Solihull
METROPOLITAN
BOROUGH COUNCIL

Medium Term Financial Strategy and Efficiency Plan 2016/17 to 2018/19

Shaping
Solihull

1. EXECUTIVE SUMMARY

1.1.1 This strategy supports the Council's medium term policy and financial planning process. Fundamentally the strategy is designed to set out the Council's plans for delivering the efficiencies required to provide a stable financial base in a period of unprecedented financial turbulence within the wider public sector.

1.1.2 More specifically, during the period of this medium term financial strategy (MTFS), the Council expects:

- Continuing downward pressure on the funding available through government grant;
- Limited scope to increase council tax;
- Increasing demand for our services (for instance due to demographic pressures in social care).

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. 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.

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. Appendix B summarises the efficiency savings identified within each cabinet portfolio over the period.

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 with an increase of 2.99% in 2016/17 and increases of no more than 3.99% thereafter, including an annual increase in council tax of 2% to offset pressures within adult social care;
- 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;
- Adoption of a strategic approach to budget setting and financial planning;

- A financial planning assumption of a council tax increase of 2.99% in 2016/17 and a maximum of 3.99% per annum in future years;
- Of the total assumed increase in council tax, it is assumed that 2.0% will be used to generate additional funds to be used entirely for adult social care;
- Annual increases in the tax base, subject to council tax support;
- Council tax collection rates of 99.0%;
- Revenue support grant (RSG) figures as published in the final local government finance settlement for 2016/17 to 2019/20;
- Estimated retained business rates income for 2016/17 of £31.2 million (net of the tariff and levy payments but including section 31 grant) and forecast growth for 2017/18 and 2018/19 based on government assumptions for inflation and known or anticipated business developments;
- An annual increase to the pay budget of 1.0%, plus increases for lower pay bands in 2016/17 and 2017/18 in line with the latest pay offer, and further funding to meet the estimated costs of the national living wage;
- Inflationary increases relating to specific contracts modelled in line with forecast RPI(X) (the all items retail price index excluding mortgage interest payments). Indexation of 2.2% has been assumed for 2017/18 and 2.5% thereafter. 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 1.5% was assumed as a minimum increase for planning purposes for 2016/17, with increases for future years aligned with contractual inflation assumptions;
- The West Midlands Integrated Transport Authority (WMITA) levy assumes annual reductions in line with the authority's medium term plans;
- Funding for some specific areas of growth is provided in line with the Council's priorities.

1.1.8 These assumptions result in a budget for 2016/17 of £137.9 million, funded 65% from council tax, 15% from government grant and 20% from business rates (net of tariff and levy payments).

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 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.

1.1.11 The Council is working to increase the extent to which resources are matched to priorities on a medium term basis and 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 2014/15 accounts that:-

- The Council continues to have robust arrangements to deliver value for money.
- The Medium Term Financial Strategy (MTFS) shows a challenging but achievable position, with many savings already having been delivered. It is underpinned by realistic assumptions on key variables and is designed to deliver the Council's priorities.
- Members and officers continue to work well together to ensure that the MTFS is realistic and reflects the Council's objectives. Annual budgets are thoroughly scrutinised before approval. The Aligning Resources to Our Priorities (ARTOP) Board continues to have a crucial role in monitoring and challenging the delivery of savings.
- The Council is financially sound and is leading the way in thinking about becoming self-financing.

2.1.2 That said, national economic circumstances and the public sector funding position set out in the 2015 Spending Review and the latest local government financial settlement 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 2015 and the government has now confirmed that revenue support grant will be phased out entirely over the course of this Parliament. Local government will instead be allowed to retain 100% of business rate receipts by 2020, with detailed proposals for how this will work still awaited from government.

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 increasing the funding provided to local authorities through the Better Care Fund and allowing councils with adult social care responsibilities additional flexibility to increase council tax by up to 2% above the referendum threshold.

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 for the strategy are:

- To provide a stable financial base from which to deliver the Council's priorities as set out in the Sustainable Community Strategy (SCS) and Council Plan;
- To set out how the Council intends to continue to achieve significant efficiency savings over the medium term; 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 as well as the contribution to the shared vision for Solihull as set out in the Community Strategy. 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 joint 2015 Spending Review and Autumn Statement noted that the UK's economic recovery is well established. Since 2010, on average, the UK has been the joint fastest growing economy in the G7 and the labour market has performed well, although UK productivity continues to lag behind other major economies.

