Solihull Metropolitan Borough Council

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Medium Term Financial Strategy and Efficiency Plan 2017/18 to 2019/20

1. EXECUTIVE SUMMARY

1.1.1 This strategy supports the Council's medium term policy and financial planning process. It 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 Together with the Council Plan, which sets out the Council’s purpose, ambition and priorities for the medium term, this document represents Solihull Council’s Efficiency Plan for the period to 2019/20. It also incorporates the Council’s Flexible Use of Capital Receipts Strategy.

1.1.3 Section 3 outlines the difficult national financial circumstances and in particular the significant uncertainty that continues to exist around local government funding for the period covered by this strategy, not least because of the UK’s impending departure from the European Union. Local authorities’ ability to plan for a balanced medium term financial position remains severely hampered by resource constraints imposed across the whole of the public sector. In addition, there are clear limitations to the funding that local authorities can raise locally through council tax and fees and charges, while demand for services (for example due to demographic pressures in adult social care) continues to rise.

1.1.4 Solihull is in a strong position to withstand these challenges. Although local demands on services remain high, the combination of a growing council tax base and exciting plans for managed development mean that the authority is becoming increasingly independent of central sources of funding. Section 4 explains the local context in further detail and outlines the Council’s response to the current and forecast conditions.

1.1.5 The medium term revenue position is outlined in Section 5 and Appendix A. The Council continues to strive to achieve greater value for money across all services and the achievement of significant efficiency savings over the plan period will be the key component of this financial strategy.

1.1.6 The core principles underlying this medium term strategy are as follows:

- The Council will seek to maintain a sustainable financial position over the course of the planning period;
- The Council will strive to keep council tax at affordable levels;
- The deployment of the Council’s limited resources will be focused towards those activities which contribute most to improved outcomes for local people;
- The Council will continue to focus on the on-going need to deliver significant efficiency savings each year.

1.1.7 In terms of how the expenditure expectations of the Council are met, the revenue position in Appendix A uses the following financial planning assumptions:

- The maintenance of a balanced budget over the medium term, with detailed savings proposals for all years to achieve this position and no funding gaps;
- A council tax increase of between 2.99% and 4.99% per annum;
- Of the total assumed increase in council tax, it is assumed that between 1.0% and 3.0% will be used to generate additional funds to be used entirely for adult social care;

- Annual increases in the tax base, subject to the cost of the council tax reduction scheme;
- A council tax collection rate of 98.81%;
- The retention by the Council of 99% of its business rates baseline and 50% of growth, as part of the West Midlands 100% retention pilot;
- Estimated retained business rates income for 2017/18 of £44.435 million (net of tariff and levy payments, including section 31 grant and the anticipated contribution to "no detriment" principle) and forecast growth for 2018/19 and 2019/20 based on government assumptions for inflation and known or anticipated business developments;
- An annual increase to the pay budget of 1.0%, and further funding to meet the estimated costs of the national living wage;
- Inflationary increases relating to specific contracts modelled in line with forecast consumer price inflation (CPI). Indexation of 2.5% has been assumed for future years. No inflationary increases have been provided for standard, non-contractual expenditure budgets;
- In line with the Council's fees and charges policy, opportunities to optimise income will be considered as part of the annual budget setting process. Income inflation of 2.2% was assumed as a minimum increase for planning purposes for 2017/18, with increases for future years aligned with contractual inflation assumptions;
- The transport levy assumes annual reductions in line with the West Midlands Combined Authority's medium term plans;
- Funding for some specific areas of growth is provided to reflect the Council's priorities.

1.1.8 These assumptions result in a budget for 2017/18 of £136.462 million, funded 71% from council tax and 29% from business rates (net of tariff and levy payments, section 31 grant and anticipated contribution to "no detriment" principle).

1.1.9 The summary medium term capital position is outlined in Section 6. Notwithstanding the significant investment that will be delivered through capital projects, the projected programme recognises the need to respond to the reduction in capital resources.

1.1.10 Section 7 represents the Council's Flexible Use of Capital Receipts strategy. At this stage the Council has not identified any projects to which this flexibility applies but this will be kept under review during the year and if the strategy changes it will be reported to Full Council for approval.

1.1.11 The current funding position for the public sector requires local authorities to innovate and do things differently, which includes working collaboratively with other public sector partners within the borough and sub-regionally, achieving more leverage through the voluntary and community sector and pursuing opportunities for new commercial strategic partnerships.

1.1.12 The Council continues to work to ensure that investment and disinvestment decisions are driven by our policies and the needs of the borough. Our efficiency plan recognises the need to achieve significant value for money savings in service delivery through working in the Solihull Way and allows for ways of delivering services that are a departure from traditional models.

2. INTRODUCTION AND OBJECTIVES

2.1.1 Solihull Council has a strong and robust financial track record built up over an extended period of time. The Council's external auditor, Grant Thornton, commented in their report on the 2015/16 accounts that the Council continues to have robust arrangements to deliver value for money.

2.1.2 That said, national economic circumstances and the public sector funding position set out in the 2016 Autumn Statement mean that local authorities will continue to be placed under considerable financial strain over the course of this planning period and beyond.

2.1.3 The sector experienced considerable reductions in government grant between 2010 and 2016, with revenue support grant set to end entirely by 2020. Government proposals for local authorities to retain 100% of business rate receipts are still in development but Solihull, as part of the West Midlands Combined Authority, has taken the opportunity to participate in a pilot for full rates retention which will commence in April 2017. As a member of the pilot, Solihull will no longer receive revenue support grant and other payments to/from the government will be adjusted to achieve a neutral net position.

2.1.4 Nationally, the government has acknowledged that demographic changes are leading to growing demand for adult social care services, placing increasing pressure on council budgets. In recognition of these pressures, the government is planning to increase the funding provided to local authorities through the Better Care Fund and is allowing councils with adult social care responsibilities additional flexibility to increase council tax by up to 3% above the referendum threshold in 2017/18 and 2018/19, provided that the overall increase between 2017/18 and 2019/20 does not exceed 6%.

2.1.5 This MTFS supports the medium term policy and financial planning process at the heart of setting revenue and capital budgets. The main objectives of the strategy are:

- To represent, in conjunction with the Council Plan, the Efficiency Plan for the Council for the period to 2019/20 and as such to set out how the Council intends to continue to achieve significant efficiency savings over the medium term;
- To provide a stable financial base from which to deliver the Council's priorities as set out in the Council Plan;
- To set out the Council's strategy for the flexible use of capital receipts; and
- To set a sound financial planning framework to underpin the effective financial management of the Council.

