

APPENDIX A:

MEDIUM TERM FINANCIAL STRATEGY 2019/20 TO 2021/22

SECTION 1: INTRODUCTION

- 1.1 Sandwell MBC continues to face an extremely challenging financial position with funding cuts to Local Government set to continue for the remainder of this Parliament. Despite recent indications, there has been no easing of the central government austerity programme and Central Government has done little to address the demand pressures being faced by Local Government.
- 1.2 The current spending review period ends in 2019/20 and no funding figures have been provided by the Ministry for Housing, Communities and Local Government (MHCLG) past this date. The department is also undertaking two reviews about local authority funding which add to the uncertainty about funding levels post 2019/20. These are about: -
- Local Authorities Relative Needs and Resources
 - Business Rates Retention Reform
- 1.3 Consultations regarding each of these reviews were issued alongside the provisional finance settlement but they still do not contain sufficient detail to allow reliable estimates to be made of future funding levels.
- 1.4 The Medium-Term Financial Strategy (MTFS) sets out how the council will structure and manage its finances now and in the future. The strategy provides a robust and consistent approach that places the council's finances on a sound and stable footing, whilst supporting our 2030 Vision.
- 1.5 The 3 key objectives of the council's MTFS are to: -
1. Ensure the council remains financially stable in the face of Central Government funding reductions.
 2. Protect front-line services to the people of Sandwell by transforming the way we deliver services and growing the funding we generate locally.
 3. Deliver a policy-led multi-year budget planning process that fully integrates revenue and capital resources.
- 1.6 The council operates a multi-year budget planning process that gives services the ability to manage budgets across financial years.
- 1.7 Key to this process is the decision to allow services to retain any budget surpluses that arise. This means that a service that is required to deliver savings across three financial years can restructure once and deliver



savings earlier than required, secure in the knowledge that any surpluses generated are retained by the service.

- 1.8 This approach encourages sensible financial planning; avoids the traditional rush to spend money before the end of the financial year; provides greater security for staff; and helps to ensure that challenging savings targets are achieved.
- 1.9 Risk will be managed using our established best practice principles which are set out in the corporate risk management strategy. A proactive approach to the identification and management of risks and opportunities will be taken within the financial planning and budget monitoring process. This will support the council in:
- Achieving planned financial targets;
 - Achieving a high level of customer satisfaction in our service delivery;
 - Maintaining a safe and supportive working environment for staff;
 - Enhancing our reputation;
 - Maintaining compliance with legal and regulatory framework
- 1.10 The Audit and Risk Assurance Committee governs risk management. Key risks are evaluated within regular reports to the Cabinet, Council and Senior Management Board. The Chief Finance Officer uses this risk assessment to inform decisions on the appropriate levels of general reserves, central contingency and specific reserves.
- 1.11 In determining actions required to ensure balanced budgets are prepared, Directors have undertaken an Equality Impact Assessment on all identified service changes and policy amendments.



SECTION 2: NATIONAL POLICY and 2019/20 SETTLEMENT

Funding Settlement

1.12 This section sets out the details of the final Local Government Finance Settlement which was announced by the Secretary of State for the Ministry of Homes, Communities and Local Government (MHCLG) on 29 January 2019. The key headlines include:

- A continuation of the increased Council Tax referendum limit from 2% to 3% meaning that local authorities can increase Council Tax by 2.99% without requiring a referendum.
- Continuation of the arrangements for the adult social care precept.
- Confirmation of a winter pressures grant and a new Social Care Support Grant which replaces the Adult Social Care Grant and can be spent on both Adult and Children’s Social Care.

Spending Power

1.13 Spending power or revenue spending power is an estimate of the amount of funding available to each authority to spend on their core services. It is made up of estimated Council Tax and business rate income, Revenue Support Grant and New Homes Bonus plus several government grants excluding those for education and policing. Nationally total funding across the spending review period will reduce by 2.1%, with an assumption that all Councils will agree to implement the full Council Tax increase to fund cost pressures in Adult Social Care.

