

Sandwell Metropolitan Borough Council

12 January 2016

Budget 2016-17 to 2019-20
(Key Decision Ref. No. FR038)

1. Summary Statement

- 1.1 This report informs Members of the 2016-17 provisional Local Government Finance Settlement announced by the Secretary of State for Communities and Local Government on 17 December 2015. The announcement included an offer of a four-year funding settlement to 2019-20 for those councils who choose to accept it and if they have published an efficiency plan. Some details of the settlement are still to be announced. Additional information and its impact on target budgets will be incorporated into the report to Cabinet in February 2016 following the final settlement announcement.
- 1.2 The provisional settlement is in line with Sandwell's prudent planning assumptions contained in our Medium Term Financial Strategy and will not require any changes to the 2016-17 budget plan.

Autumn Statement

- 1.3 The Autumn Statement issued on 25 November 2015 announced a range of changes that will impact on local government finance, including:
- By the end of the Parliament local government will retain 100% of business rate revenues to fund local services. The system of top-ups and tariffs which redistributes revenues between local authorities will be retained and the Uniform Business Rate will be abolished. DCLG will shortly consult on these changes. The consultation will take into account the main resources currently available to councils, including council tax and business rates. As part of these reforms, the main local government grant will be phased out and additional responsibilities devolved to local authorities. For example, the government will consider transferring responsibility for funding the administration of Housing Benefit for pensioners and will also consult on options to transfer responsibility for funding public health. The government will consult on these and other additional responsibilities in 2016.

- The government will allow local authorities to spend up to 100% of their fixed asset receipts (excluding Right to Buy receipts) on the revenue costs of reform projects. The flexibility to use asset receipts for reform projects will be subject to a number of conditions, including limits on the years in which the flexibility will be offered and the qualifying criteria for reform projects.

Provisional Settlement

1.4 The provisional local government finance settlement was issued on 17 December 2015. The key headlines include:

- The option of a provisional 4-year funding settlement;
- The retention of a reformed New Homes Bonus;
- An extra £1.5bn available to councils through the Better Care Fund by 2019/20 to aid health and social care integration;
- A 2% referendum threshold for council tax increases plus an additional 2% for authorities with adult social care responsibilities;

1.5 The government have announced national figures for Core Spending Power for the next 4 years. These figures, in which the size of the overall funding cut is reduced by an assumption that Council Tax will increase by CPI in each year, are shown in table 1:

	15-16 £m	16-17 £m	17-18 £m	18-19 £m	19-20 £m
Settlement Funding Assessment	21,249.9	18,601.5	16,621.6	15,536.0	14,499.7
Council Tax	22,035.9	22,755.5	23,614.6	24,531.5	25,510.2
Council Tax for Adult Social Care	0.0	392.8	820.9	1,289.8	1,804.0
Better Care Fund	0.0	0.0	105.0	825.0	1,500.0
New Homes Bonus	1,200.0	1,485.0	1,493.0	938.0	900.0
Rural Services Grant	15.5	20.0	35.0	50.0	65.0
Core Spending Power	44,501.3	43,254.8	42,690.1	43,170.3	44,278.9

Nationally total funding across the spending review period will reduce by 0.5%, with an assumption that all Councils will agree to implement the full Council Tax increase to fund cost pressures in Adult Social Care.

1.6 The provisional Core Spending Power figures for Sandwell are as follows:

	15-16 £m	16-17 £m	17-18 £m	18-19 £m	19-20 £m
Settlement Funding Assessment	177.3	160.6	148.2	141.3	134.5
Council Tax	80.1	82.7	85.9	89.3	92.9
Council Tax for Adult Social Care	0.0	1.6	3.4	5.4	7.5
Better Care Fund	0.0	0.0	2.4	10.8	17.9
New Homes Bonus	5.4	6.8	6.8	4.3	4.1
Rural Services Grant	0.0	0.0	0.0	0.0	0.0
Core Spending Power	262.7	251.7	246.8	251.0	256.9

Sandwell's total funding across the spending review period will reduce by 2.2%, assuming the Council agrees to implement the full Council Tax increase to fund cost pressures in Adult social Care.

