inflation on the cost of care has been modelled and a pressure built in for these costs. There are other costs which may also affect the sector, for example, rising insurance costs, indirect workforce costs related to market forces and increased gas and electricity prices, which have not been built into the MTFS.
- The population is ageing and adults with long-term health conditions and disabilities are living longer (although overall life expectancy is now plateauing). While this is a positive development which should be celebrated, this means that more people will seek local authority support and for a longer period of time than before.
- Another key driver is demographic pressures in younger adults' disability services, 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.

3.3.8 The government has also enhanced the council tax flexibility available to local authorities with social care responsibilities, which can now increase the social care precept by 2.0% per annum in 2023/24 and 2024/25. Figures published in the Autumn Statement suggest the higher thresholds are likely to be extended into 2025/26, so the MTFS now assumes a maximum increase in the precept of 2.0% in each of the three years. Additional resources generated through the increase in the adult social care precept will be used to provide sustainable funding towards the pressures identified within adult social care in the budget process.

3.3.9 The Better Care Fund (BCF) is a budget to help local places join up health and care services, so that people can manage their own health and wellbeing and live independently in their communities for as long as possible. BCF plans require agreement with health partners and are approved by the Health and Wellbeing Board, as well as a regional sign-off process. Local BCF plans are jointly developed by health and social care partners to support integrated, person-centred care in communities. The conditions associated with the BCF 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. These agreements do not cover the full period of the MTFS as BCF allocations for the years beyond 2022/23 are yet to be announced by the government, but the MTFS assumes the BCF will rise in line with inflation.

3.3.10 The capital programme for Adult Social Care and Health is focused on supporting people to stay in their own homes through the deployment of equipment, adaptations and digital technology. The Disabled Facilities Grant (DFG), which is part of the framework of the BCF agreement, is the key funding source for such initiatives. This service is delivered by Solihull Community Housing on behalf of the Council.

3.4 Public Health

3.4.1 The Council provides or oversees a range of public health services across the whole life-course, reducing longer term demand for health and care services, improving well-being and reducing health inequalities and maximising the wider work of the council to improve the health of its residents. This includes universal health, well-being and preventative services, such as health visiting and school nursing, and a range of more targeted services such as drug and alcohol services, domestic violence and sexual health. It also has statutory responsibilities around health protection, which were used during the Covid-19 pandemic response. Funding for Public Health activity is primarily provided from the ring-fenced Public Health Grant from the Department of Health and Social Care (DHSC). Joint working with the ICS and additional ring-fenced national allocations may expand the resourcing into prevention services. SMBC’s Public Health grant for 2022/23 was £11.829 million. For MTFS planning purposes, an increase of 3.5% has been included for 2023/24 and 2% thereafter, which is below national inflation indices reflecting that there could be some re-prioritisation of funding by the DHSC.

3.4.2 Much of the Public Health grant is spent on external contracts, many of which are due for retender or renewal during the MTFS period. The MTFS includes provision for inflation on these contracts but there is a risk that in future years inflationary pressures on contract prices may exceed increases in the Public Health grant.

3.4.3 The Council is halfway through a ten-year contract for the operation of its two leisure centres, which has so far, as a result of the pandemic and other factors, not achieved the level of income originally envisaged. The pressure caused by this income shortfall has been compounded during 2022/23 by the impact of energy price rises, the cost of which is borne by the authority. Work is currently underway to agree a new financial model for the remaining five years of the contract.

3.4.4 Public Health also includes the employment and skills service, which is predominantly funded from European Social Fund (ESF) grants which will come to an end in December 2023. Some employment support activity can be funded in 2024/25 from the UK Shared Prosperity Fund but it is not yet clear whether this funding will continue into 2025/26 and the scope of the fund is much narrower than the ESF. The service will seek alternative external funding but if none is identified the Council will need to consider reductions in direct programme delivery and refocusing the service around its strategic skills function.

3.4.5 The Council has secured capital funding from the Department for Education to pilot new Family Hub centres across the borough to increase the visibility, accessibility and connectedness of early help services for our local families. The offer will be delivered by a multi-disciplinary team of existing service providers from different agencies, through a combination of outreach working and working from facilities owned by the Council and other organisations. The revenue costs of running these centres are included in the MTFS from 2024/25.

3.5 Children's Services

3.5.1 The Children, Education and Skills portfolio is facing unprecedented pressures. The implications of responding to the Joint Targeted Area Inspection (JTAI), the Improvement Notice issued by the Secretary of State, the National Panel Review into the deaths of Arthur Labinjo-Hughes and Star Hobson and the findings of the Children's Commissioner, Ofsted and an LGA peer review are considerable and far-reaching. Ofsted's recent inspection of children's services, published in January 2023, categorised services to children and families in Solihull as inadequate and identified serious failings which the Council must address with pace.

3.5.2 Children's services remain the Council's top priority for improvement in 2023/24. The Council is fully committed to making the necessary changes and we have updated our improvement plan in order to ensure it addresses all the areas highlighted by Ofsted. We have a new leadership team in place and have recruited more social workers to meet the sustained increase in demand for our services.

3.5.3 As part of the 2023/24 budget process, members approved substantial investment in children's services to support our improvement journey, with additional ongoing funding of £8.9 million from 2023/24. This is addition to increases in funding of £6.0 million per annum by 2024/25 which were approved as part of the 2022/23 budget process.

3.5.4 The additional investment will enable the recruitment of staff to key roles such as family support and social workers, exploitation and missing officers and specialist posts, and enhance leadership and administrative capacity. Additional resourcing for early help services and the child protection review unit will also be put in place.

3.5.5 The issue of complexity and supply in relation to placements requiring specialist residential care remains critical. The availability of specialist placements (particularly welfare secure) is under pressure with a resulting impact on price and the pandemic resulted in a significant spike in cases. The number of local children looked after has risen from 391 at the end of March 2020 to 515 at December 2022, which has placed an increased burden on social work staffing capacity and case holding. Unit costs also continue to rise, with our 20 most expensive placements costing an average of £6,619 per week.

3.5.6 Pressures on the Special Educational Needs and Disabilities (SEND) transport service are being driven by driver shortages, fuel inflation and high levels of demand linked to increased numbers of eligible pupils. Four initiatives to mitigate these cost pressures are underway: a major revaluation of routes, the use of new route planning software, only using guides on vehicles where necessary for pupil safety and maximising the usage of the council fleet.

3.5.7 In respect of the wider SEND service, the number of children and young people with an Education and Health Care Plan (EHCP) continues to rise although investment in the service in 2021 reduced average caseloads and addressed the previous backlog as well as improving quality and timeliness. Sustaining investment in this service is critical to ensuring the Council continues to support children and young people and to meet its statutory duties in this area.