1.14 The government also announced figures showing the Core Spending Power for Sandwell, shown in Table 1: -

| Table 1: Core Spending Power (Sandwell) | | |
|---|--------------|--------------|
| | 2018/19 (£m) | 2019/20 (£m) |
| Settlement Funding Assessment | 141.4 | 133.8 |
| Compensation for under-indexing Business Rates multiplier | 2.2 | 3.3 |
| Council Tax | 90.9 | 95.5 |
| Council Tax Adult Social Care | 6.4 | 7.7 |
| Better Care Fund | 16.1 | 20.5 |
| New Homes Bonus | 3.6 | 2.9 |
| Winter Pressures | 1.8 | 1.8 |
| Social Care Support Grant | 0.0 | 3.2 |
| Adult Social Care Grant | 1.2 | 0.0 |
| Total | 263.7 | 268.6 |



1.15 This shows Sandwell’s total funding between increasing by 1.8% between 2018/19 and 2019/20 (assuming the Council agrees to implement the full Council Tax increase including the Adult Social Care precept). If the additional funding for Social Care is excluded then Sandwell’s funding will reduce by 1% (£2.6m).

Settlement Funding Assessment

1.16 The Settlement Funding Assessment consists of the local share of business rates, and Revenue Support Grant. Sandwell MBC will continue to participate in the 100% Business Rates Retention pilot as part of the West Midlands Combined Authority pool. This means that the authority will not receive any Revenue Support Grant but instead will retain all Business Rates generated (less the 1% share for West Midlands Fire Service).

1.17 The Settlement Funding Assessment for Sandwell is broken down in Table 2:

| Table 2: Settlement Funding Assessment (Sandwell) | | |
|--|---------------------|---------------------|
| | 2018/19 (£m) | 2019/20 (£m) |
| Revenue Support Grant | 0.0 | 0.0 |
| Baseline Funding Level | 141.4 | 133.8 |
| Business Rates Top Up | 50.1 | 40.9 |
| Total | 191.5 | 174.7 |

Retail Price Index (RPI)

1.18 The Office for Budget Responsibility (OBR) published estimated RPI rates in October 2018: -

| Table 3: RPI | % |
|---------------------|----------|
| 2019 | 3.1 |
| 2020 | 3.1 |
| 2021 | 3.2 |

1.19 These are the percentages that have been used where reference is made in the MTFs to budget increases in line with RPI.

1.20 Section 3 sets out how the council’s local funding projections differ from those announced by the DCLG above. It also details the estimated expenditure levels for the council over the period.



SECTION 3: LOCAL CONTEXT AND PROJECTIONS

Reserves

1.21 Sandwell MBC’s reserves policy is:

- 1) To maintain opening general reserves of between 3% and 5% of the total net general fund revenue budget, the precise level within this range to be informed by risk assessment;
- 2) Additional reserves will be appropriately and prudently earmarked in-year or at year-end by the Chief Financial Officer (CFO), in consultation with the cabinet member with responsibility for finance, to meet anticipated one-off expenditure;
- 3) Net surpluses on target budgets may be carried forward and re-invested in front-line services in accordance with the multi-year budget planning process, subject to approval by Cabinet of a report presented jointly by the chief officer and the chief financial officer regarding the source of the surplus or additional income and the proposed application of those resources;
- 4) General reserves above that required to fund the above will be earmarked as being available to fund invest to save projects that will deliver ongoing revenue budget savings;
- 5) Services are required in the first instance to accommodate unforeseen expenditure and/or income shortfalls from within their cash limited budgets in any particular year, only seeking allocations from general reserves and contingencies where this is proven to be impossible;
- 6) If general reserves are committed during a financial year, alternative savings will be identified and implemented in order to both mitigate the impact and replenish the general reserves in-year as much as possible;
- 7) Any use of general reserves in a particular year by an individual service that is not replenished in that year of account will be paid back in the following financial year, by the identification and implementation of savings and efficiencies. It is recognised that on occasion this will be achieved over more than one financial year; this will be permitted only on the prior agreement of the CFO and be referred to as a “licensed deficit”.

Forecast Revenue Funding Levels

1.22 Table 4 shows the current funding levels forecast for the council over the next 4 years.

| Table 4: Forecast Funding Sandwell | | | | |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2018/19 (£m) | 2019/20 (£m) | 2020/21 (£m) | 2021/22 (£m) |
| RSG | 0.0 | 0.0 | 0.0 | 0.0 |
| Business Rates | 96.1 | 96.6 | 99.4 | 102.3 |



| Table 4: Forecast Funding Sandwell | | | | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2018/19 (£m) | 2019/20 (£m) | 2020/21 (£m) | 2021/22 (£m) |
| Business Rates Top Up | 50.2 | 40.9 | 35.9 | 30.9 |
| Council Tax | 91.1 | 96.6 | 100.7 | 103.8 |
| Adult Social Care CT | 6.2 | 7.4 | 7.4 | 7.5 |
| Collection Fund Surplus/Deficit | -9.1 | 1.8 | 0.0 | 0.0 |
| Total | 234.5 | 243.3 | 243.4 | 244.6 |

1.23 The sections below explain how these figures are calculated: -

Retained Business Rates

1.24 The business rate retention scheme was introduced in April 2013 and has reformed the way in which local government is funded. It provides a direct link between business rates growth and the amount of money local authorities have available to spend on local people and services. Under the business rates retention scheme, authorities keep up to half of the local business rates revenue as well as growth on the revenue that is generated in their area.