3.1.2 The strength and stability of the global economic recovery is key to UK economic prospects. The global economic recovery remains uneven, with weakness driven by the slowdown in emerging markets such as China. In 2015 the global economy is forecast to record its lowest growth rate since 2009. The IMF October World Economic Outlook (WEO) forecasts global growth to weaken to 3.1% in 2015, from 3.4% in 2014.

3.1.3 The deficit has been reduced by almost two thirds as a share of GDP since its peak in 2009/10, although it remains one of the highest among advanced economies. As a share of GDP, the Office for Budget Responsibility (OBR) forecasts that the deficit will be cut by three quarters in 2016/17 from its peak and eliminated altogether in 2019/20.

3.1.4 Compared to Summer Budget 2015, the Office for Budget Responsibility now forecasts higher tax receipts and lower debt interest, with a £27 billion improvement in the public finances. The OBR now forecasts GDP growth of 2.4% in 2015, 2.4% in 2016 and 2.5% in 2017.

3.1.5 The Spending Review identifies net savings to departmental resource spending of £12 billion by 2019/20. This is made up of £21.5 billion of savings from unprotected departments, of which £9.5 billion will be reinvested in the government's priorities. The element of departmental resource spending that relates to local government will be cut by £6.1 billion by 2019/20. This has a significant impact on the Council's financial position which is considered in more detail in the sections below.

3.2 Local government funding

3.2.1 Local government is now funded from three main sources, council tax, revenue support grant and a share of business rates income. In line with government expectations, Solihull has increased council tax in 2016/17 for the first time since 2010/11, and council tax income is becoming an increasingly significant funding source for the authority, comprising 65% of the total for 2016/17.

Business rates retention

3.2.2 2016/17 represents the fourth year of the business rates retention scheme, whereby local authorities are able to retain a proportion of the growth in their business rates income. Under the current scheme, local government keeps 50% of business rates income while the remainder is used by central government to fund revenue support grant and other specific grants. As part of the spending review in November 2015, the government confirmed its intention to allow the sector to keep 100% of business rate receipts, while phasing out revenue support grant entirely. The detail of how this will work, particularly how the government will adjust the distribution of business rates income across local authorities to reflect need, has not yet been determined. The government will consult on its proposals during 2016 but in the meantime this uncertainty remains a significant risk to the Council's MTFS assumptions.

3.2.3 Solihull is part of a business rates pool with the other member authorities of the Greater Birmingham and Solihull Local Enterprise Partnership (GBSLEP). The relative size of Birmingham, as the largest member of the pool, means that the entire pool becomes a top-up pool and will not be liable to pay a levy. The amount that would otherwise have been payable by an individual authority as a levy to central government will be retained by the pool, partly for allocation within the LEP area and partly to be redistributed to the relevant originating authorities. The MTFS includes £0.9 million as Solihull's forecast share of the retained levy for 2016/17.

3.2.4 The introduction of the scheme has transferred significant risk to local authorities, as became apparent in 2013/14 and 2014/15. In particular, backdated appeals have had a significant effect on our in-year projections of business rates income. By way of illustration, in 2014/15 the Council collected business rates income of £105 million, compared to a forecast at the start of the year of £113 million. In recognition of the shortcomings of the current appeals system, the government intends to make 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 the government's proposals on how the risk of appeals can be managed, possibly on a regional or sector wide basis, within a 100% rates retention scheme.

Council tax support

3.2.5 Since the replacement of council tax benefit with localised council tax support in April 2013, the Council has implemented a local scheme based on the one previously in operation nationally. The cost of providing this support is reflected in a reduction in the tax base. The funding transferred by the government to local authorities in 2013/14 in support of this responsibility represented a 10% reduction against the previous year's costs and now, as part of the revenue support grant, this funding continues to reduce each year.

3.2.6 Many authorities have experienced financial pressures as a result. However, in Solihull the Council has worked closely with the voluntary sector to support local residents through the introduction of welfare reform with the effect of encouraging less dependence on benefits. Solihull has seen a reduction in the number of residents eligible for council tax support and as a result the costs of the local scheme have reduced and are forecast to continue to do so throughout the period covered by the MTFS.

3.2.7 The scheme does however continue to represent a significant cost to the authority and the Council may be consulting on proposals for a revised scheme during the course of 2016/17, which would be effective from April 2017.

New Homes Bonus

3.2.8 The New Homes Bonus (NHB) scheme provides local authorities with an unringfenced 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. Under the current scheme, the grant is then paid for the following six years. The payments Solihull expects to receive in 2016/17, for the years from 2012/13 to 2015/16, will total nearly £4.0m.