3.5.8 The High Needs Block of the Dedicated Schools Grant (DSG) has been under significant pressure in recent years, contributing to a forecast accumulated deficit for the DSG of £16 million at the end of 2022/23. The position reflects the increase in the number and cost of school placements, particularly in the independent sector. We are involved in a Department for Education programme which is supporting work towards balancing the in-year position in future years.

3.5.9 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 to support the expansion of provision for children with special educational needs and disabilities (SEND). This is also closely linked to the High Needs Block recovery plan.

3.6 The Place

3.6.1 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 the Building Safety Act, which came into effect in 2022, places additional demands on the Council as both the owner of tall buildings and as the regulator for local building safety. In addition, car parking income remains significantly below pre-2020 levels, partly as a result of changes to commuter behaviour following the Covid-19 pandemic and partly because of the impact of the closure of Marks and Spencer's in the town centre in July 2021.

3.6.2 The directorate is also experiencing considerable additional demand as a result of the cost-of-living crisis. Through a mixture of government grants, such as the Household Support Fund, and our own resources, the Council is providing and facilitating a broad range of support to low income and vulnerable households. This support includes help with food, bills and household essentials, holiday activities and childcare and home improvements (for example to improve energy efficiency) and also includes supporting community groups and organisations.

3.6.3 Risks for these service areas include new requirements for the disposal of domestic seating from December 2022, and the possibility that local authorities will be required to remove ash trees in order to stop the spread of ash die back. Uncertainties over the future funding of homelessness services, which are heavily reliant on government grant, have been addressed, at least in the short term, by the confirmation of funding for 2023/24 to 2024/25.

3.6.4 The cemetery at Woodlands is expected to reach capacity in around 18 months. The current MTFS includes funding to purchase additional land to continue to offer burials but there is a risk that the cemetery will become full before land is acquired and brought into use. It is also proposed to install a second cremator to service additional demand and feasibility work on this proposal is underway. The additional cremator is expected to be self-financing.

3.6.5 A significant element of the capital programme sits within the Environment and Infrastructure cabinet portfolio, the majority of which relates to programmes associated with UK Central. In line with the Council's strategy for local transport, the capital programme for the portfolio also includes projects to enhance cycle routes, improve public transport and maintain and improve the road network.

3.6.6 Other key programmes falling under the Economy and Infrastructure portfolios include the delivery of energy efficiency works to homes, funded through government grant. During 2023/24 the Council will consider the outcome of a feasibility study and options appraisal into upgrading the outdoor sports facilities at North Solihull Sports Centre and explore the potential for delivering services such as Family Hubs through library buildings.

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 had been expected to increase to 75% but, following delays due to first Brexit and then the coronavirus pandemic, this now appears less likely. The government issued a policy statement in December 2022 which ruled out a reset of the business rates system and a fundamental review of the assessment of needs and resources used to determine individual authority funding allocations in the current Spending Review period. The policy statement did however reiterate the government's commitment to improving the local government finance landscape in the next Parliament.

4.1.4 In the meantime, the West Midlands business rates retention pilot will continue in its existing form for 2023/24, 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.

4.1.5 The member authorities will therefore once again receive windfall income as a result of the way in which the Department of Levelling Up, Housing and Communities (DLUHC) measures business rates growth. From 2023/24 Solihull will treat all business rates income as core funding from 2023/24 onwards, to be used in the year in which it arises, instead of contributing the windfall income to a reserve to be used in subsequent years.

4.1.6 This does bring additional risk for a number of reasons, as if the actual income received is lower than forecast this will be a pressure on the MTFS, as would any financial support required by any of the West Midland pilot members under the "no detriment" clause. It also increases the Council's exposure to the risk that future income under a reformed business rates system would be lower than it is currently. The implications of future reforms will be assessed as and when the government consults upon its plans in order to inform any revisions required to the MTFS assumptions. It is not now expected that any such reforms will be introduced in the current Parliament.

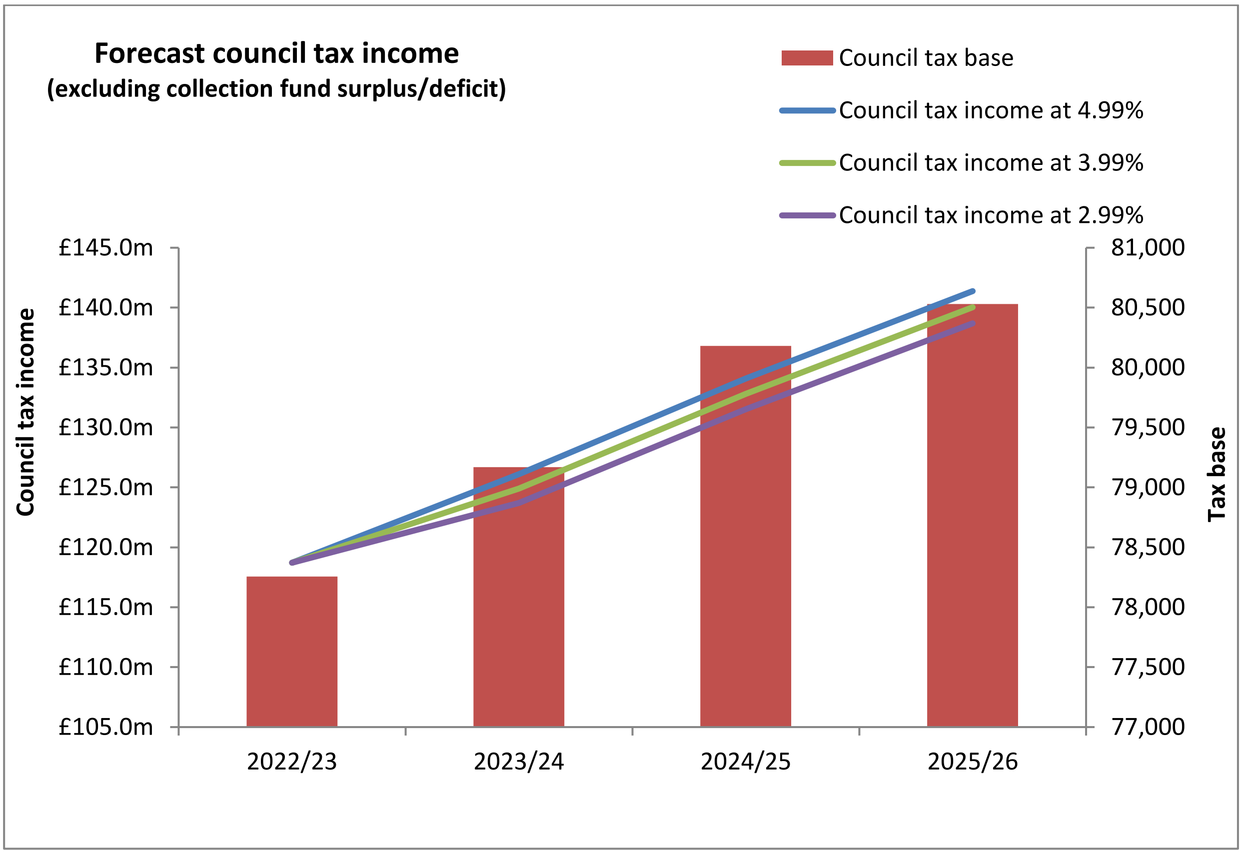
4.1.7 Although the longer-term future of business rates pilots remains unclear, the confirmation that there will be no review of the business rates system in the current Parliament provides some assurance for the current MTFS period in terms of our broader business rates assumptions.