If the additional funding for Social Care is excluded then Sandwell's funding will reduce by 11.8% (£31.2m).

1.7 The Settlement Funding Assessment is broken down in Table 3:

	16-17 £m	17-18 £m	18-19 £m	19-20 £m
Revenue Support Grant	67.42	53.28	43.52	33.66
NDR Baseline	48.13	49.07	50.53	52.13
Business Rates Top-up	45.00	45.89	47.24	48.75
Total	160.55	148.24	141.29	134.54

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.

1.8 Cabinet on 9 December 2015 considered officers' estimates of the NDR Baseline for 2016/17. The latest position as set out in Table 4 below show an estimated NDR Baseline for SMBC of £51.7m, £3.6m above the national funding assumptions.

Table 4: Estimated Business Rates 2016/17	
	£m
Business Rates 2016/17	105.6
Central Government share (50%)	52.8
WM Fire & Rescue Authority share (1%)	1.1
Retained by Sandwell MBC (49%)	51.7

The Autumn Statement confirmed the extension of the doubling up of small business rate relief for 12 months to April 2017. This initiative will be cost neutral to the council as it will receive compensation via a non-ring fenced section 31 grant.

Council Tax

- 1.9 The Medium Term Financial Strategy approved by Council in March 2015 contained an assumption that Council Tax would increase by 1.99% pa, subject to there being no Council Tax freeze grant available in future. Sandwell has frozen Council Tax for the last five years in return for a freeze grant provided by Central Government and would have frozen Council Tax again in 2016-17 if the central government funding was still available. However, the Government has now announced the end of freeze grant and so it is recommended that Council Tax be increased by 3.99% in 2016-17, which is within the referendum threshold and includes the 2% flexibility announced for those Local Authorities that deliver Adult Social Care services.
- 1.10 The Government has responded to rising costs in Adult Social Care by giving Local Authorities the option to increase Council Tax by an additional 2% and by introducing a different version of the Better Care Fund from 2017-18. The Better Care Fund has been calculated on an assessment of need, less the amount assumed to be raised through the additional 2% Council Tax threshold. The clear implication being that Local Authorities who don't implement the additional 2% increase will have insufficient funds to deliver their adult social care responsibilities. It also represents a clear shift towards local Council Tax payers being responsible for funding Adult Social Care services. The following conditions are attached to the 2% increase:
- Section 151 officers will be asked to write to the Secretary of State indicating whether they intend to use the additional flexibility;

- Councils will be required to provide information demonstrating that an amount equivalent to the additional council tax has been allocated to adult social care. This must be done within 7 days of the authority setting its budget and council tax for 2016-17. In subsequent years of the Parliament, Section 151 officers will be required to confirm that this additional council tax continues to be allocated to adult social care;
- Councils must confirm the level of their average Band D council tax increase for 2016-17, and the proportion of it attributable to funding for adult social care on the Council Tax Requirement form that must be returned to DCLG within 7 days of their council tax having been set;
- The amounts allocated to adult social care must be reflected in statistical returns sent to DCLG;
- The above information will be required each year that the scheme is in operation. From 2017-18 onwards, the requirement will also encompass the cumulative year-on-year revenue being allocated to adult social care.

Schools and Children's Services Funding

Dedicated Schools Grant (DSG)

1.11 The Autumn Statement announced that the overall schools budget will stay at the same level on a per pupil basis.

- Schools Block – The cash flat level is £4,803.38, including an adjustment for non-recoupment academies (NRA) calculated as follows for 2015/16: £4,763.63 * 44,771 pupils = £213,272,479 Plus NRA £5,438.33 * 2,799 pupils = £15,221,886). Total funding for authority = £228,494,365/47,570 total pupils = £4,803.38 per pupil.
- Early Years Block = 3 and 4 year olds rate = £3,524.62, 2 year old rate = £4,645.50 and indicative early years premium is £0.463m
- High Needs Block = £36.318m after deductions.
- Funding for induction for newly qualified teachers £0.071m

Sandwell's grant allocation for 2016/17 is estimated at £289.907m before academies recoupment.