3.2.9 As part of the spending review, the government announced that the cost of the scheme was to be reduced by £800 million by 2019/20, with the saving diverted to fund pressures in adult social care. The government's proposals for achieving this saving include reducing the number of years for which payments are made from six to four and introducing a baseline of expected growth, below which growth is discounted for the purpose of calculating NHB entitlements.

3.2.10 Final details of the redesigned scheme are not yet available but the MTFS assumes that these two proposals will be implemented, at an estimated cost to the Council of £0.8 million in 2016/17.

Better Care Fund

3.2.11 The Better Care Fund is a pooled budget to help local places improve the integration of health and care services. It is designed to enable local places to integrate 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 Council and the Clinical Commissioning Group have agreed how funding should be allocated for 2016/17. The MTFS assumes additional Better Care Funding to the Council of £2.033 million, over and above existing allocations for the year 2018/19.

3.2.12 The Care Act 2014, which consolidated over a dozen pieces of social care legislation into a single law, introduced a number of additional costs for local authorities which were met from specific grants in 2015/16. This funding has now been rolled into the settlement and as a result the MTFS includes £0.485 million to meet the cost of on-going commitments from 2016/17. If the cap on care costs is implemented, as anticipated, in 2020, this is likely to incur additional costs which may need to be provided for in the MTFS.

Devolution to the regions

3.2.13 The devolution of powers to the cities and regions is clearly high on the political agenda and in response to that the government has encouraged the creation of combined authorities.

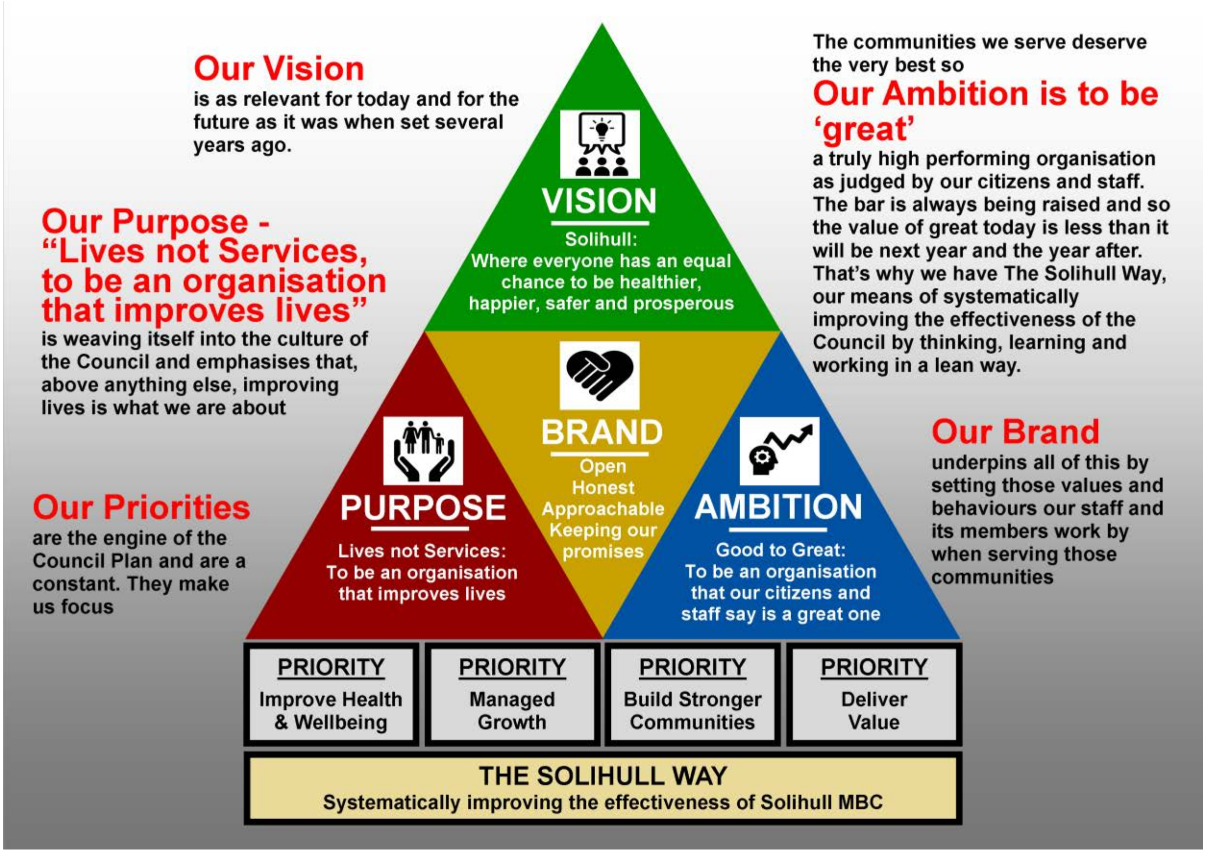
3.2.14 The proposed West Midlands Combined Authority devolution agreement, agreed with the Chancellor of the Exchequer in November 2015, will see the government make an annual contribution worth £36.5 million for 30 years to support an overall investment package that will unlock £8 billion, alongside the creation of up to half a million jobs.