Council tax

4.1.8 Council tax remains the most significant source of income for Solihull, funding 66% of the net revenue budget in 2023/24. The Council has experienced a sustained period of growth in the council tax base for some time and the MTFS assumes this will continue, albeit at a slower rate than in recent years. Prior to 2020/21, the council tax reduction support caseload had been steadily falling but the impact of Covid-19 resulted in a temporary increase in the number of claimants. The impact of cost-of-living pressures on the caseload is being kept under review.

4.1.9 The government has confirmed that the referendum threshold for increases in core council tax will be 3.0% in 2023/24, with a further increase of up to 2.0% allowed in respect of the 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 4.99% increase in 2024/25 and 2025/26. For illustrative purposes, an increase of 1% in council tax equates to £1.2 million of income (based on the 2023/24 tax base).

4.1.10 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 and based on increases of 4.99% per annum from 2023/24). In order to illustrate the effect of lower increases in council tax, the green line shows the level of council tax income at an annual increase of 3.99% and the purple line shows the council tax income generated from an increase of 2.99%.



Non ring-fenced grants

4.1.11 The Council's most recent Statement of Accounts detailed a total of £42 million of government grants received in 2021/22 that were not ring-fenced to specific services. The majority of this funding (£36 million) related to Covid-19, notably funding for business rates reliefs, with the balance made up of other business rates grants and the New Homes Bonus. 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.

4.1.12 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 2023/24), below which growth is discounted for the purpose of calculating NHB entitlements. The scheme is funded from a national top-slice of revenue support grant, and in previous years the amount not required for distribution through the NHB has been returned to local authorities as a separate grant. Solihull will receive NHB payments totalling £0.471 million in 2023/24. The future of the NHB scheme beyond 2023/24 remains uncertain with the government considering plans for reform, but in the absence of any firm proposals the MTFS assumes the scheme will end and the funding will be repurposed.

4.1.13 Since 2019/20 the government has provided local authorities with a non ring-fenced grant for social care, with local discretion over the split between adults' and children's services. As part of the finance settlement for 2023/24, the social care grant was increased from £7.517 million to £12.051 million (excluding rolled-in funding). Of the increase, £0.350 million will be used to create additional capacity to support performance analysis and digital exploitation in social care, with the balance split equally between adults' and children's services. The element relating to children's services has been built into the MTFS to offset part of the cost of the additional investment in the service.

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. Since 2019/20 the allocations have since been rolled forward each year and increased for inflation.

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 that local authorities can collect, such as increasing the amount of relief available to certain businesses and 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 ("section 31 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 £218 million of revenue grants from government that were ring-fenced to specific services in 2021/22, plus a further £20 million in respect of Covid-19 pressures. The majority of the specific grants received by the Council are in respect of education services, including £106 million in Dedicated Schools Grant, which funds maintained schools, and £8 million in additional grants to fund activity including PE and sport in schools, the 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 allocations for 2023/24 have yet to be announced but the government has confirmed the grant will be maintained in real terms over the spending review period. The Council's spending on public health is largely committed to contracts for specific services, which has meant that managing the impact of funding reductions in recent years has been challenging.

4.1.18 The withdrawal agreement between the UK and the EU provided that the UK would continue to participate in the European Structural Investment Fund (ESIF) 2014-2020 until all projects end in December 2023. The Council has five projects with funding agreements in place during 2023/24 with grant receivable of £1.654 million.

4.1.19 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

4.1.20 The Council received £80 million in fees, charges and other service user income in 2021/22, excluding rental income through the Housing Revenue Account. Such 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).

4.1.21 Some income streams, notably car parking, have been slow to recover from the impact of the coronavirus pandemic. The Council will be looking to redesign services where it becomes apparent that longer term changes in customer behaviour will affect demand on a permanent basis.

Investment income

4.1.22 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 2023/24, the target rate of return on investments is 4.00%, which will be monitored throughout the year. As at 31 December 2022, the Council held investments totalling £110 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. In the short term, our ability to deliver major capital investments has been affected by the impact of inflation and supply chain issues on construction costs. 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 around £25 million in capital grants and contributions in 2021/22, 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.

4.2.6 Increasingly, large capital projects are dependent on external grants, specific government funding or partnership arrangements. Examples in the capital programme include HS2 infrastructure works, Solihull town centre heat networks and the Kingshurst town centre project.

4.2.7 The Council charges a community infrastructure levy (CIL) on new developments. 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 difference between the capital receipts funding available and the capital receipts approved to fund capital programme schemes is shown in the table below. This shows that currently there is a forecast surplus available for allocation over the next three financial years, however this value is dependent on future receipts being received in line with current forecasts. The projected three-year forecast indicates limited receipts will be available in the short term, however, historical receipts which have yet to be allocated ensure a cumulative surplus in available capital funding.

	2023/24 £m	2024/25 £m	2025/26 £m
Forecast cumulative surplus	4.536	4.926	3.434

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

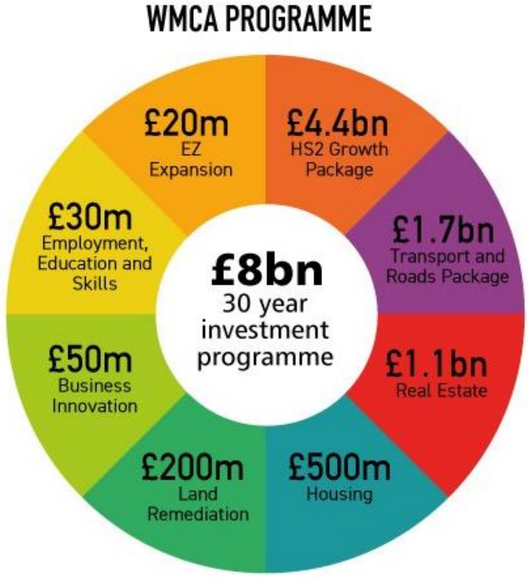
4.2.11 Prudential borrowing provides some flexibility in relation to funding for the capital programme. It has been used to support the delivery of major projects such as the North Solihull Regeneration programme, the enhancement of council properties and ICT projects.