Education Services Grant (ESG)

- 1.12 This grant was introduced in 2013-14 to meet the costs of a range of central education functions provided on behalf of maintained schools. The 2015-16 ESG was £3.944m and the indicative allocation for 2016-17 is £3.699m, a reduction of £0.245m. The Spending Review and Autumn Statement published in November 2015 announced an intention to phase out the additional funding schools receive through the ESG.
- 1.13 The government is also intending to reduce the local authority role in running schools and remove a number of statutory duties, and will consult on policy and funding proposals in 2016. The impact of this change with need to be reflected in the MTFs once more details are announced.

New Homes Bonus

- 1.14 Provisional 2016-17 allocations of New Homes Bonus were announced by DCLG on 17 December 2015; a total of £1.485bn for English local authorities which has been funded primarily through the top slicing of overall funding totals. Sandwell will receive £6.8m in 2016-17.

Projected Sandwell Expenditure

- 1.15 The Council continues to face an extremely challenging financial position with funding cuts to Local Government set to continue for the remainder of this Parliament.
- 1.16 The preliminary budget allocations for the next 4 financial years includes the following budget assumptions which will be contained in the medium term financial strategy (MTFS) 2016-17 to 2019-20, to be presented to Cabinet in February 2016.

Table 5: Corporate Budgetary Parameters

	16-17	17-18	18-19	19-20
	%	%	%	%
Pay Award	1.0	1.0	1.0	1.0
General Inflation	1.0	1.0	1.0	1.0
Fuel – Gas	6.0	6.0	6.0	6.0
Fuel – Electricity	7.0	7.0	7.0	7.0
Income – Fees & Charges	1.5	2.0	2.0	2.0
Income - Other	1.5	2.0	2.0	2.0

- Passenger Transport Executive (PTE) / environmental agency levies are based on up to date soundings.
- Provision for the anticipated supported borrowing requirements over the 3 years and resultant revenue debt charges;
- Prudent provisions for general and earmarked reserves.

Business Plans 2016-17 to 2019-20

- 1.17 Integral to the Authority's medium term financial strategy has been the production of multi-year business plans. The business plans describe the vision and shape of the service, links to the Council scorecard and priorities over the next 4 years.
- 1.18 The savings proposals specific to each directorate for 2016-17 were reviewed as part of the 2014/15 – 2016/17 business planning process by Cabinet Members and the Senior Management Board. Reflective of the departure from the traditional 'salami slicing' approach to achieving the required savings, Management Board and Cabinet Members now collectively develop and challenge new cross cutting projects to be delivered through the Facing the Future (FtF) programme, including the development of the new Target Operating Model. The savings targets to be met by FtF are initially held as a central item; once projects have been sufficiently developed the associated savings are allocated out against the relevant directorate(s).
- 1.19 Specific pressures identified in the directorate business plans will be reflected in budgets where appropriate. As in previous years, both general and specific reserves will be prudently earmarked to fund these liabilities. Service areas will also report on gross expenditure and gross income budgets to ensure the totality of each service area is encapsulated within each individual business plan.

Forecast Funding for Sandwell

- 1.20 Indicative funding for 2017-18 to 2019-20 was announced as part of the provisional settlement.
- 1.21 Table 6 shows the current funding levels forecast for the council over the next 3 years. These are based on the following assumptions:-

- The Revenue Support Grant is based on the provisional settlement announced on 17 December 2015;
- Retained Business Rates are as per the 2016-17 estimates presented to Cabinet on 9 December 2015 increased by RPI thereafter;
- Assumed growth in rateable value of 0.5% pa;
- Business Rates Top Up is as per the provisional settlement;
- Council Tax increases of 1.99% in each year plus a precept of 2% for Adult Social Care;
- Council Tax Collection Rate of 99%;
- Assumed growth in Council Tax base of 1% pa.