2.1.6 The Council Plan is the Council's key strategic document for identifying its vision, ambitions and priorities. The Plan condenses onto a single page the direction we want to go in, how we aim to travel on that journey and what we want to see at the end of it, with key programmes and targeted outcomes to be delivered by 2020. A refreshed Council Plan will be presented to Full Council for approval early in the new financial year.

2.1.7 These are all influenced by local priorities, input from public consultation, government policies, performance information and external inspections. In the light of future financial constraints it has become even more important that the Council moves towards a genuine alignment of increasingly limited revenue and capital resources with key policy priorities. This will involve the Council focusing more clearly on core services and priorities, whilst making some difficult decisions to reduce or cease activity in other areas.

3. NATIONAL CONTEXT

3.1 The economy

3.1.1 The 2016 Autumn Statement noted that in the near term, the UK's economic outlook has become more uncertain as a result of the decision to leave the European Union. This uncertainty is reflected in the Office for Budget Responsibility (OBR) forecasts for GDP growth, which is expected to slow to 1.4% in 2017, recovering to 1.7% in 2018 and 2.1% in 2019 and 2020. However, the UK is forecast to be the fastest growing country in the G7 in 2016 and economic activity grew 2.3% in the year to the third quarter of 2016. The employment rate is at a record high and between 2009/10 and 2015/16 the deficit was reduced from 10.1% to 4.0% of GDP.

3.1.2 The Office for Budget Responsibility (OBR) forecasts for the public finances have worsened since Budget 2016, with borrowing higher in every year and debt forecast to peak at over 90% of GDP in 2017/18. Key factors behind these forecasts include disappointing tax revenues over the first half of this year, a weaker economic outlook and higher spending by local authorities, public corporations and on welfare benefits.

3.1.3 The global economy remains subdued, representing a continued challenge for the UK economy. Global growth was 3.2% in 2015, the slowest pace since the financial crisis, and the International Monetary Fund (IMF) forecasts that global growth will remain modest, at 3.1% in 2016 and 3.4% in 2017.

3.2 Departure from the European Union

3.2.1 The Brexit vote is expected to affect local government in a number of ways but in the short term it is the uncertainty around the UK's future relationship with the EU that is most notable.

3.2.2 At a national level there is evidence that this uncertainty is affecting investor confidence, which could cause delays in businesses taking decisions on projects and investments. The potential impact on trading conditions across different sectors has not yet crystallised but if, as many commentators expect, the economy stagnates or even contracts as a result of Brexit, this would be expected to have an effect on the overall economic prosperity and employment prospects for the borough and the wider region. In turn this could affect demand for public services and also the resources available to the Council to deliver those services, particularly under a 100% rates retention system where local authorities would be more exposed to volatility in business rates income.

3.2.3 The Council currently has five projects with funding agreements in place, for receipt of European Union funding under the European Structural Investment Fund and Horizon 2020 programmes, which run until 2020. The value of grants approved for these projects is £5.5 million. Due to concerns as a result of the Brexit vote, there has been some delay to project activity and spend and all projects will be the subject of review and re-profiling with funding bodies. A further two projects, with grant totalling £1.8 million, are at the full or outline stage of approval. Three projects previously at the outline or pre outline stage have been withdrawn due to eligibility and costing issues. At this stage, no projects have been withdrawn or discontinued as a result of the Brexit vote.

3.2.4 Equity instruments make up the majority (61%) of the assets held in the Council's defined benefit pension scheme so falls in the value of the equity market therefore have an impact on the valuation of assets within the scheme. The FTSE100 quickly recovered from the initial shock of the referendum result but at this stage it is difficult to forecast the long-term effect on the investment market and subsequently the pension funds. The market will react to announcements regarding the terms of exit as they are made and values will fall or rise accordingly. It should also be noted that, in addition to market estimates, the valuation of the pension scheme is dependent on assumptions such as life expectancy, pension and salary increases and discount factors.

3.2.5 The impact on the Council's investments continues to be kept under review as part of the wider treasury management strategy. Borrowing rates remain low, which would allow the Council to borrow if necessary in support of any projects which lose funding as a result of the Brexit decision.

3.2.6 The inflation assumptions included in the MTFS are informed by monthly inflation forecasts collated and published by HM Treasury. Expectations are that inflation will rise in the short to medium term as a result of the UK's departure from the EU and so although as at December 2016 inflation, as measured by the consumer price index, stood at 1.6%, the MTFS assumes inflation of 2.2% in 2017/18 and 2.5% in future years. The Council has a number of specific contracts which are indexed to RPIX, for which the MTFS currently assumes an increase of 2.5% per annum.

3.2.7 Aside from the potential financial implications, there may be other consequences for the public sector which are likely to take longer to materialise. For example, much of UK procurement, employment, environmental and consumer protection legislation is currently derived from EU law and so there is a possibility that the government may wish to change some of these laws as part of the process of rewriting this legislation.

3.3 Local government funding

3.3.1 Local government continues to be 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, from April 2017 Solihull will no longer receive revenue support grant and other payments to/from the government will be adjusted to achieve a neutral net position.

Business rates retention

3.3.2 The existing system of partial rates retention, where local government retains 50% of business rates income, is expected to be replaced by full local retention in 2020. The government has undertaken some initial consultation with the sector on some aspects of the new scheme but further details are expected to emerge over the course of 2017/18 and beyond. Prior to that date, a number of local authorities, including the seven councils which make up the West Midlands Combined Authority, have agreed to act as pilots to test out approaches to 100% rates retention. In addition to allowing the pilot authorities to potentially input into the future design of the scheme, this will enable us to understand more fully the risks and opportunities so that we are well prepared for full implementation.

3.3.3 Under the West Midlands pilot, the combined authority will receive the growth in business rates income that would otherwise have been attributed to central government (50%), while the remainder of the business rates collected in the region will be retained by the local authorities. The West Midlands Fire and Rescue Authority will continue to receive 1% of the business rates collected.

3.3.4 Solihull has been a member of the Greater Birmingham and Solihull business rates pool since the introduction of rates retention in April 2013. The Council will continue to belong to the pool under the pilot arrangements, which have been agreed so as not to affect the operation of the pool and the members within it who are not part of the pilot. The amount of levy that Solihull would have paid to central government outside the pool and pilot arrangements will be retained by the pool, partly for allocation to the Local Enterprise Partnership and partly to be redistributed to the relevant originating authorities. The MTFS includes £0.8 million as Solihull's forecast share of the retained levy for 2017/18.