3.2.15 The proposed West Midlands Combined Authority is due to be established during 2016/17. It is expected that there will be initial costs of preparing for and operating the combined authority, which the seven metropolitan district councils will need to meet as its constituent members. Each authority is including £500,000 in their budgets to provide for such potential revenue costs. The actual initial budget for the combined authority will be agreed in due course. This support will be for one year only, as it is expected that the combined authority will be able to raise its own revenue resources from 2017/18 onwards.

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 diagram below illustrates the key components of the Council Plan 2014-2020 and shows the Council's four overarching priorities, towards which the Council continues to align its resources.



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.

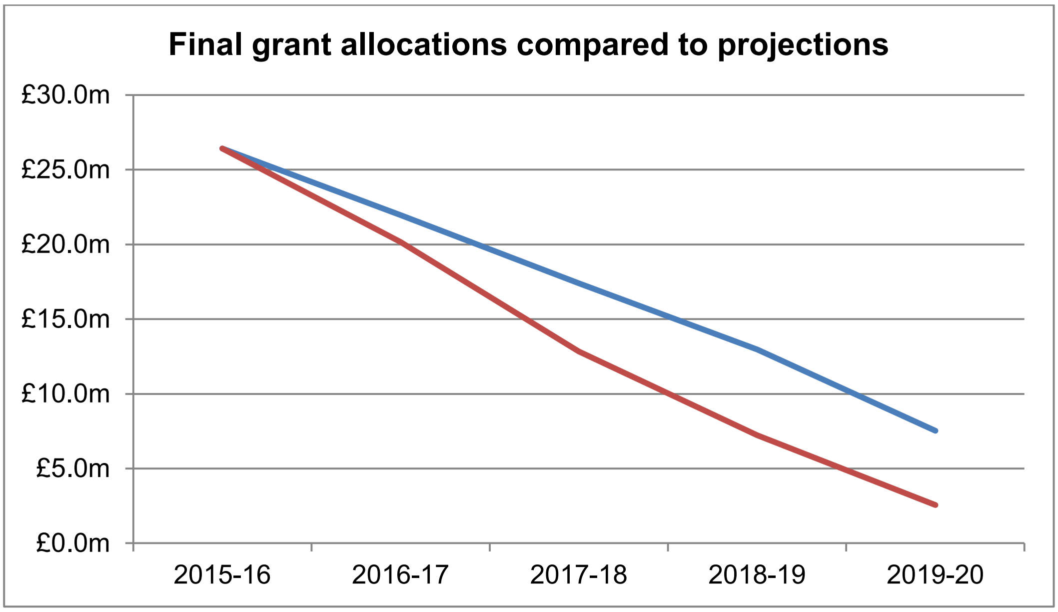
4.1.4 The MTFS provides additional targeted investment in support of these priorities, as shown at Appendix A. In particular, by 2018/19 the additional investment in adult social care will total £5.4 million per annum.

4.1.5 In addition, as reported nationally, the impact of the National Living Wage on adult social care and other contracts remains uncertain. Latest estimates are that the additional cost of the NLW for adult social care and other key contracts could be in the region of £3.0 million per annum by 2018/19. At this stage this remains a risk which has not been built into the MTFS.