Table 6: Forecast of Council Funding over the next 4 years with Adult Social Care precept				
	16-17 £m	17-18 £m	18-19 £m	19-20 £m
RSG	67.425	53.276	43.523	33.655
Business Rates	51.700	54.281	56.243	58.277
Business Rates Top-up	45.002	45.887	47.241	48.751
Council Tax	83.836	86.359	88.958	91.636
Adult Social Care CT	1.600	3.400	5.400	7.500
Total	249.563	243.203	241.365	239.819

1.22 Table 6a shows the forecast funding for the next 4 years without the Adult Social Care precept:

Table 6a: Forecast of Council Funding over the next 4 years without Adult Social Care precept				
	16-17 £m	17-18 £m	18-19 £m	19-20 £m
RSG	67.425	53.276	43.523	33.655
Business Rates	51.700	54.281	56.243	58.277
Business Rates Top-up	45.002	45.887	47.241	48.751
Council Tax	83.836	86.359	88.958	91.636
Total	247.963	239.803	235.965	232.319

1.23 Table 7 compares the projected net revenue expenditure to the forecast Council Funding included above in Table 6. The expenditure forecasts assume the delivery of all savings already agreed by Cabinet. The remaining shortfalls will be added to the Facing the Future programme. Detailed planning is already underway to identify projects to deliver the remaining savings target for 2017-18 and these will be reported to Cabinet in due course.

Table 7 - Comparison of forecast revenue expenditure compared to the forecast funding with Adult Social Care precept				
	16-17 £m	17-18 £m	18-19 £m	19-20 £m
Forecast Expenditure	249.874	249.260	259.257	265.128
Forecast Funding	249.563	243.203	241.365	239.819
Cumulative Surplus / (Shortfall)	(0.311)	(6.057)	(17.892)	(25.309)
Annual Shortfall	(0.311)	(5.746)	(11.835)	(7.417)

1.24 Table 7a shows the projected net revenue expenditure without the additional Adult Social Care precept funding:

Table 7a - Comparison of forecast revenue expenditure compared to the forecast funding without Adult Social Care precept				
	16-17 £m	17-18 £m	18-19 £m	19-20 £m
Forecast Expenditure	248.272	245.860	253.857	257.628
Forecast Funding	247.963	239.803	235.965	232.319
Cumulative Surplus / (Shortfall)	(0.311)	(6.057)	(17.892)	(25.309)
Annual Shortfall	(0.311)	(5.746)	(11.835)	(7.417)

Equalities Impact Assessment (EIA)

1.25 Throughout the development of the Directorate business plans and savings proposals, an assessment has been undertaken of the Equalities impact of each of the budgetary proposals and whether one particular group is disadvantaged as a result of the proposals. The emphasis has been to highlight the impact of all the proposals to ensure a full understanding is achieved by both officers and elected members.

- 1.26 The detailed EIA will be presented to Cabinet in February 2016 together with detailed budget proposals before recommendations to Council in March 2016.

Housing Revenue Account

- 1.27 The business plan and financial envelope for the Housing Revenue Account will be presented alongside the Directorate Business Plans to Cabinet in February 2016. A fundamental review of the HRA business plan will be undertaken in the coming months to address the impact of recent national policy announcements, including the imposition of 1% annual rent reductions.

Balances

- 1.28 The Council's free balances at 31 March 2015, after taking account of service related carry forwards, earmarked items and contributions to capital expenditure, amounted to £12.313m. Revenue monitoring as at period 6 forecasted a surplus outturn position as at 31 March 2016, however there are a number of volatile budgets which will remain potential risk areas.
- 1.29 As part of the budget strategy process for determining the annual budget for the forthcoming year, a comprehensive risk assessment will be undertaken. It is a requirement of the Local Government Act 2003 that the Chief Finance Officer provides a statement regarding the appropriate level of general balances and reserves, which will enable any identified risks to be managed with recommendations for any remedial action if required.