3.3.5 For the purposes of the business rates retention pilot, the government has guaranteed that the region will not be any worse off than it would have been under the existing financing arrangements, under a principle referred to as "no detriment". The pilot will operate on the basis of the current scheme design, but when full business rates retention is introduced nationwide it will be accompanied by a reassessment of relative need. This is expected to lead to a significant redistribution of resources which presents a significant risk to Solihull towards the end of the period covered by this MTFS.

Adult Social Care

3.3.6 Nationally, the challenges facing adult social care services as a result of factors such as increasing demand, capacity and market stability issues in the independent sector and the impact of year-on-year savings requirements continue to represent the most significant risk to local authority finances. At a local level, the service has a significant underlying budget pressure, which is being funded from reserves in 2016/17. These reserves will not be available in future years and so a recovery plan is in place to tackle the budget deficit. Part of this plan rests on the anticipated receipt from Solihull Clinical Commissioning Group (CCG) of the total Better Care Fund contribution to Adult Social Care. It is anticipated that when annual national uplifts are applied, this will result in an increase in resources of at least £1.1 million per annum, from 2017/18 onwards.

3.3.7 The Better Care Fund is a budget to help local places improve the integration of health and care services that are currently commissioned by the NHS and local authorities. The NHS and local authorities must agree locally through Health and Wellbeing Boards how the funding will be spent. The MTFS assumes improved Better Care Fund income from 2018/19, of which £1.474 million will be used towards the 2019/20 budget savings target for adult social care. A further £1.293 million is available in 2019/20 to help with emerging budget pressures.

3.3.8 In addition the MTFS assumes that the adult social care precept, first introduced in 2016/17, will increase by 6.0% between 2017/18 and 2019/20 which is expected to generate around £7.5 million a year by 2019/20. This will contribute to increases in the adult social care budget, as set out in the next paragraph.

3.3.9 The updated MTFS seeks to help with the risks to the adult social care budget by setting aside:

- An annual increase of £1.500 million to fund the additional costs associated with inflation and demographic change (a total of £4.500 million over the three years);
- An annual increase of £1.025 million to meet the new contractual costs of the National Living Wage (a total of £3.075 million over the three years);
- An on-going increase of £0.384 million to the Deprivation of Liberty Safeguards (DoLS) team budget from 2017/18 to address the recent new requirements to support the most vulnerable adults;

- The £1.293 million balance of the uncommitted Improved Better Care Fund income (as above);
- A contribution of £0.231 million to fund a shortfall in the savings targeted from the Care at Home contract;
- A one-off contribution of £1.500 million from the Budget Strategy Reserve to adult social care reserves in 2017/18, based on an assessment of what is needed to continue with the transformation programme and to provide a more realistic phasing of multiple MTFS savings. This will be partly funded from a one-off adult social care support grant of £0.874 million which was announced as part of the 2017/18 settlement.

3.3.10 It should be noted that whilst the above sums are significant, they have been included within the updated MTFS to deal with new pressures rather than addressing any underlying difficulties within the existing adult social care budget.

3.3.11 The Council's external auditor, Grant Thornton, commented in their report on the 2015/16 accounts that officers and members have made an appropriate contribution to the wider health sector issues, but that the financial challenges are significant and as a key partner to the health sector the Council needs to continue to consider how services can work together to safeguard quality and reduce costs.

3.3.12 Sustainability and transformation plans (STPs) are 'place based plans' covering 44 geographical areas or 'footprints', which have been created by NHS organisations and local authorities for the future of health and social care services in their area up to 2020/21. The plans set out the key priorities for each local area across three headline issues: improving quality and developing new models of care, improving health and wellbeing and improving efficiency of services. They cover all aspects of NHS spending and focus on better integration with social care and other local authority services.

3.3.13 STPs represent a shift in the way that the NHS in England plans its services, to a more collaborative and coordinated approach. This approach recognises that the growing financial problems faced by the NHS cannot be addressed in isolation and instead providers and commissioners are coming together to manage the collective resources available for their local population.

3.3.14 Locally, the Birmingham and Solihull STP covers two local authorities, seven hospitals, one mental health trust, one community trust, three clinical commissioning groups and 182 general practices. The STP says that "we want Birmingham and Solihull's people to:

- Lead fulfilling, healthy, independent lives;
- Receive consistently high quality health and care services;
- Have early access to extra help when they need it;
- Have easy access to support when they can no longer live independently".

Council tax support

3.3.15 The Council is making significant changes to its localised council tax support scheme, for the first time since the replacement of council tax benefit in April 2013. The cost of providing local council tax support is reflected in a reduction in the tax base and the funding transferred by the government to local authorities in 2013/14 in support of this responsibility continues to reduce each year. Had no changes been made, the overall cost of the Council's scheme stood to increase by £1.280 million between 2016/17 and 2019/20.

3.3.16 In December 2016, the Council agreed to change the scheme so that working age people in the borough who are liable to pay council tax will be asked to pay a minimum of 15% towards their council tax from April 2017. The proposal was supported by a majority of those who responded to public consultation on the plans, and the Council will continue to work closely with the Department for Work and Pensions and other partners to support those affected by the changes.

New Homes Bonus

3.3.17 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. In December 2016 the government confirmed the details of the redesigned scheme, which from 2018/19 will see the grant paid for four years instead of the current six. The government has also introduced a baseline of expected growth, below which growth is discounted for the purpose of calculating NHB entitlements. Nationally, savings from these changes to the scheme have been diverted to fund pressures in adult social care. Solihull now expects to receive NHB payments totalling £3.2m in 2017/18, relating to the years from 2013/14 to 2017/18.

West Midlands Combined Authority

3.3.18 The West Midlands Combined Authority (WMCA) was formally established in June 2016, taking on the responsibilities of the Integrated Transport Authority with immediate effect. The West Midlands Combined Authority devolution agreement, agreed with the Chancellor of the Exchequer in November 2015, will see the government make an annual contribution worth £36.5 million for 30 years to support an overall investment package that will unlock £8 billion, alongside the creation of up to half a million jobs.

3.3.19 Under the business rates pilot, the WMCA will receive any growth in what would previously have been the government's 50% share of business rates since April 2016, to help fund its investment programme.

4. LOCAL CONTEXT

4.1.1 The Council's medium term financial strategy is shaped by the particular financial circumstances facing Solihull, which in turn result mainly from the national context outlined in Section 3 but also from the need to respond to ever increasing service demands from the community at the local level.

4.1.2 The Council Plan, which covers the period from 2014 to 2020, is refreshed and updated annually to sharpen its focus on those things which will help us to deliver our Vision of Solihull as a place "where everyone has an equal chance to be healthier, happier, safer and prosperous". The Council Plan sets out four overarching priorities, towards which the Council continues to align its resources:

- Improve health and wellbeing;
- Build stronger communities;
- Managed growth; and
- Deliver value.