4.1.6 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

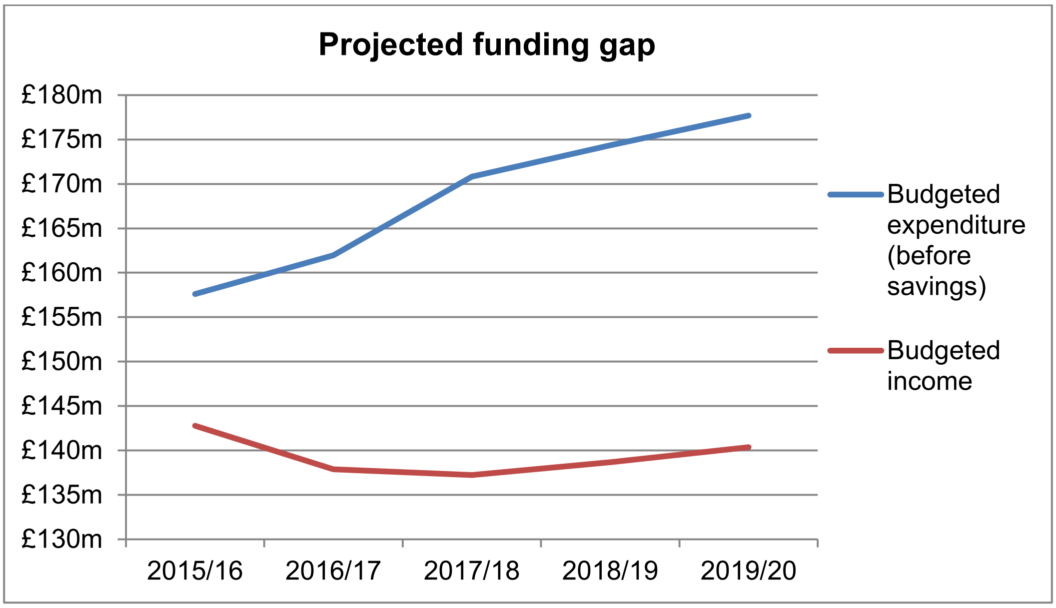
4.2.1 Details of RSG allocations at a local authority level for 2016/17 to 2019/20 were announced provisionally in December 2015 and confirmed in February 2016. As illustrated in the graph below, the cut in grant in 2016/17 represents a much steeper reduction than previously assumed in the MTFS. This was the result of a significant change to the methodology the government uses to distribute the available funding between different authorities, and the final settlement included additional transitional funding for authorities like Solihull which were particularly badly affected by this change. The blue line represents the assumptions included in the MTFS before the settlement was announced, and the red line shows the actual allocations included in the final settlement.



4.2.2 Although these forecast reductions naturally have an impact on the savings that the Council is required to make to balance its budget, a wider implication is that the Council will become less reliant on central sources of funding towards the end of the decade. The government's decision to publish indicative grant figures for the years up to 2019/20 was welcome, providing a degree of certainty which will assist in our financial planning.

4.2.3 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.

4.2.4 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 five years, if no action was taken to address it, would be in the region of £37 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 for Better Lives") with the NHS to improve the integration of health and care services in the borough. The four main objectives for the medium term are:

- Getting a better end result for everyone who uses healthcare services
- Making sure people feel happier about what happens when they use these services
- Improving the way we look after people to give them a better quality service
- Getting better value for the money we spend on services.

4.3.4 The initial focus of this joint working is on Solihull's ageing population, in particular people who are frail or living with dementia. This work is being delivered through the Integrated Care and Support Solihull (ICASS) programme and is funded, in part, by the Better Care Fund. As part of this the organisations are working together on how we make best use of our collective resources ("the Solihull pound").

4.3.5 Solihull has been awarded vanguard status by NHS England to create an integrated system that combines preventative services with rapid access to primary, social and specialist care both in and out of hospital, enabling people to take better control of their lives. This will allow Solihull access to specialist support and evaluation to help the partners to achieve their vision of creating an integrated health and care system that extends people's healthy, active lives for as long as possible.

Maximising income generated locally

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

4.3.7 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.

4.3.8 The UKC Masterplan identifies how substantial additional economic growth and jobs could be created for the West Midlands by realising the potential of Solihull's strategic economic assets and maximising the local and regional economic benefits of HS2.