4.2.12 The current MTFS includes £117,000 of additional revenue funding over the period to support prudential borrowing. 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 aim of making the West Midlands a happy and healthy place to live and work by working together. 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 The figure below shows the breakdown of the WMCA’s original 30-year investment programme.



4.3.3 Of that total of £8 billion, £2 billion was to be provided directly by the WMCA funded from its own resources, supplemented by £6 billion drawn from a range of complementary funding streams. However, in 2020, in the face of a number of affordability issues, that £2 billion contribution was capped at £872 million. This cap will remain in place until such time as the WMCA is able to secure alternative funding solutions.

4.3.4 Solihull MBC leads on two of the major initiatives within the Investment Programme, these being the UK Central HS2 Interchange and the UK Central Infrastructure programmes. These programmes include a number of infrastructure and development projects designed to unlock the opportunities that the unique concentration of strategic economic assets in the borough (not least the planned HS2 interchange station) presents to bring about positive change and sustainable inclusive economic growth across Solihull and the wider region. Within the original £2 billion limit these totalled £398 million and £288 million respectively but were then capped at £63 million and £44 million as part of the affordable limit referred to in the paragraph above.

4.3.5 The Council, both directly and through the Urban Growth Company (UGC) (our wholly owned special purpose delivery vehicle), is working with the WMCA to realise these shared ambitions through the UK Central Investment Programme (UKC). This includes working with wider stakeholders to replace some of the funding that has been temporarily lost through the imposition of the cap. To that end a £50 million grant from central government was secured during 2021/22 and the arrangements are currently being finalised to supplement this with a further £50 million WMCA loan.

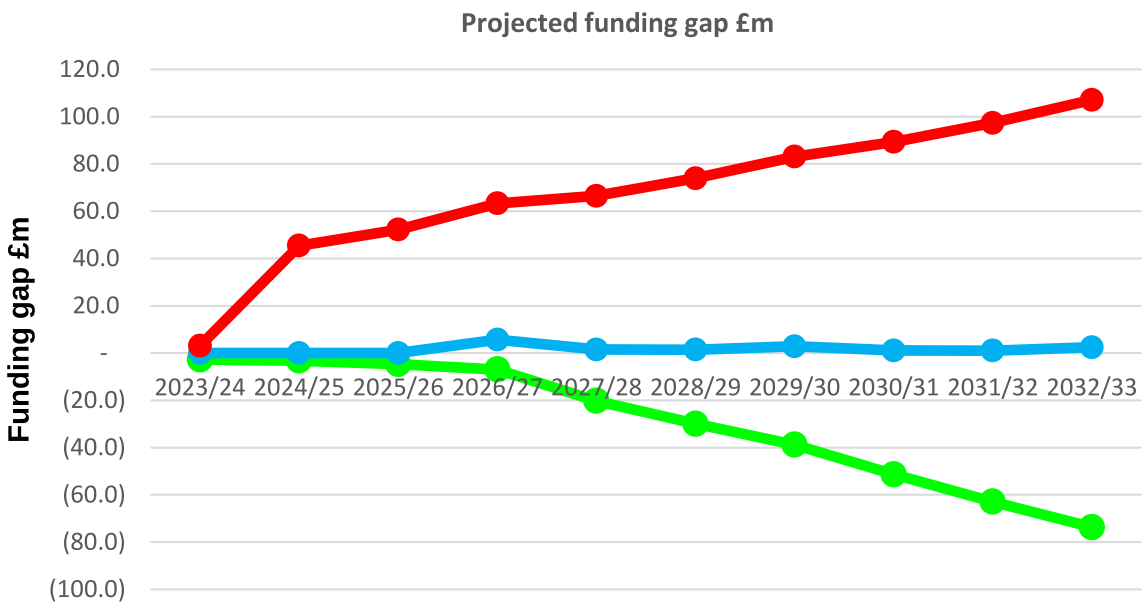
4.4 Revenue funding gap

4.4.1 The Council has 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 Over the same time period, projections for retained business rates and government grant remain highly uncertain. At this stage it is difficult to predict the impact of Covid-19 and Brexit on the future financial envelope for public services, while the lack of clarity over how local government resources will be distributed means that funding forecasts must be treated with some caution.

4.4.3 Based on current assumptions, the MTFS is balanced over the period. However, given the prevailing uncertainty, modelling has been undertaken to assess the impact of different scenarios on the MTFS over the longer term.

4.4.4 Looking ahead to the longer term, the chart below shows the projected funding gap over the next ten years based on the current assumptions in the MTFS (the blue line). 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 red line). Clearly in reality it would be unlikely that all the assumptions in each scenario would be realised at once, but as headlines these give an indication of the potential level of variability within the MTFS assumptions.



4.4.5 The key assumptions varied in each scenario (compared to those used in the MTFS for 2025/26 onwards) 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%	4.99%	1.00%
Business rates increase	1.84%	3.60%	0.00%
Pay inflation	2.00%	1.50%	4.00%
Contractual inflation – core	1.00%	0.50%	4.00%
Contractual inflation - specific contracts	1.50%	1.00%	5.00%
Emerging service pressures	£4.7m	£3.2m	£6.7m

4.4.6 There are significant uncertainties in many of the assumptions in the MTFS and so any projections into the medium term are speculative and should be treated with caution.

THE COUNCIL'S RESPONSE

4.4.7 The Council's MTFS approach has three key strands:

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

4.4.8 In addition, in recognition of the impact of cost-of-living pressures, combined with the after-effects of the pandemic, on the operation and financial position of the Council and on our residents and our businesses, the MTFS is aligned to the Council Plan's focus on supporting the most vulnerable.

4.4.9 The rising cost of energy, food and other essentials are combining with existing disadvantage and vulnerability within our communities to put more households at greater risk of both immediate hardship and reduced opportunity and wellbeing. The Council's monitoring of the local impact of the cost-of-living crisis shows that there has been an increase in the number of people seeking financial advice and support, including increased use of foodbanks and applications for council tax reduction. With our partners, working alongside our community, we will continue to do what we can to support people by providing consistent and accessible advice and information and targeting practical and financial help at those facing the most complex challenges. The Here2Help pages on our website collate advice and guidance on topics ranging from energy costs, food, wellbeing and employment. It is hoped that such support will help to alleviate some immediate hardship that households may face, as well as help to reduce and prevent anticipated demands on statutory services.

4.4.10 Through the MTFS the Council has sought to safeguard the services it provides, particularly to those most vulnerable residents, by allocating additional resources to support children's services and key community-facing services.