2. Recommendations

- 2.1 That the impact of the provisional Local Government settlement for 2016-17 to 2019-20 be noted.
- 2.2 That the preliminary budget allocations for the next 3 financial years are based on the following roll forward budget assumptions:-
- Provision for expenditure and fuel inflation, pay awards, fees and charges income to all services;
 - Passenger Transport Executive (PTE) / environmental agency levies are based on up to date soundings;

- Provision for the anticipated supported borrowing requirements over the 4 years and resultant revenue debt charges;
- Prudent provisions for general reserves.

2.3 That the Facing the Future programme continues to develop projects to address projected shortfalls across 2017-18 to 2019-20.

2.4 That Members decide whether to approve Table 7 (with the Adult Social Care precept) or Table 7a (without the Adult Social Care precept).

2.5 That, subject to the decision at 2.4 above, the proposed Directorate net revenue target budgets for 2016-17 to 2019-20 detailed in Appendix A or A1 be approved.

2.6 That Chief Officers submit Service Business Plans to Cabinet in February 2016 outlining service delivery and providing details of gross expenditure and gross income including specific grants.

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3. Strategic Resource Implications

These are contained in the main body of the report.

4. Legal & Statutory Implications

The Council has a statutory duty to set a balanced budget by 11 March each year prior to the start of the relevant financial year. Further detailed reports will be presented to Cabinet and Council in February and March to ensure this requirement is met.

5. Implications for the Council's Scorecard Priorities

The integration of the Business Planning and budgetary processes ensures that limited resources available to the Council are directed to corporate priorities to achieve maximum impact. Members will receive further reports in January/February outlining details of service budgets and how they develop and contribute to the Council's priorities.

6. Background Details

NATIONAL POSITION

Local Government Finance Settlement 2016-17 to 2019-20

6.1 The Local Government Secretary announced details of a provisional 4-year local government finance settlement on 17 December 2015. The headlines included:

- By the end of the Parliament local government will retain 100% of business rate revenues to fund local services, giving them control of £13 billion of additional local tax revenues, and £26 billion in total business rate revenues. The government plan to consult on this proposal in Summer 2016.
- The system of top ups and tariffs which redistributes revenues between local authorities will be retained.
- The Uniform Business Rate will be abolished and any local area will be able to cut business rates as much as they like, to win new jobs and generate wealth.

- Elected city-region mayors will be able to add a premium to business rates to pay for new infrastructure provided they have the support of the local business community through a majority of business members of their Local Enterprise Partnership.
- The main local government revenue support grant will be phased out and additional responsibilities devolved to local authorities.
- Local authorities with responsibility for adult social care will be given an additional 2% flexibility on their current council tax referendum threshold, to be used entirely for adult social care. If fully used it could raise nearly £2 billion a year by 2019-20 – enough to support more than 50,000 older people in care homes or almost 200,000 in their own homes. Including this precept, by 2019-20 the average Band D council tax bill in England will still be lower in real terms than it was in 2010-11.
- In addition, the Spending Review made available social care funds of £1.5 billion by 2019-20 for local government, to be included in an improved Better Care Fund.
- The Government is also publishing a consultation on reforms to the New Homes Bonus, including means of sharpening the incentive to reward communities for additional homes and reducing the length of payments from six to four years.

Sandwell Forecast

- 6.2 The starting position for the 2016-17 to 2019-20 budget strategy is the approved 2015-16 base budget and provisional estimates for future years. These have been updated to reflect current available information and using the roll forward budget assumptions detailed in the summary statement.
- 6.3 The resultant forecast expenditure and funding over the next 4 financial years is shown in table 7 in the summary. Appendix A provides forecast expenditure requirements for each Directorate and Appendix A1 shows the same information but with reduced funding for Adult Social Care if the additional precept is not applied.

- 6.4 It should also be noted that there are a number of other items, which are still subject to variation and could therefore affect the Council's final expenditure and Council Tax levels. These items include:
- (a) Capital Financing Charges
 - (b) Central Targets
 - (c) Recharges to/from General Fund
 - (d) Collection Fund Surplus/Deficit
- 6.5 Work will continue on finalising these figures however, final information will not be available until the end of January 2016. Details of the Fire and Civil Defence and Police and Crime Commissioner precepts will also not be finalised until February 2016.
- 6.6 The provisional 4-year local government finance settlement for Sandwell has been announced and is detailed in table 3 of the summary. These figures are subject to change and will be finalised in February 2016.