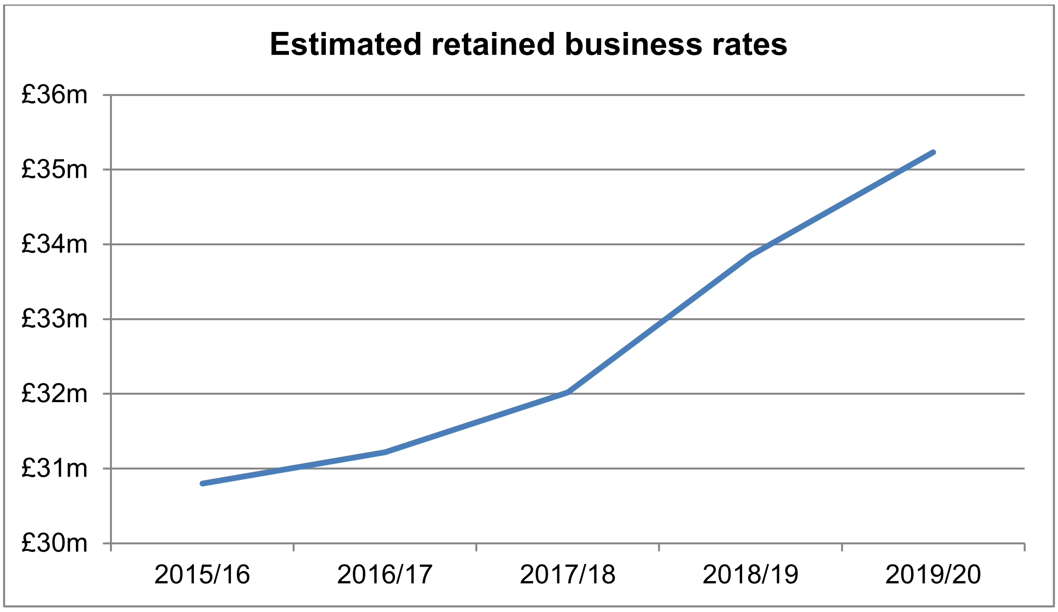
4.3.9 The initial focus for this investment and growth will be the Hub@UKC – with development at the HS2 Interchange site currently forecast to create up to 20,000 (gross) jobs. Coordinating this growth potential with investment and development at the NEC and the airport, together with investment in 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.

4.3.10 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 central government and the fire authority for their share of business rates income. The calculation of the business rates figure included in the MTFS for 2016/17 is shown in the table below:

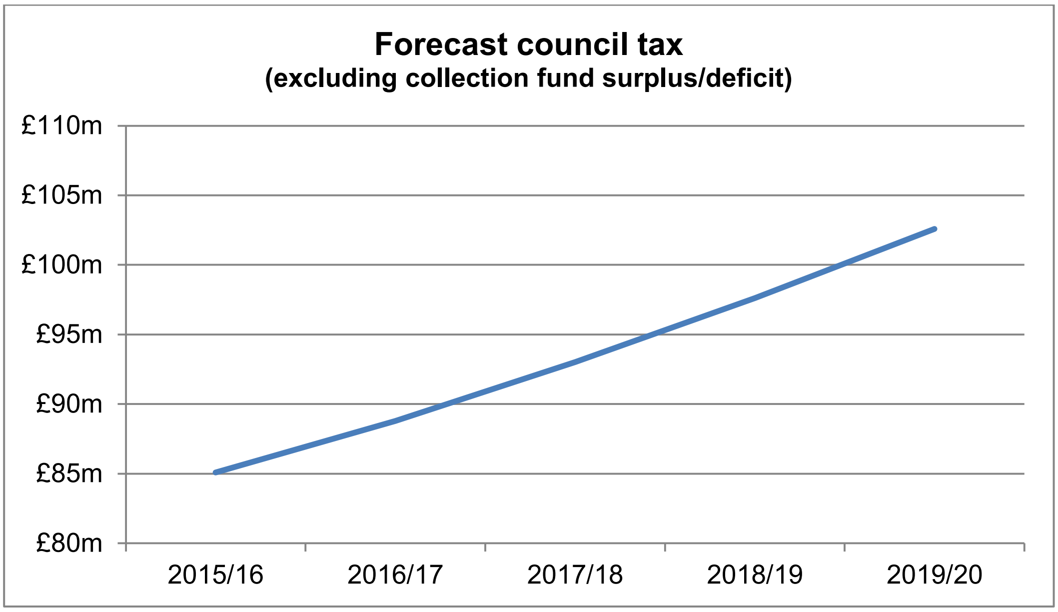
Local share	£58.9m	As per NNDR1 (49% of the total collected)
Section 31 grant	£1.2m	As per NNDR1
Less tariff	(£26.2m)	As per settlement
Pre levy income	**£33.9m**	
Levy payable	(£2.7m)	Based on levy rate set by government
Retained income	**£31.2m**	

4.3.11 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 the National Exhibition Centre, the international airport and Jaguar Land Rover, as well as developments associated with the Council's regeneration activity in the north of the borough and in Shirley.

4.3.12 The graph below illustrates the forecast growth in retained business rates income over the period of the MTFS.



4.3.13 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 2.99% in 2016/17 and by a maximum of 3.99% per annum from 2017/18.



Reducing costs

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

4.3.15 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 2018/19 and further provisional plans in place for the following year.