4.1.3 These priorities are at the heart of everything we do, and we continue to review how best to achieve them, updating and refining our key programmes in order to sharpen our focus on delivery. These priorities are all closely linked – when people are better off, they tend to be healthier and have a greater sense of wellbeing, as they do if they feel part of a strong and connected local community.

4.1.4 The MTFS provides additional targeted investment in support of these priorities, as shown at Appendix A.

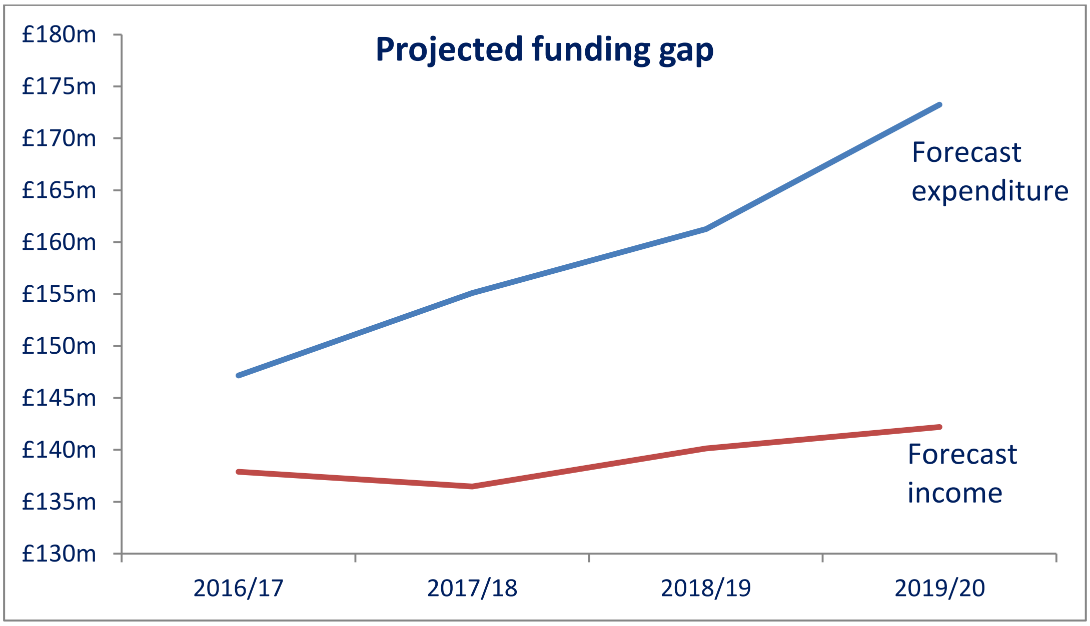
4.1.5 The Council needs to manage unprecedented reductions in its resource base at a time when the increase in demand for some of its key services shows no sign of levelling off. This section outlines both factors, before setting out the Council's strategy to manage the consequences posed by these challenges.

4.2 Reducing grant and increasing service demands

4.2.1 From April 2017, Solihull is part of a West Midlands business rates pilot, testing out the new arrangements for full business rates retention in advance of the scheme being introduced across the country from 2020. As a member of the pilot, Solihull will no longer receive any revenue support grant from the government, but will keep all business rates generated (instead of only half at the moment). Other payments to/from the government will be adjusted to achieve a neutral net position. The grants rolled into the new arrangements have been fixed at the level agreed as part of the government's four year funding offer, which was published in February 2016, and therefore decline sharply by 2019/20.

4.2.2 The Council has also experienced a period of sustained increase in demand for some of the key services it provides to the most vulnerable members of the community, particularly within adult social care and children's services. There is no sign of the growth in these areas declining in the foreseeable future and based on the current evidence it is more likely that growth will continue in the period covered by this plan.

4.2.3 The graph below shows the projected expenditure and projected income for the period to 2019/20. The total projected funding gap by the end of the four years, if no action was taken to address it, would be in the region of £31 million.



4.3 The Council's response

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

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

Managing demand

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

4.3.3 The Council has a shared commitment (*Solihull Together*) with the NHS, building upon a strong partnership approach to deliver a community-based model of integrated care. This will transform a system now focused on higher cost acute care to one focusing on earlier interventions, prevention and wellness that are lower cost, within the context of a sustainable whole system.

4.3.4 Solihull Together was awarded Vanguard status in August 2015, which led to an allocation of transformation funding. The transformation funding has been prioritised to the following areas:

(a) 8 elements of Integrated Urgent Care (national must do's) which includes a local 'Integrated Decision Hub';

(b) Local Area Coordination;

(c) Care Navigators;

(d) Integrated Population Health System.

4.3.5 Alongside the transformation funded projects, Solihull Together has been progressing wider service changes as follows:

(a) Community Wellbeing Service - improving wellbeing and preventing ill health through the provision of advice and support, active management and coaching that facilitate individual behaviour supported by tools such as wellbeing measures and Patient Activation Measures.

(b) Integrated Primary and Community Care Service - transformation and integration of our primary and community teams into one service that 'wraps around' the needs of the patient, using a Multi-Disciplinary Team (MDT) approach for at-risk cohorts such as complex health and frailty.

(c) An improved urgent care service - a joined up approach to urgent care through co-location and integrated system working, e.g. Urgent Care Centre and Integrated Decision Hub.

(d) Digital Population Health & Care Information System – learning from international models to align population health & care information systems to benefit clinical and patient requirements for access to records, information and analysis which will support flow, decision making and real time information for performance and outcome monitoring.

4.3.6 All of these areas are aimed at reducing demand and ensuring appropriate flow within the system so that we have the right capacity in the right place to meet demand appropriately. Working in partnership across health and social care is the only sustainable solution in the medium to long term.

4.3.7 In the context of our developing approach to Solihull's Stronger Communities agenda, and in an environment of rising demand together with significantly reduced resources, this changing world is creating a business imperative for redesigning services with the individual and community at the heart, with an overall objective of developing stronger and more resilient communities.

4.3.8 As part of a 'whole system' redesign, managing demand in an integrated way across the whole of the public sector will be essential. To facilitate this we propose to:

- Improve our community insight – developing a better understanding of our community, the needs, assets and resources of citizens and building on the good practice evident in many parts of the borough.
- Develop a more integrated approach to prevention and early intervention – this agenda involves nearly all service providers and at its heart is the recognition that it is better for people and resources and improves the quality of life if we identify and manage problems early, rather than respond when difficulties have become acute and require a more expensive response.
- Adopt a 'whole system' behavioural change approach – our changing environment requires a new dialogue with citizens, focused more on the extent to which citizens are engaged in addressing their own problems and those of their neighbours and communities. This will require smarter customer services, better use of data and intelligent application of behavioural change methods.
- Build resilience within our communities – success will depend on a cultural change referred to above, with a fundamental shift in the way that our services and local communities interact, with the Council and local people working together to support those who are most vulnerable. We need to have a shared understanding of what works to promote and facilitate community self-help and community action, building on successful local practice.