Budget Process and Three-Year Budget Strategy

- 6.7 The Medium Term Financial Strategy will be presented to Cabinet in February and will include details of the council's key financial objectives as well as a number of strategic and operational principles which align to the outcomes set within the Sandwell scorecard.
- 6.8 This year's budgetary planning process has continued to ensure that there is an integrated approach towards business, budget and performance planning through the development of multi-year Directorate business plans, which clearly set out the vision, outcomes and focus for each service area. Final business plans including resource requirements will be considered by Cabinet in February 2016.

Housing Revenue Account

- 6.9 The business plan and financial envelope for the Housing Revenue Account will be presented to Cabinet in February 2016 alongside the Directorate Business Plans.

Balances

- 6.10 The Medium Term Financial Strategy specified that the Council will establish a level of free balances that it deems appropriate as part of the budget planning strategy taking on board the corporate risk assessment.
- 6.11 A full analysis of the council's balances, including earmarked reserves incorporating the impact of the projected 2015-16 outturn position will be presented to Cabinet in February 2016 when the council's budget report is considered.

Capital

- 6.12 The approval of Prudential Guideline regulations in September 2003 removed the previous limitations on the level of borrowing the Council is able to undertake to meet the cost of capital expenditure. The Prudential Guidelines allow the Council to set its own borrowing limits subject to the over-riding caveat of affordability. The cost of meeting principal and interest payments resulting from borrowing is ultimately a call on the Council's revenue budget and impacts directly on the level of Council Tax. Decisions with regard to capital investment are intrinsically part of the overall budget process and the Council must consider the cost of pursuing capital or revenue activities within one process.
- 6.13 The present expenditure forecast outlined in the summary provides for the cost of financing the capital programme that is currently approved. Decisions to defer existing commitments or to add new capital commitments will impact on the forecast expenditure figures contained within this report.

Source Documents:

The provisional Local Government Finance Settlement 2016-17 and an offer to councils for future years (and supporting documents) – DCLG consultation document

Sandwell Metropolitan Borough Council**General Fund Summary****Provisional Service Target Budget 2016-17 to 2019-20**
With the Adult Social Care precept

	Target Budget 2016-17 £	Target Budget 2017-18 £	Target Budget 2018-19 £	Target Budget 2019-20 £
Performance				
Corporate Management	393,000	391,000	387,000	386,000
ACE	27,046,000	26,494,000	25,967,000	25,448,000
People				
Adult Social Care	80,641,000	82,892,000	85,319,000	87,826,000
Children's Services	60,017,000	60,285,000	60,549,000	60,808,000
Public Health	4,663,000	4,639,000	4,612,000	4,584,000
Place				
Regeneration & the Economy	16,942,000	16,974,000	17,003,000	17,038,000
Neighbourhoods	19,371,000	19,226,000	19,383,000	19,427,000
Total	209,073,000	210,901,000	213,220,000	215,517,000

Sandwell Metropolitan Borough Council**General Fund Summary****Provisional Service Target Budget 2016-17 to 2019-20**
Without the Adult Social Care precept

	Target Budget 2016-17 £	Target Budget 2017-18 £	Target Budget 2018-19 £	Target Budget 2019-20 £
Performance				
Corporate Management	393,000	391,000	387,000	386,000
ACE	27,046,000	26,494,000	25,967,000	25,448,000
People				
Adult Social Care	79,041,000	79,492,000	79,919,000	80,326,000
Children's Services	60,017,000	60,285,000	60,549,000	60,808,000
Public Health	4,663,000	4,639,000	4,612,000	4,584,000
Place				
Regeneration & the Economy	16,942,000	16,974,000	17,003,000	17,038,000
Neighbourhoods	19,371,000	19,226,000	19,383,000	19,427,000
Total	207,473,000	207,501,000	207,820,000	208,017,000