4.3.16 By focusing the attention of members and officers on the third year of the MTFS, the Council is able to plan effectively and realistically for the implementation of efficiency savings. A group of senior officers closely monitors the delivery of savings and supports the management and mitigation of any anticipated shortfalls. The Council uses a budget strategy reserve to manage changes to the financial planning assumptions in the first two years of the MTFS, and as a result can avoid hasty reactions to unexpected shocks. This approach to financial planning has won plaudits from the Council's external auditors.

4.3.17 A summary of the value of savings identified in each of the years of the MTFS, by cabinet portfolio, is shown at Appendix B.

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.

	2016/17 £m	**2017/18 £m**	**2018/19 £m**
Base budget	**142.790**	**137.884**	**137.248**
Funding commitments	5.746	4.250	5.176
Ongoing savings – 2016/17 MTFS	0.000	0.000	(6.387)
One-off savings – 2016/17 MTFS	(0.240)	(0.771)	0.711
Savings – 2015/16 MTFS	(2.483)	(11.443)	3.315
Savings – 2014/15 MTFS	(6.539)	2.745	0.275
Government grants	(0.156)	1.077	(2.163)
Use of working balances and reserves	(3.733)	1.803	(1.703)
Contribution to budget strategy reserve	2.499	1.703	2.223
Recommended/ indicative budget	**137.884**	**137.248**	**138.695**
Total funding	**(137.884)**	**(137.248)**	**(138.695)**
Maximum assumed increase in general council tax	0.99%	1.99%	1.99%
Maximum increase in council tax to fund adult social care	2.00%	2.00%	2.00%

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 revenue support grant 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 Strategy details who the Council can invest with and the maximum amount that can be invested. Limits are based on credit ratings, supplied by 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 repayment of debt and maintaining an under-borrowed position to reduce the levels of investment sums held.

5.1.8 As outlined in section 3.2 above, the Council is working with the other West Midlands metropolitan districts towards the creation of a combined authority. The Treasury Management Strategy will be updated to show that the Council will be prepared to lend to the proposed West Midlands Combined Authority. Such lending may be as part of arrangements agreed with the combined authority and other constituent authorities.

5.1.9 The under-borrowing and debt repayment has 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 £3.2m in 2016/17 and £0.8m in 2017/18, identified as part of the 2014/15 budget process. In addition, a further £2.5m was identified for 2017/18 as part of the 2015/16 budget process and further amounts of £0.5m in 2017/18 and £0.25m in 2018/19 have been included as part of the 2016/17 budget process.

Reserves

5.1.10 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.

5.1.11 The planned use of working balances over the period covered by this strategy is shown in the table below.

	2016/17 £m	**2017/18 £m**	**2018/19 £m**
Anticipated balance as at 1 April	6.809	6.000	6.000
(Allocations)/additions	(0.809)	0	0
Anticipated balance as at 31 March	**6.000**	**6.000**	**6.000**

5.1.12 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 2016/17 MTFS.

5.1.13 Further contingency funding of £1.0 million was set aside in 2015/16 to address continuing risks within Adult Social Care. Part of this contingency is expected to be used in 2016/17.

5.1.14 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.

5.1.15 The net contributions to this reserve are estimated to be between £1.7m and £2.5m per annum between 2016/17 and 2018/19. Taken together with the level of working balances, this reserve contributes to the financial resilience of the Council over the medium term.

5.1.16 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 2017/18. 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.

5.1.17 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.

5.1.18 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 proposed West Midlands Combined Authority to start delivering 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 As at February 2016 the known capital allocations are as follows:

General Fund	Grant Funding 2016/17 £m
Department for Education	
- School Condition	1.440
- Devolved Formula Capital	0.351
- Basic Need	5.541
Department for Health	
- Disabled Facilities Grant (part of Better Care Fund)	1.696
Department for Transport	
- Integrated Transport Block	0.983
- Highways Maintenance Block	2.402

6.2.4 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.

6.2.5 The Department for Communities and Local Government issued guidance that enables the flexible use of capital receipts received in the period from April 2016 to March 2019. It does not apply to capital receipts received before that period. The guidance permits the use of these receipts to finance the revenue cost of reform that is forecast to generate ongoing savings to an authority's, or several authorities' and/or to another public sector body's net service expenditure. The direction makes it clear that local authorities cannot borrow to finance the revenue costs of service reform.

6.2.6 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.