4.3.9 Solihull created the Early Help Strategy in 2014 as a way of supporting people to avoid problems and to deal with them before they get worse. The intention is to help children and young people at the earliest point, to develop resilient individuals in resilient communities.

4.3.10 The Council restructured during 2015, creating the Engage service as the local authority's Early Help offer.

4.3.11 The offer from the service is the delivery of a solution-focused, evidence-based service and universal, targeted and specialist support for the emotional health and wellbeing for children, young people and parents. This includes parenting education to develop parenting skills, to give parents the confidence to manage their children's growth and development both in and out of education/work, and targeted family support, advice and guidance, using multi-agency early help processes. It also includes investment in and support to develop community capacity to provide peer universal and targeted support for groups and organisations providing valuable community services.

Maximising income generated locally

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

4.3.13 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.

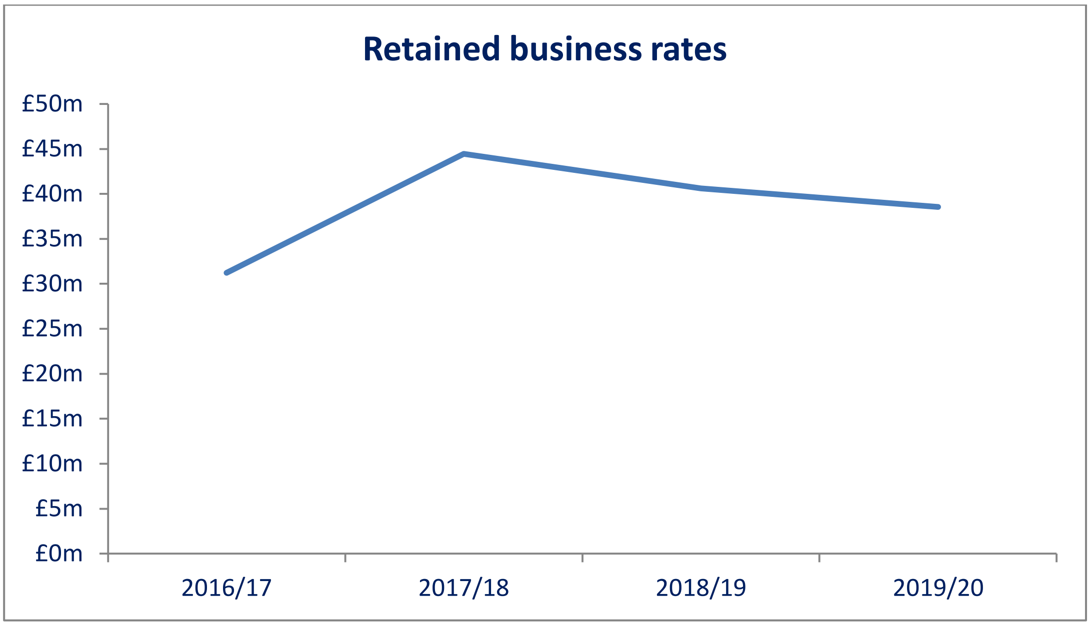
4.3.14 As set out in Grant Thornton's report on the Council's 2015/16 accounts, the Council is at the forefront of developments on the West Midlands Combined Authority and HS2/UK Central. The Council has been a catalyst for a multi million pound development which will see infrastructure and employment improvements for the whole of the West Midlands and has proper arrangements in place to mitigate the risk of these plans. The initial focus for this investment and growth will be the Hub@UKC – with development at the HS2 Interchange site currently forecast to create up to 20,000 (gross) jobs. Coordinating this growth potential with investment and development at the NEC and the airport, together with investment in local and regional connectivity and a coordinated, long-term approach to skills will maximise benefits for the entire region and the UK as a whole.

4.3.15 The Council's annual forecast of the business rates income it will collect, as reported to central government in the NNDR1 return, forms the basis of the payments the Council will make to the West Midlands Combined Authority (WMCA) and the fire authority for their share of business rates income. The calculation of the business rates figure included in the MTFS for 2017/18 is shown in the table below:

	£m
Local share	105.532
Section 31 grant	3.708
Less tariff	(55.671)
Less WMCA element	(2.051)
Less notional levy payable to business rates pool	(2.451)
Business rates retained income	**49.067**
Less anticipated contribution to "no detriment" principle	(4.632)
Net business rates	**44.435**

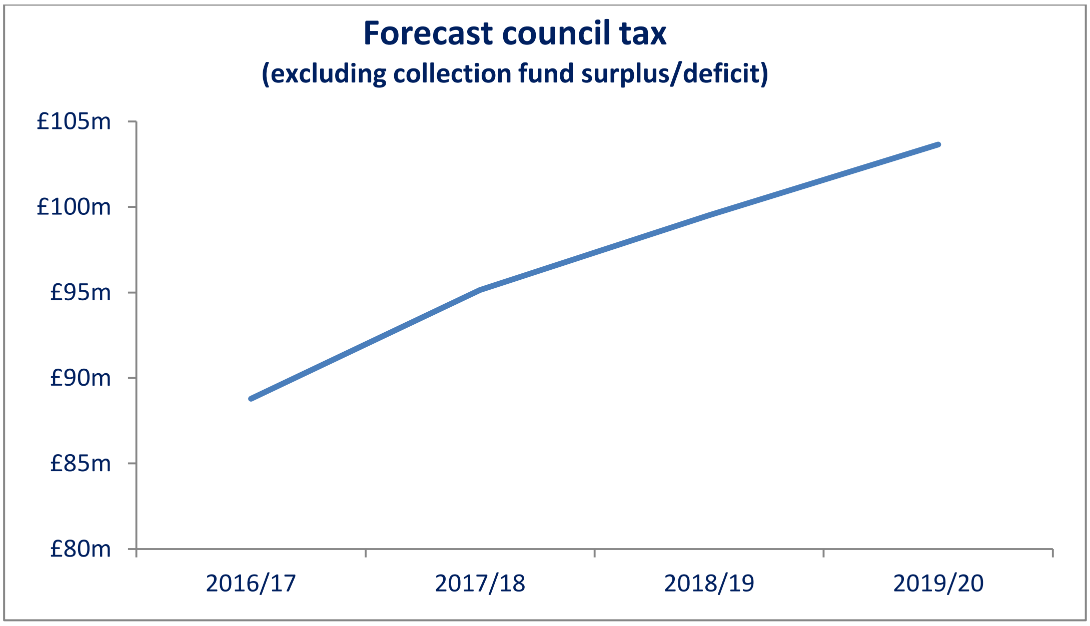
4.3.16 For future years the MTFS assumes an underlying level of growth in our net rates yield consistent with the government's assumptions in the settlement, plus an estimate of the additional business rates income that would be generated from anticipated new developments in the borough over the period. These include growth related to the borough's largest commercial organisations, such as Jaguar Land Rover, as well as developments associated with the Council's regeneration activity in the north of the borough. As part of the devolution deal agreed with the government, 50% of the growth in business rates since April 2016 will accrue to the combined authority. This funding will support the WMCA's investment programme.