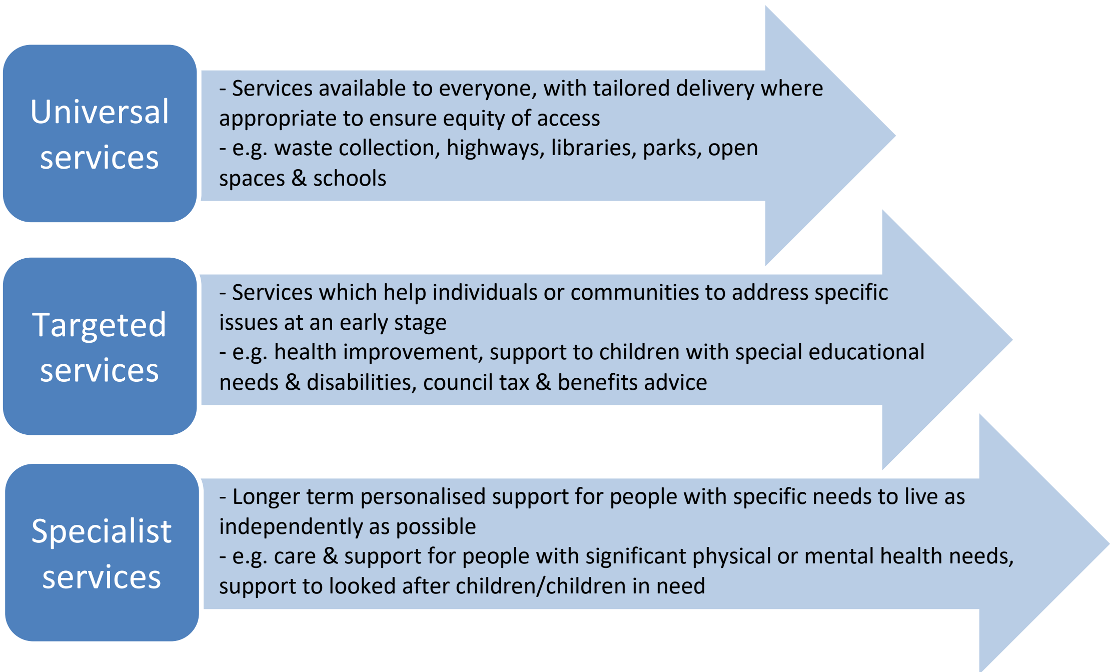
4.5 Managing demand

4.5.1 Our borough has great strengths, including a resilient 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.

4.5.2 Our Council Plan outlines our strategic and operating model for the Council, which makes best use of data to identify who is accessing our services, how and why. This includes customer mapping and segmenting the population into groups of key service users, with whom we work in different ways according to their needs.

4.5.3 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 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.

4.5.4 We are continuing to develop these services based on the following principles:



4.5.5 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.

4.5.6 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.

4.6 Maximising income generated locally

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

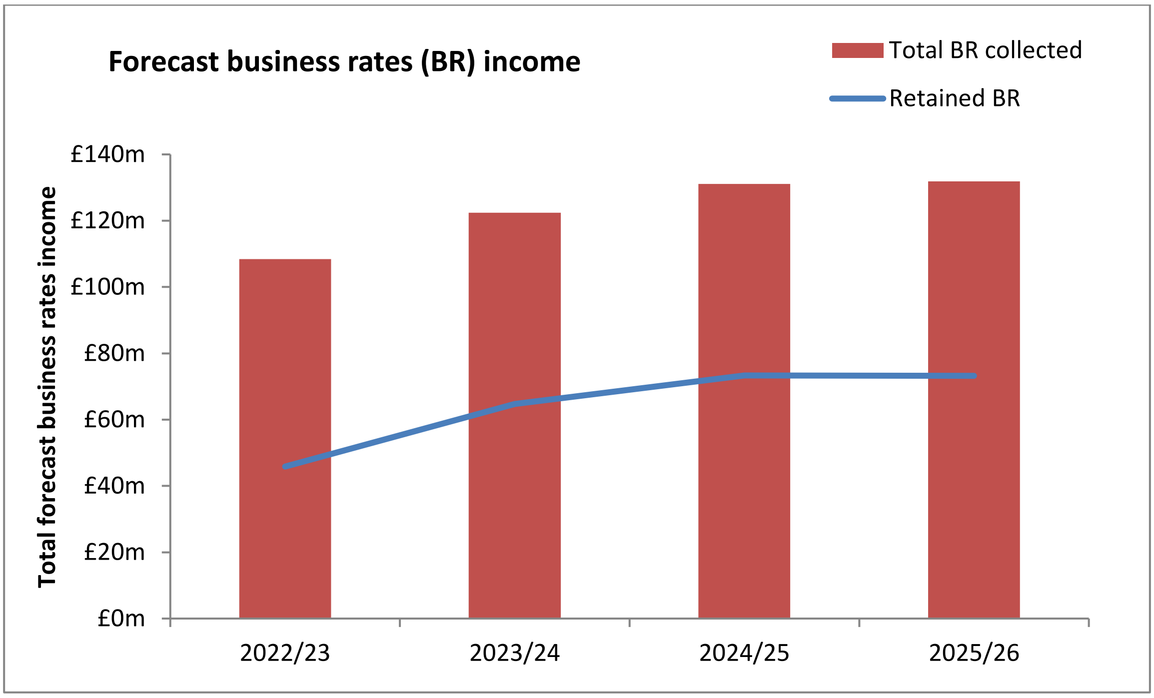
4.6.2 Solihull's unique concentration of strategic economic assets (the international airport, the National Exhibition Centre, Jaguar Land Rover, the business parks, the town centre, transport infrastructure and the environment/ green belt) give it a critical role in the regional economy – with analysis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

4.6.3 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 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.

4.6.4 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.

4.6.5 The MTFS assumes an underlying level of growth in our net business 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.

4.6.6 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. 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 sectors such as retail, hospitality and leisure, and the impact of continued uncertainty over Brexit, particularly on manufacturing.



4.6.7 Furthermore, 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 which, combined with the impact of Covid-19 and Brexit on the national and local economy, means that these forecasts should be treated with some caution.

4.7 Reducing costs

4.7.1 The final element of the Council's response is to continue to manage costs effectively. 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. In recent years the savings requirement has been driven by specific pressures, for example in children's services, rather than a more general need to balance spending to forecast funding levels.

4.7.2 The Council has a three-year budgeting approach. 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 plans set out to achieve a balanced budget up to 2025/26.

4.7.3 The 2023/24 budget process identified new savings in the Resources portfolio and in addition, spending reductions were identified within service areas across the period of the MTFS to mitigate emerging pressures.

4.7.4 A group of senior officers closely monitors the delivery of savings and planned mitigations 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.

4.7.5 That said, the one-year finance settlement leads to some uncertainty around whether any further savings will be required in 2024/25 and 2025/26 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 5 below.