6.2.7 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. RISK MANAGEMENT AND CONSULTATION

7.1 Risk management

7.1.1 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 2016/17 budget, are covered by the Budget Strategy Reserve or working balances, or are being built into future plans for 2017/18 onwards.

7.1.2 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.

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.

7.2.2 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.

7.2.3 Budget proposals are shared with young people, through the Youth Council, and with local businesses, through the Federation of Small Businesses, in order to seek their views on spending priorities.

7.2.4 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.

8. CONCLUSIONS

8.1.1 Along with the rest of the public sector, the Council faces a massive challenge in the next few years to deliver public services with a much lower level of financial resources than previously.

8.1.2 However, these are also exciting times for the borough, and Solihull is in a good position to rise to this challenge. 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".***

APPENDIX A

	Approved 2016/17 £'000	Indicative 2017/18 £'000	Indicative 2018/19 £'000
Base Budget	**142,790**	**137,884**	**137,248**
Add back reserves utilised in previous year	569	1,803	(1,703)
Other Corporate Commitments			
Local Enterprise Partnership - retained levy	(60)	(74)	(367)
Levies	(531)	(129)	(101)
Treasury management - revenue required to support borrowing	300	410	410
Pressures and Policy Developments			
Combined authority	500	(500)	0
Adult Social Care pressures	1,996	1,633	1,813
Adult Social Care one off Investment Fund	(1,000)	0	0
Birmingham airport dividends – base level	470	(222)	(247)
Inflation, pensions and national insurance	2,456	3,106	3,077
Other service specific pressures	1,615	26	591
Government Grants			
New Homes Bonus	(956)	1,077	(130)
Better Care Fund	800	0	(2,033)
Savings – 2014/15 MTFS			
Savings approved in 2014/15	(7,872)	275	275
One off savings from release of specific reserves	2,273	0	0
Original one off treasury management savings	(940)	2,470	0
Savings – 2015/16 MTFS			
Adjustments to original one off treasury management savings	(2,245)	(100)	815
Savings identified by Budget Strategy Group	(455)	(11,115)	2,500
less savings included within the council tax base	55	55	0
Minimum revenue provision (MRP) policy change	162	(283)	0
Savings – 2016/17 MTFS			
Savings identified by Budget Strategy Group - ongoing	0	0	(6,387)
Savings identified by Budget Strategy Group - one off	(240)	(771)	711
Use of Reserves			
Contribution from working balances	(809)	0	0
Contribution from business rates reserve (timing differences)	(893)	0	0
Contribution to budget strategy reserve	2,499	1,703	2,223
Contribution from reserve - Birmingham airport	(2,600)	0	0
Net Budget Requirement	**137,884**	**137,248**	**138,695**
Revenue support grant	(19,200)	(11,872)	(7,217)
Transitional grant	(960)	(961)	0
Business rates	(31,217)	(32,017)	(33,851)
Council tax	(88,794)	(93,029)	(97,627)
Collection fund (surplus)/deficit	2,287	631	0
Total Resources	**(137,884)**	**(137,248)**	**(138,695)**
Maximum Assumed Council Tax Increase	**0.99%**	**1.99%**	**1.99%**
Maximum Increase in Council Tax to fund Adult Social Care	**2.00%**	**2.00%**	**2.00%**

APPENDIX B

Efficiency plans and savings proposals by cabinet portfolio
(Total of amounts previously approved and new proposals identified through the 2016/17 budget process)

Cabinet portfolio	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	Cumulative total £m
Education, Skills and Culture	(0.587)	(0.500)	(0.550)	(0.750)	(2.387)
Environment, Housing and Regeneration	(1.306)	(0.376)	(0.790)	(0.219)	(2.691)
Health and Wellbeing	(6.230)	(2.869)	(5.635)	(3.290)	(18.024)
Managed Growth	(0.412)	(0.015)	(0.207)	(0.223)	(0.857)
Resources and Delivering Value	(4.378)	(1.533)	(1.949)	(0.263)	(8.123)
Stronger Communities and Partnerships	(0.433)	(0.174)	(0.383)	(0.364)	(1.354)
Transport and Highways	(0.375)	(0.410)	(0.100)	(0.317)	(1.202)
Treasury Management	(1.100)	(3.185)	0.145	3.340	(0.800)
Cross-cutting	0	(0.200)	0	0	(0.200)
Total	**(14.821)**	**(9.262)**	**(9.469)**	**(2.086)**	**(35.638)**

Note that these savings figures are net of the effect of reversing out any one-off savings delivered in previous years.

These savings aim to match the Council's spending plans to the funding levels set out in the 2016/17 local government finance settlement.