4.3.17 The graph overleaf illustrates the forecast growth in retained business rates income over the period of the MTFS. As outlined in paragraph 4.2.1, the revenue support grant allocations attributable to Solihull for the period from 2017/18 to 2019/20 will be rolled into the business rate pilot arrangements. The government's planned reductions in RSG are therefore reflected in the forecast business rate figures shown in the graph, which partly masks the underlying trend of sustained growth in business rates over the period.



4.3.18 As local government moves towards a system of full business rates retention, the impact of appeals on the Council's ability to accurately forecast business rates income presents an increasingly significant risk to the assumptions in the MTFS. The introduction of partial rates retention transferred significant risk to local authorities. In particular, backdated appeals have had a significant effect on our in-year projections of business rates income and the national business rates revaluation in 2017 is expected to lead to a fresh wave of appeals. In recognition of the shortcomings of the current appeals system, the government is making various changes which it is hoped will provide greater certainty in forecasting business rates income. However, the issue of appeals remains a concern for the Council and we look forward to working with the government through the pilot on options for managing the risk of appeals within a 100% rates retention scheme.

4.3.19 Council tax remains the most significant source of income for Solihull. Despite a five year freeze between 2010/11 and 2015/16, the Council's income from council tax continued to increase over the period, thanks to growth in the tax base. The MTFS assumes that this growth will continue in line with the housing targets set out in the Local Plan and, in addition, that council tax will increase by a maximum of 3.99% per annum in 2018/19 and 2.99% in 2019/20.



Reducing costs

4.3.20 The final element of the Council's response is to continue to target and deliver savings.

4.3.21 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. Despite the challenging climate for local government, Solihull is in a resilient financial position, with clear three-year savings plans set out to achieve a balanced budget up to 2019/20.

4.3.22 The Council has a three-year budgeting approach, which means that each year the budget process is focused on identifying the savings required and approving the indicative budget for the third year of the strategy (with the two earlier years already having been dealt with). This provides services with the stability and certainty they need and enables savings delivery to be properly planned, consulted upon and implemented.

4.3.23 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.

4.3.24 A group of senior officers closely monitors the delivery of savings and supports the management and mitigation of any anticipated shortfalls. This approach to financial planning has won plaudits from the Council's external auditors.

4.3.25 The publication of four year funding allocations as part of the 2016/17 settlement has greatly assisted the Council in updating the MTFS and complements our strategic approach to the planning and delivery of budget savings, providing greater assurance that the savings already planned and approved up to 2018/19 will be sufficient to balance the budgets in each year.

5. SUMMARY REVENUE STRATEGY

5.1 Background

5.1.1 As set out in the sections above, the Council is faced with a range of significant pressures on its finances over the medium term. This is the result of several factors:

- Downward pressure on the funding available through government grant;
- Limited scope to increase council tax;
- Demand for our services (for instance due to demographic pressures in social care) increasing;
- Changing expectations from government or the public on the level of service;
- New government initiatives or legislation which can increase pressure on existing budgets.

5.1.2 There are limitations on the degree to which the Council can identify all of the potential changes within its medium term financial projections. It is important to remember that these financial models have been produced within a dynamic financial environment and that they will be subject to significant change over time. However the revenue position as currently forecast – incorporating savings identified for the next three years – is summarised below and detailed further in Appendix A.

	2017/18 **£m**	**2018/19** **£m**	**2019/20** **£m**
Base budget	**137.884**	**136.462**	**140.142**
Funding commitments	9.794	4.476	7.706
Ongoing savings – 2017/18 MTFS	0.000	0.000	(8.344)
One-off savings – 2017/18 MTFS	(0.669)	(0.385)	(2.146)
Less savings included with the council tax base – 2017/18 MTFS	0.745	0.000	0.000
Savings – 2016/17 MTFS	(0.771)	(5.676)	0.300
Savings – 2015/16 MTFS	(11.443)	3.315	0.000
Savings – 2014/15 MTFS	2.745	0.275	0.275
Government grants	(1.008)	0.416	(1.968)
Contributions to / (from) corporate reserves	0.581	2.618	1.359
Contributions to / (from) budget strategy reserve	(1.396)	(1.359)	4.876
Recommended/ indicative budget	**136.462**	**140.142**	**142.200**
Total funding	**(136.462)**	**(140.142)**	**(142.200)**
Maximum assumed council tax increase	1.99%	1.99%	1.99%
Increase in council tax to fund adult social care	3.00%	to be decided	to be decided

5.1.3 Budget assumptions continue to be refined as more accurate information becomes available. To the extent that further significant pressures emerge, either corresponding savings will need to be identified or the planned use of the budget strategy reserve will need to be revised.

5.1.4 It is important within this medium term financial strategy to set a balanced revenue budget for all years, within a strategic approach to budget setting and financial planning. The budget actions required to deliver a balanced budget in the future are clearly identified in this MTFS and it is crucial that the Council now takes forward these budget actions and delivers the underlying savings plans.

5.1.5 These are difficult times for local government, but Solihull is on a sound footing to meet the challenges ahead. Declining levels of central support require the Council to focus on locally generated funding and therefore present the Council with an opportunity to move towards self-sufficiency. This increasing independence from central direction will put the authority in a good position to deliver against its priorities for the people of Solihull.

Treasury management

5.1.6 The Treasury Management and Investment Strategies continue to reflect the unprecedented economic conditions as well as latest government and CIPFA guidance on treasury management activities. The Council's capital and revenue budget plans inform the development of these strategies, which are agreed annually as part of its budget setting report.

5.1.7 The Treasury Management and Investment Strategies detail who the Council can invest with and the maximum amount that can be invested. Limits are based on the category of counterparty and credit ratings from independent credit rating agencies. In common with other local authorities the Council only invests with institutions that are rated as very strong. Additional measures the authority has taken to reduce risk include the prepayment of pension costs and maintaining an under-borrowed position to reduce the levels of investment sums held.