1.25 The NDR (Non-Domestic Rates) Baseline is the level of business rates that the authority is assumed to be able to collect; this combined with the Business Rates Top Up represents the Baseline Need. Whilst the RSG element is fixed, the Baseline Need will fluctuate dependent upon actual business rates collected.

1.26 The council continues to participate in the 100% Business Rates Retention pilot as part of the West Midlands Combined Authority. This means that the council will receive no Revenue Support Grant but will be able to retain all of the Business Rates collected (with 1% continuing to be paid to West Midlands Fire Service).

1.27 The local authority completes the NNDR1 form to estimate its Business Rates income for the following financial year. Table 6 below outlines this estimate: -

| Table 5: Estimated Business Rates | £ |
|--|-------------|
| Business Rates | 97.6 |
| Central Government 50% | 0.0 |
| Fire 1% | 1.0 |
| Retained by SMBC | 96.6 |



Business Rates Top Up

- 1.28 Some local authorities collect significantly more business rates than others. In order to be equitable and encourage enterprise in local authorities the rates retention scheme includes a system of top ups and tariffs.
- 1.29 Whether a local authority is a tariff or a top-up authority is determined by comparing each individual local authority's baseline funding level against its business rate baseline. A local authority must pay a tariff each year if its business rate baseline is greater than its baseline funding level. Conversely, a local authority will receive a top-up each year if its business rate baseline is less than its baseline funding level.
- 1.30 The Business Rates Top Up figures in Table 4 for 2019/20 is per the final DCLG settlement. No figures have been provided for 2020/21 onwards and therefore this figure is estimated based on an assumption that government funding cuts will approximately halve during the next CSR period.

Council Tax

- 1.31 The amount of revenue a local authority needs to raise through Council Tax (its Council Tax requirement) is calculated by deducting any funding from reserves, income it expects to raise, and funding it will receive from the Government from its planned spending.
- 1.32 Each local authority then sets its basic amount of Council Tax (band D) at the level necessary to raise this amount, taking into account its likely collection rate.
- 1.33 The Council Tax figures in table 4 are based on the Council Tax base that was reported to Cabinet in December 2018 with an assumed growth in Council Tax base of 1% per annum thereafter.
- 1.34 In the 2016/17 settlement, the Government had responded to rising costs in Adult Social Care by giving Local Authorities the option to increase Council Tax by an additional 2% each year from 2016/17 to 2019/20 (with the total increase not exceeding 6%) and by introducing a different version of the Better Care Fund from 2017/18.
- 1.35 The 2018/19 settlement increased the limit at which local authorities have to hold a referendum before increasing the general element of Council Tax from 2% to 3%. The 2019/20 settlement confirmed that this increase would continue for one year with no details thereafter. The 2019/20 MTFS therefore assumes the following increases in Council Tax: -



| Table 6: Council Tax Increases | Main CT (%) | Adult Social Care (%) | Total (%) |
|---------------------------------------|--------------------|------------------------------|------------------|
| 2019/20 | 2.99 | 1.00 | 3.99 |
| 2020/21 | 2.99 | 0.00 | 2.99 |

1.36 The calculation of the Council Tax Base for a given year includes an assumption of the percentage of sums due that are actually collected. Based on current performance the Council Tax Collection Rate is estimated to be 99%.

Other Funding Streams

New Homes Bonus

1.37 The New Homes Bonus is a grant paid by central government to local councils to reflect and incentivise housing growth in their areas.

1.38 Sandwell will receive £2.9m of New Homes Bonus in 2019/20.

Better Care Fund

1.39 The Better Care Fund (BCF) will provide financial support for councils and NHS organisations to jointly plan and deliver local services.

1.40 The BCF will mainly fund the impact of the National Living Wage on the cost of Adult Services. However, the profiling of the funding does not match the cost of the budget pressure arising from the National Living Wage. In 2017/18 the BCF did not cover the additional costs of the National Living Wage but for 2018/19 and 2019/20 the funding is more than sufficient.