5. RISK MANAGEMENT AND RESERVES

5.1 Risk management approach

5.1.1 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 on the corporate risk register are either being explicitly provided for in the 2023/24 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**
Risks to MTFS delivery due to pressures in children's services, social care reforms and inflationary pressures	Strict monitoring of budget delivery by CLT Budget strategy reserve Business rates windfall Regular lobbying of government for further funding Some service specific reserves are in place Provisional finance settlement for 2023/24 was better than expected Budget Strategy Group will make a budget recommendation to Cabinet in January 2023 February 2023 Full Council will need to approve a balanced budget	Significant additional investment in children's services ASC reserve available to mitigate financial risks associated with social care reforms Business rates windfall treated as core funding from 2023/24 (providing one-off benefit in that year) Allowance for inflation based on OBR forecasts. Increased provision for pay award and energy price increases. Unallocated reserves (budget strategy reserve) available if required
Failure to meet statutory duties and deliver a balanced budget in the context of nationally recognised pressures facing Adult Social Care, including the impact of Covid-19 in 22/23	Implement MTFS plans with oversight of budget, performance & quality position via DLT and reporting to ARTOP and CLT as required	Additional funding from increase to social care grant and new grant funding streams Adult social care precept providing secure ongoing funding stream Continuation of additional funding for demographic pressures Service reserve available to mitigate unfunded risks
Failure to achieve a balanced budget in the context of unprecedented pressures, which could significantly limit the delivery of other services for children	Use of budget strategy reserve approved by Full Council Future funding agreed as part of MTFS Financial recovery plan overseen by Director of Children's Services and reporting to the Chief Executive and Leader of the Council Monthly children's social care financial modelling	Significant additional investment in children's services

5.1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) maintains an index of financial resilience for English councils which assesses each authority against a number of indicators, including levels of reserves, external debt and auditors' judgements, in order to illustrate each council's financial position relative to that of comparator authorities. The index was developed 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.

5.1.3 The index is based largely on outturn figures reported through government returns, which means that there is a lag between spending decisions being made and the effect being visible in the index. Solihull's results suggest that for the majority of the indicators used the authority falls in the average to low risk category compared to our statistical nearest neighbours and other metropolitan districts. The index suggests that Solihull has relatively high levels of unallocated reserves (such as working balances and the budget strategy reserve) which it is using at a sustainable pace.

5.1.4 However, there are two measures where Solihull appears to be higher risk compared to both comparator groups: firstly relating to business rates growth and the potential impact on the Council of changes to the design of the business rates retention scheme, and secondly to spend on social care.

5.1.5 The relatively high level of unallocated reserves (e.g. the budget strategy reserve) maintained by the authority, as evidenced by the measures relating to reserves, reflects the fact that the Council is aware of the business rates risk and has plans in place to mitigate it. 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 taxpayers – a more stable and predictable funding stream.

5.1.6 Our unallocated reserves – both service risk reserves and the budget strategy reserve – also provide some protection against the risk highlighted by the social care indicator, which is the ratio of total spending on adults' and children's social care to net revenue expenditure. CIPFA suggests that higher spend on statutory demand-led services means that there is less flexibility in a council's budget which therefore indicates greater risk.

5.1.7 For Solihull, these indicators reflect the allocation of additional resources to adults' and children's services in recent years, in recognition of the particular demand pressures on social care. We also know that Solihull is a relatively low-spending authority overall and therefore spend on statutory services is likely to represent a greater share of our budget than it would for higher spending councils. However, flexibility in the budget is maintained through the Council's three-year budget approach, supported by the budget strategy reserve, which allows the authority to respond to changes in financial planning assumptions over the course of the MTFS.

5.1.8 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 balances needed to provide assurance as to the robustness of the budget estimates.

5.2 Reserves

5.2.1 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.

5.2.2 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.

5.2.3 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.

5.2.4 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.

5.2.5 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.

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

	2023/24 £000	2024/25 £000	2025/26 £000
Anticipated opening balance	(504)	(7,627)	(7,500)
Contributions (to) / from	(7,123)	127	0
Anticipated closing balance	**(7,627)**	**(7,500)**	**(7,500)**

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

5.2.8 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 January 2023 is attached at Appendix D.

5.2.9 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.

5.2.10 Taking into account the risks outlined above, the current and forecast level of reserves is considered adequate in the view of the Acting Chief Executive.

5.3 Contingencies

5.3.1 In addition to the business rates windfall contingency, the Council maintains a separate contingency, which represent working balances earmarked for specific purposes, for adult social care.

6. CARBON REDUCTION

6.1 Background

6.1.1 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. In October 2019, the Council pledged to be "net zero carbon" as an authority by 2030 and committed to setting annual carbon emission reduction budgets.

6.1.2 The basic approach to achieving this goal is firstly to reduce energy consumption, then switching to renewable energy sources. Once these changes have been made, any hard-to-eliminate emissions can be offset through the purchase of offset credits (an offset credit is created by removing the equivalent amount of carbon from the atmosphere).

6.1.3 The Council has set itself an interim target of reducing carbon emissions by at least 50% by 2025 (measured against the baseline year of 2009/10).

6.2 Progress to date

6.2.1 Following the switch to a zero-carbon tariff for street lighting in October 2020, there are now two areas which together account for approximately 80% of the Council's emissions:

- 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.

6.2.2 The majority of the remaining emissions comes from transport, including corporate vehicles and vehicles used by contractors on council services.

6.2.3 The carbon budget for 2023/24 is summarised in the table below, compared to the actual and forecast outturn position for the two previous years. The budget for the strategic environment contract is set at the level of the previous contract as a period of evaluation is needed to set the baseline for future years.

	2021/22 outturn (tonnes)	2022/23 budget (tonnes)	2023/24 budget (tonnes)
Corporate properties	3,904	2,540	2,200
Leisure contract	*	1,900	1,900
Strategic environment contract	1,789	1,959	1,959
Other	1,200	1,200	1,200
Total	**6,893**	**7,599**	**7,259**