5.1.8 The under-borrowing and prepayments have been accommodated by using Council reserves and balances and thereby reducing borrowing costs and the level of funds available for investment. The use of internal funds in lieu of borrowing also avoids the 'cost of carry', whereby new longer term borrowing would be invested short term, attracting a lower rate of interest. The MTFS includes temporary treasury management savings of £3.8 million in 2017/18, identified as part of previous budget cycles, and a further £3.0m has been included for 2019/20 as part of the 2017/18 budget process.

Reserves

5.1.9 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.

5.1.10 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.

5.1.11 As part of the 2013/14 approved MTFS, the Council set aside a contingency of £1m to address budget risks within Children's Services. This contingency has been reviewed and is still required and therefore remains in place in the 2017/18 MTFS.

5.1.12 As referred to at section 3.3 above, the contingency funding set aside in 2015/16 to address continuing risks within Adult Social Care is expected to be utilised in 2016/17 and the updated MTFS includes a further one-off contribution to this contingency in 2017/18 of £1.5 million.

5.1.13 As outlined in sections 3 and 4 above, there are considerable risks around a number of key assumptions underpinning the MTFS. A budget strategy reserve was established in 2015/16, with the intention that it should be available:

- To protect against the non-delivery of targeted budget savings;
- To mitigate any adverse changes in business rates income forecasts;
- To help with any unfunded costs of implementing the Care Act;
- To contribute to managed growth;
- To invest in prevention and early intervention;
- To finance capital projects;
- To ease the pressure of next year's budget strategy, whilst noting that further on-going savings will still be required to give the Council a long-term sustainable financial position.

5.1.14 The balance on this reserve is forecast to be £8.571 million by March 2020. Taken together with the level of working balances, this reserve contributes to the financial resilience of the Council over the medium term.

5.1.15 A clear priority for the Council in terms of financial planning is to ensure that the financial strategy is not reliant on on-going contributions from working balances or the budget strategy reserve and this is achieved by 2019/20. Taking into account the risks outlined above, the current and forecast level of reserves is considered adequate in the view of the Director of Resources and Deputy Chief Executive.

5.1.16 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.

5.1.17 More specifically, the approach will be informed by:

- The need to maintain working balances to mitigate the key risks faced by the Council, as expressed in our corporate risk register;
- The requirement to hold some earmarked reserves to protect against specific known or potential liabilities, but kept to a minimum consistent with adequate coverage of those liabilities and reviewed annually as part of the budget process.
- A general assumption, to be applied flexibly subject to specific financial circumstances, that one-off resources will not be used to support on-going expenditure;
- The awareness that there is an opportunity cost of holding reserves (in that these funds cannot then be spent on anything else) – it is therefore critical that reserves continue to be reviewed each year to confirm that they are still required and that the level is still appropriate.

6. SUMMARY CAPITAL STRATEGY

6.1 Capital programme

6.1.1 The capital strategy sets out the Council's approach to the allocation of capital resources and how this links to strategic priorities and objectives at a corporate and service level.

6.1.2 Members approve a rolling three year capital programme which is regularly reviewed to ensure expenditure is sustainable in terms of available funding. This funding primarily consists of a combination of prudential borrowing within council approved limits, specific capital grants and capital receipts from the sale of council assets.

6.1.3 In the coming year the Council expects to work closely with its partners in the West Midlands Combined Authority on the delivery of the devolution deal agreed with the government. This is estimated to bring additional capital investment in excess of £8 billion across the West Midlands and associated LEP areas. This will require new ways of delivering capital investment involving a variety of mechanisms appropriate to each investment programme. It is possible that some of the capital investment will be delivered by the West Midlands districts. The Council may need to use prudential borrowing to contribute to the investment programme. Any use of prudential borrowing will require the approval of Full Cabinet.

6.2 Increasing resource constraints

6.2.1 Notwithstanding the significant investment that will be delivered through capital projects, the projected programme recognises the diminishing capital resources and the need to respond to this position.

6.2.2 The capital programme is affected fundamentally by the capital allocations announced by the government. The government has confirmed that there will be no Supported Capital Expenditure (SCE) borrowing allocations over the course of the MTFS period, with any government support for capital to be provided through capital grants instead.

6.2.3 The outlook for significant receipts in future financial years from asset disposals is improving compared to recent years. With the exception of specific receipts from housing and school related asset disposals, capital receipts are treated as a corporate resource available to fund the corporate capital programme. The Full Cabinet is responsible for deciding how corporate capital receipts are to be utilised in line with council objectives.

6.2.4 The 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.

6.2.5 In line with this policy, the Council will continue to dispose or realise the value of any properties that have been declared surplus to requirements in a timely manner, having regard to the prevailing market conditions.

6.3 Alternative sources of funding

6.3.1 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 developments at Chelmund's Cross and Smiths Wood village centres and the north Solihull primary school programme.

6.3.2 Increasingly, large capital projects are dependent on external grants, specific government funding or partnership arrangements, for example the A45 South Bridge Project, School Improvement programme and the North Solihull Partnership project.

6.3.3 The Council continues to recognise 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 bids made to enable the delivery of key initiatives.

6.3.4 The Council will explore all sources of capital funding to facilitate the delivery of the Council's priorities.

6.4 Capital Strategy Policy

6.4.1 The capital strategy sits alongside the three year revenue budget strategy and feeds into the annual revenue budget by informing on the revenue implications of capital funding decisions. The implications for the three year revenue budget strategy are fully considered before any capital funding decisions are confirmed. Equally, the availability of prudential borrowing means that capital and revenue solutions to service delivery can be considered, and ranked, alongside each other as part of an integrated revenue and capital financial strategy.

7. FLEXIBLE USE OF CAPITAL RECEIPTS STRATEGY

7.1 Background and approval requirements

7.1.1 The 2015 Autumn Statement announced a new flexibility for local authorities to use capital receipts from the sale of property, plant and equipment assets to fund the costs of service reform. The flexibility is available from April 2016 until March 2019 and councils can only use sale proceeds realised over that period, and not existing receipts.

7.1.2 Local authorities are required to publish their plans for the flexible use of capital receipts in a strategy which must be approved by Full Council. For 2016/17 a separate strategy document was prepared which was approved in March 2016. Going forward, Solihull Council has chosen to incorporate this strategy in this MTFS document, as permitted by the guidance.

7.1.3 The strategy should be approved before the beginning of each financial year as part of the MTFS. If changes are proposed to the strategy during the course of the financial year, for example if a project is identified which can be funded using this flexibility, then the revised strategy will require the approval of Full Council. Furthermore, any revisions to the strategy in-year will need to be reported to the Department for Communities and Local Government.