Social Care Support Grant

1.41 As part of the final settlement, MHCLG announced a new Social Care Support Grant which can be used to address pressures in both Adult and Children's Social Care. This replaces the Adult Social Care Grant. In 2018/19, Sandwell received £1.8m for the Adult Social Care Grant. The Social Care Support Grant allocation for 2019/20 is £3.2m which is an additional £1.4m. This additional funding has been provided to Children's Services to assist in funding the contract sum to be paid to Sandwell Children's Trust.



Winter Pressures Grant

1.42 Sandwell has also been allocated £1.8m in 2018/19 and 2019/20 to support adult social care services to reduce pressures on the NHS.

Forecast Revenue Expenditure & Funding Shortfall

1.43 Table 7 compares the projected net revenue expenditure to the forecast Council funding.

| | 2018/19 (£m) | 2019/20 (£m) | 2020/21 (£m) | 2021/22 (£m) |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|
| Forecast Expenditure | 234.5 | 243.3 | 247.0 | 250.2 |
| Forecast Funding | 234.5 | 243.3 | 243.4 | 244.6 |
| Annual Shortfall | 0.0 | 0.0 | -3.6 | -2.0 |
| Cumulative Shortfall | 0.0 | 0.0 | -3.6 | -5.6 |

1.44 The basis for the forecast expenditure for 2018/19 and future years is the council's 2017/18 approved budget and the following corporate budgetary parameters:

| | 2019/20 (%) | 2020/21 (%) | 2021/22 (%) |
|---------------------------------------|----------------|----------------|----------------|
| Pay Award - APT&C | 2.45 | 2.00 | 2.00 |
| Pay Award - Teachers & Chief Officers | 2.45 | 2.00 | 2.00 |
| General Inflation | 1.00 | 1.00 | 1.00 |
| Contractual Commitments | 1.00 | 1.00 | 1.00 |
| Fuel – Gas | 5.00 | 5.00 | 5.00 |
| Fuel – Electricity | 15.00 | 15.00 | 15.00 |
| Income – Fees & Charges | 2.00 | 2.00 | 2.00 |
| Income - Internal Recharges | 1.00 | 1.00 | 1.00 |
| Income - Other | 2.00 | 2.00 | 2.00 |

1.45 The forecast expenditure has also been adjusted for the following significant budget items: -

Pensions Deficit

1.46 The triennial valuation of the pension fund took place in 2016/17. This has resulted in the budget for Sandwell's contribution towards the pensions deficit reducing from £10.725m in 2016/17 to £10.126m by 2019/20.



Waste Contract

1.47 For 2018/19, the budget for the central Waste Contract has been reduced in line with the latest model which focusses on inflation indices, tonnage of waste collected and number of properties. From this new baseline, the budget then increases in future years.

West Midlands Combined Authority (WMCA) Contribution & Transport Levy

1.48 For 2019/20, the WMCA Transport levy will be £12.9m and the council's contribution towards the running costs of the WMCA will be £0.6m.

1.49 Table 9 below compares the total contribution to the WMCA for 2017/18 and 2018/19.

| Table 9: Combined Authority Contributions | | |
|--|-------------------------|-------------------------|
| | 2018/19 (£m) | 2019/20 (£m) |
| Operational Contribution | 0.612 | 0.611 |
| Transport Levy | 12.922 | 12.887 |
| Total | 13.5 | 13.5 |

Savings

1.50 A Budget Challenge Group has been established which is attended by all Directors and focuses on identifying savings to cover the funding gap of £5.6m over the next 3 years.

Schools Funding

1.51 The school funding settlement confirmed that Sandwell's total Dedicated Schools Grant (DSG) allocation for 2019/20 is £328.5m. This is broken down between the following blocks: -

| Table 10: DSG Blocks | |
|-------------------------------|-------------------------|
| | 2019/20 (£m) |
| Schools Block | 260.894 |
| Central School Services Block | 2.008 |
| High Needs Block | 42.035 |
| Early Years Block | 23.538 |
| Total | 328.475 |



Sandwell Children's Trust

- 1.52 The Council will continue to set the strategic direction for Children's Services and will continue to operate within the Council's three-year corporate business planning and budget setting process.
- 1.53 The contract sum that has been paid to the Trust in 2018/19 was calculated by consultants appointed by the DfE in consultation with representatives from the Council and the Trust. This MTFs currently assumes that the contract sum will remain at the same cash level in 2019/20. This assumption will require close monitoring as increasing demand continues to place financial pressures on this budget.
- 1.54 The financial mechanism includes provision that future year contract sum negotiations may include consideration of each Party's overall financial position including the need to demonstrate efficiency savings.