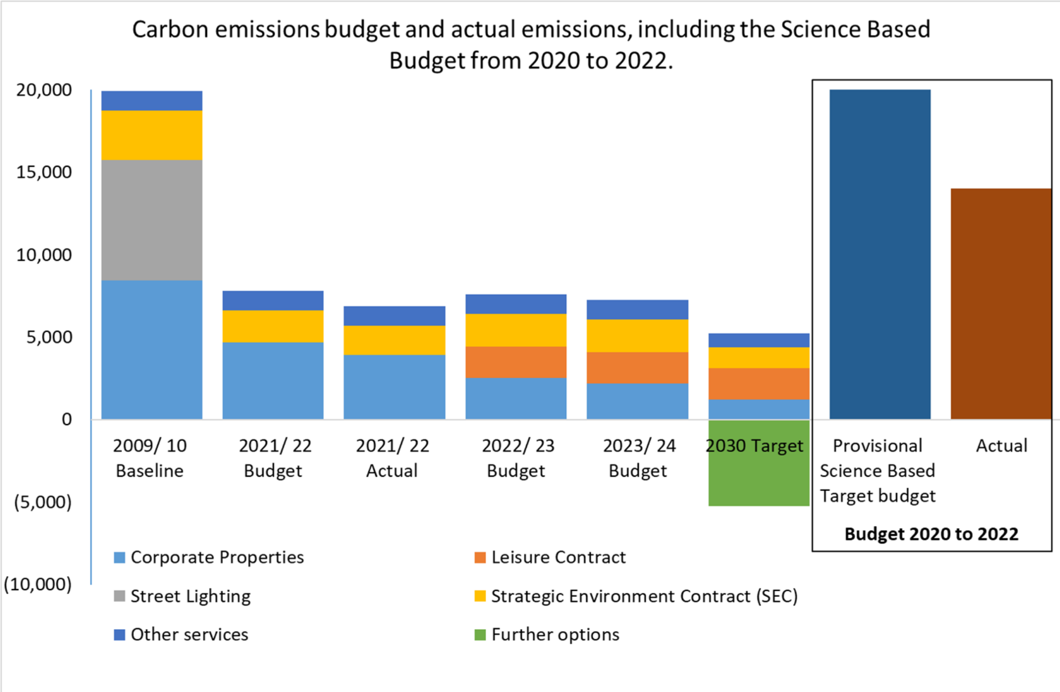
** previously included under corporate properties*

6.3 Target ‘budget’ for 2030

6.3.1 It is anticipated that the Council will achieve the target for 2024/25, based on performance in 2019/20 and 2020/21. However, it is too early to meaningfully assess likely progress against the 2030 net zero carbon budget.

6.3.2 The Tyndall Centre for Climate Change Research has calculated local authority budgets for carbon emissions based on the reductions required globally to meet the goals of the Paris Agreement. This methodology has been used to calculate a provisional science-based target for the Council’s own emissions, giving a total emissions budget of 58,000 tonnes for the period from 2020 to 2030. This equates to a budget of 19,000 tonnes for 2020-2022, in which period the Council’s emissions totalled an estimated14,000 tonnes. However, further work is needed to compare and align the Council’s current carbon budgets with science-based targets for the period from 2020 to 2030.

6.3.3 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 these figures are reviewed and updated annually as plans are refined.



6.3.4 Planned actions for 2023/24 include the development of a Net Zero Investment Plan and reviewing options for zero carbon tariffs for electricity and gas. Carbon budgets for 2024/25 will be developed and agreed, linked to the Net Zero Carbon Council Plan and the emitters' net zero action plans.

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 any savings targets required. Senior officers work with their cabinet portfolio holders to develop budget proposals 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 Budget Strategy Group recommendations to enable members to agree a final budget recommendation to Full Council in late February. 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 ring-fenced 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 Acting 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 and mitigation 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 budget 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.

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 re-phased.

7.4.4 In respect of treasury management, Audit Committee receives quarterly updates and Full Council receives a mid-year report amending prudential 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 Council is committed to holding children and young people at the heart of all we do, promoting their wellbeing and helping them to achieve their potential. This MTFS provides the financial resources required to fund our improvement journey whilst also protecting other key services on which our residents and businesses depend.

8.1.2 Our three-year budgeting approach and our budget strategy reserve give us the confidence that we can navigate the challenges ahead, while the measures outlined in this strategy seek to bolster the authority’s sound financial base and provide the financial foundations to support the delivery of the Council’s 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.

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 pays 1% of the income collected to the fire and rescue authority and also pays a tariff to central government. The Council also pays 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 https://www.solihull.gov.uk/About-the-Council/The-Council-plan.

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 taxpayers, calculated as the budget requirement less income from retained business rates.

Counterparties
The persons or institutions entering into any financial contract are known as 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.

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 ring-fenced 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).

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 a non ring-fenced grant for each additional property or long-term empty property brought back into use.

Prudential Borrowing
The set of rules governing local authority borrowing. Borrowing must conform to the Prudential Code, the statutory code of practice for capital finance in local authorities, which requires that borrowing undertaken is affordable and prudential.

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 which for Solihull have been incorporated into the funding the Council is receiving through business rates under the West Midlands business rates retention pilot.

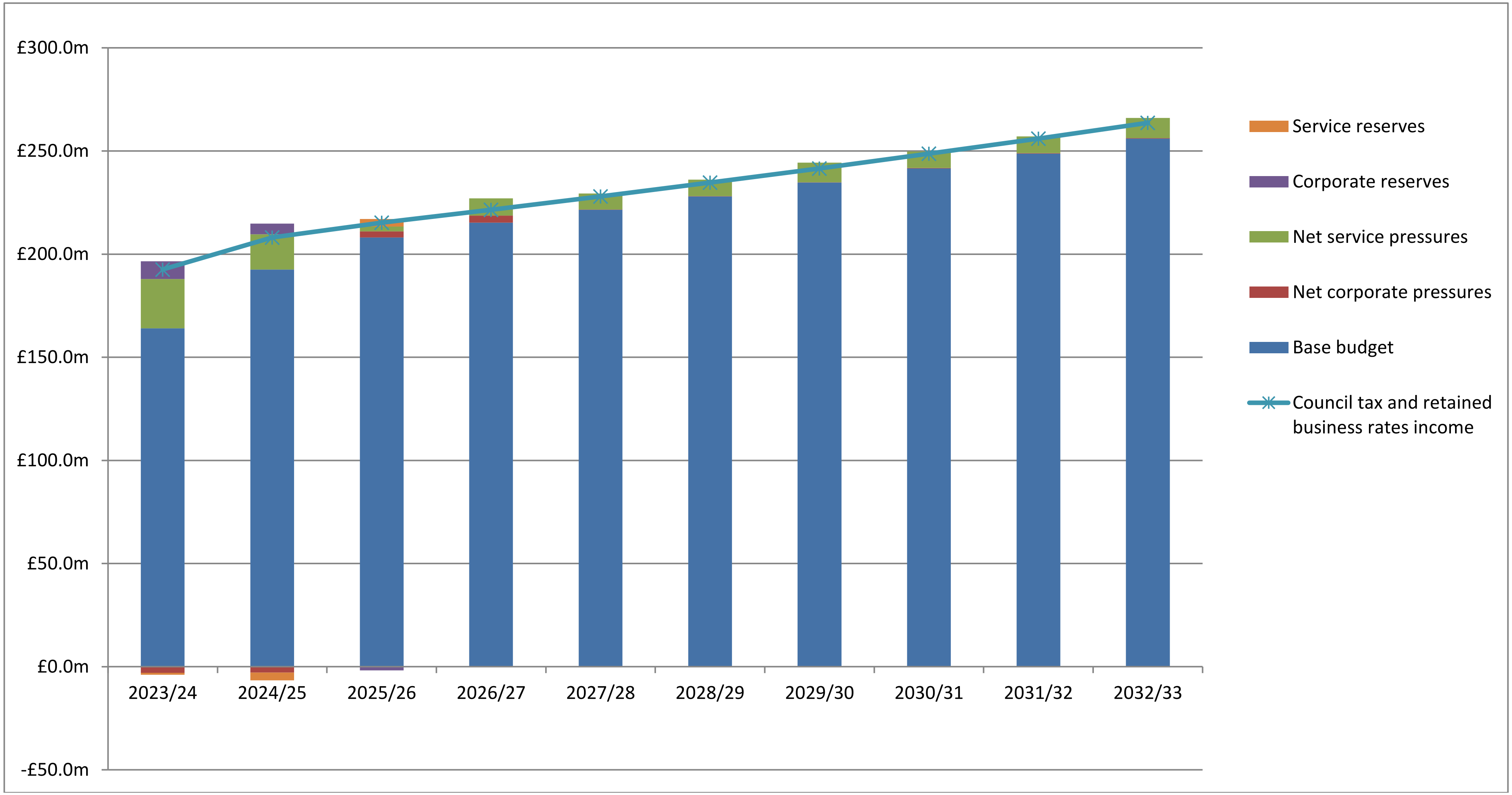
Tariff
Under the business rates retention scheme, each authority is set a funding baseline (intended to measure spending needs) and a business rates baseline (which represents the authority's ability to raise business rates income locally) by the government. As Solihull's funding baseline is higher than 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 to offset our increased share of business rates income under the pilot.