7.2 Capital receipts three year forecast

7.2.1 The capital receipts projected during the qualifying period are shown in the table below. However, the majority of this funding is already committed to the capital programme and if it was put to an alternative use it would need to be replaced by other funding.

	2016/17 £m	**2017/18 £m**	**2018/19 £m**	**Total £m**
Projected Capital Receipts	1.167	2.166	3.651	6.984

7.2.2 The capital receipts forecast in the table above are taken into consideration in the Council's Capital Strategy in identifying the surplus/deficit between available capital funding and the proposed capital programme.

7.3 Qualifying projects

7.3.1 Qualifying expenditure is that which is forecast to generate on-going savings to an authority's and/or to another public sector body's net service expenditure. Examples provided in the guidance include service sharing, reform feasibility work, freeing up land, digital investment, procurement aggregation, systems to tackle fraud and setting up alternative delivery models. Capital receipts can only be applied to fund set up and implementation costs and must not be used for on-going revenue costs.

7.3.2 To aid accountability and transparency the strategy is required to list each project that plans to make use of the capital receipts flexibility. However, at this stage this strategy describes the process that the Council will go through to identify projects, rather than the projects themselves.

7.3.3 When the Council considers that it has a proposal that would be suitable for making use of the capital receipts flexibility it will present the following information in a business case to Full Cabinet:

- The specific details of the project, timelines and what service outcomes it will achieve;
- The costs of the project and the benefits that are expected to be delivered;
- Details of what alternative funding will be used to replace the capital receipts that are now going to be used for this purpose, with the implications on the Council's Prudential Code including any additional approvals required;
- A recommendation that clearly evidences that by using the new capital receipts flexibility the Council will achieve greater efficiency savings than would be possible using alternative sources of funding.

7.3.4 At this stage no qualifying projects have been identified for inclusion in this strategy. However, this will be kept under review during the year and any changes will be reported to Full Council for approval.

7.4 Projects approved in previous years

7.4.1 The strategy is required to list the projects approved in previous years and comment on progress against delivery of the planned savings or service transformation initially targeted for each project.

7.4.2 There are currently no projects which have been previously approved.

8. RISK MANAGEMENT AND CONSULTATION

8.1 Risk management

8.1.1 In setting the revenue and capital budgets, the Council takes full account of the known key financial risks that may affect its plans. The most significant financial risks are either being explicitly provided for in the 2017/18 budget, are covered by the Budget Strategy Reserve or working balances, or are being built into future plans for 2018/19 onwards.

8.1.2 In addition, officers test the impact of varying key assumptions in the medium term financial strategy to assess the sensitivity of the indicative budget figures. This informs decisions about the level of working balances needed to provide assurance as to the robustness of the budget estimates.

8.2 Consultation

8.2.1 The government expects that local authorities will be able to demonstrate that they have in place mechanisms to ensure that 'representatives of local people' are being appropriately informed, consulted or involved in services, policies or decisions that affect or interest them. In addition, local authorities are required under the Local Government Finance Act 1992 to consult representatives of business rate payers on their spending proposals.

8.2.2 The Council has found that general budget consultation exercises are ineffective and do not produce useful information for decision making, and so in recent years the focus for consultation has been on those specific savings proposals which particularly impact on service users and the general public.

8.2.3 Budget proposals are shared with the unions and with local businesses, through the Federation of Small Businesses, in order to seek their views on spending priorities.

8.2.4 Solihull schools continue to wish to work in partnership with each other and with the Council. The Council works closely with schools through the Schools Forum in budget decisions that have an impact on them.

9. CONCLUSIONS

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

9.1.2 The Council is keen to maximise the benefits to our communities of the creation of the West Midlands Combined Authority and the opportunity that brings for more money and powers for the region and for Solihull. Our ambitious UK Central programme and the integration of services with our public sector partners in the borough will add further strength to our comprehensive approach to managing resources in Solihull.

9.1.3 The measures outlined in this strategy seek to give the authority a sound financial base and provide a solid platform from which the Council can continue to develop and change to deliver its vision – ***"Solihull in 2020: where everyone has an equal chance to be healthier, happier, safer and prosperous".***

	Recommended 2017/18 £'000	Indicative 2018/19 £'000	Indicative 2019/20 £'000
Base Budget	**137,884**	**136,462**	**140,142**
Add back reserves utilised in previous year	1,803	2,618	1,359
Other Corporate Commitments			
Local Enterprise Partnership - retained levy	88	(87)	(327)
Levies	(303)	(101)	5
Treasury management - revenue required to support borrowing	531	793	445
Pressures and Policy Developments			
Adult Social Care pressures	4,116	2,565	5,267
Adult Social Care one off investment fund	1,500	(1,500)	0
Adult Social Care additional one-off funds from precept 2017/18	906	42	(948)
Birmingham airport dividends – base level	(182)	(271)	(16)
Inflation, pensions and national insurance	1,689	2,609	2,362
Other service specific pressures	1,449	426	918
Government Grants			
Adult social care support grant	(874)	874	0
New Homes Bonus	827	614	159
Improved Better Care Fund	0	(2,033)	(2,127)
Transition grant	(961)	961	0
Savings – 2017/18 MTFS			
Savings identified by Budget Strategy Group - ongoing	0	0	(8,344)
Savings identified by Budget Strategy Group - one off	(669)	(385)	(2,146)
Less savings included with the council tax base	745	0	0
Savings – previous years			
Savings approved in 2016/17	(771)	(5,676)	300
Savings approved in 2015/16	(11,443)	3,315	0
Savings approved in 2014/15	2,745	275	275
Use of Reserves			
Contribution from working balances	0	0	0
Contribution from business rates reserve (timing differences)	(1,222)	0	0
Contribution to/ (from) budget strategy reserve	(1,396)	(1,359)	4,876
Net Budget Requirement	**136,462**	**140,142**	**142,200**
Business rates retained income	*(49,067)*	*(45,186)*	*(43,079)*
Anticipated contribution to "no detriment" principle	*4,632*	*4,565*	*4,530*
Net Business rates	**(44,435)**	**(40,621)**	**(38,549)**
Council tax	(95,148)	(99,521)	(103,651)
Collection fund (surplus)/deficit	3,121	0	0
Total Resources	**(136,462)**	**(140,142)**	**(142,200)**
Maximum Assumed Council Tax Increase	**1.99%**	**1.99%**	**1.99%**
Increase in Council Tax to fund Adult Social Care	**3.00%**	**to be decided**	**to be decided**