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

	Proposed 2023/24 £000	Indicative 2024/25 £000	Indicative 2025/26 £000
Base Budget	**163,967**	**192,579**	**208,050**
Corporate Commitments			
Levies	190	182	185
Treasury management - revenue required to support borrowing	180	45	(108)
Pressures and Policy Developments			
Adult social care net pressures	6,021	4,223	1,504
Children's services net pressures	9,012	719	(1,506)
Place-based services net pressures	(3,651)	4,879	(360)
Resources net pressures	1,768	(543)	(1,022)
Inflation and pensions	14,635	3,994	3,168
Revenue released from capital programme	275	(600)	850
Government Grants			
Core spending power	1,968	471	0
Lower tier services grant	(5,303)	(1,961)	3,250
Savings			
Savings proposed in Feb 2023	(5,598)	4,398	(1,115)
Strategic and structural savings target	0	(1,654)	(332)
Savings approved in previous years	(1,729)	1,450	0
Reserves			
Contribution from adult social care risk reserve	0	(3,763)	3,763
Contribution to/ (from) Covid-19 grant reserve	(4,182)	0	0
Contribution to/ (from) business rates volatility reserve	(1,117)	1,962	0
Contribution to/ (from) business rates windfall	(7,555)	0	0
Contribution to/ (from) budget strategy reserve	9,608	(127)	0
Add back corporate reserves used in previous year	10,911	3,246	(1,835)
Net Budget Requirement	**192,579**	**208,050**	**215,242**
Net business rates	(64,724)	(73,321)	(73,210)
Council tax	(126,094)	(134,079)	(141,382)
Collection fund (surplus)/deficit 2020/21 (Covid-19)	3,953	0	0
Collection fund (surplus)/deficit other years	5,290	0	0
Contribution from business rates timing reserve	(11,004)	(650)	(650)
Total Resources	**(192,579)**	**(208,050)**	**(215,242)**
Assumed increase in general council tax	**2.99%**	**2.99%**	**2.99%**
Assumed increase in social care precept	**2.00%**	**2.00%**	**2.00%**

APPENDIX B – TEN YEAR REVENUE PROJECTIONS



APPENDIX C – TEN YEAR CAPITAL PROJECTIONS

Summary of Corporate Capital Programme 2022/23 to 2032/33												
Cabinet Portfolio	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2030/31**	**2031/32**	**2032/33**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	***£m***	**£m**	**£m**	**£m**	**£m**	**£m**
Adult Social Care and Health	*2.711*	3.921	2.190	2.190	2.190	2.190	2.190	2.190	2.190	2.190	2.190	**26.342**
Children and Education	*10.960*	12.462	2.986	2.900	2.900	2.900	2.900	2.900	2.900	2.900	2.900	**49.608**
Climate Change, Planning and Housing	*1.399*	0	0	0	0	0	0	0	0	0	0	**1.399**
Environment and Infrastructure	*34.908*	68.091	44.668	24.783	19.451	5.056	37.056	5.056	8.187	5.830	5.056	**258.142**
Communities and Leisure	*0.874*	0	0	0	0	0	0	0	0	0	0	**0.874**
Resources	*9.514*	14.598	23.350	23.350	2.350	2.350	2.350	2.350	2.350	2.350	2.350	**87.262**
Partnerships and Wellbeing	*0.239*	0.216	0.216	0.216	0.216	0.216	0.216	0.216	0.216	0.216	0.216	**2.399**
Total Cabinet Portfolios (Projection)	***60.605***	**99.288**	**73.410**	**53.439**	**27.107**	**12.712**	**44.712**	**12.712**	**15.843**	**13.486**	**12.712**	**426.026**
Housing Revenue Account	*20.929*	41.057	18.444	16.191	17.716	18.757	19.860	20.946	22.115	23.310	24.572	**243.897**
Total Council Capital Programme	***81.534***	**140.345**	**91.854**	**69.630**	**44.823**	**31.469**	**64.572**	**33.658**	**37.958**	**36.796**	**37.284**	**669.923**

APPENDIX D SUMMARY REVENUE RESERVES

Forecast as at January 2023

Cabinet Portfolio	Forecast balance as at 1 April 2023	Planned / Forecast (contribution)/use			Forecast Balance at March 2026	Forecast / Planned (contribution) / use beyond 2025/26	Forecast Remaining Balance
		2023/24	2024/25	2025/26			
	£000	£000	£000	£000	£000	£000	£000
Adult Social Care and Health	(4,252)	894	275	609	(2,474)	0	(2,474)
Children, Education and Skills (incl. DSG central reserves)	(699)	0	0	0	(699)	0	(699)
Climate Change, Planning and Housing	(1,426)	292	24	17	(1,093)	1,093	0
Environment and Infrastructure	(5,865)	1,408	939	366	(3,152)	3,152	0
Partnerships and Wellbeing	(1,184)	683	209	209	(83)	63	(20)
Resources	(18,146)	7,997	(28)	(101)	(10,278)	1,001	(9,277)
Communities and Leisure	(3,259)	2,068	380	96	(715)	585	(130)
Covid-19 - grants	(3,427)	3,427	0	0	0	0	0
Adult Social Care contingency	(8,162)	1,208	1,957	(1,503)	(6,500)	0	(6,500)
Corporate reserves	(20,343)	4,223	(3,697)	1,483	(18,334)	1,605	(16,729)
Total	**(66,763)**	**22,200**	**59**	**1,176**	**(43,328)**	**7,499**	**(35,829)**