

**Sandwell Metropolitan Borough Council**

**8 March 2016**

**Council Finances 2016/17 to 2019/20  
(Key Decision Ref. No. FR038)**

**1. Summary Statement**

- 1.1 This report provides details of the 2016/17 net expenditure level for the council based on the final Local Government financial settlement received on 9 February 2016 and seeks approval for the resultant Council Tax for 2016/17. Details of the proposed service expenditure levels for 2016/17 together with the amount required to be raised from Council Tax are provided in the General Fund Summary 2016/17 Appendix A1. The announcement also included an offer of a four year funding settlement for 2016/17 up to 2019/20 for those councils who choose to accept it and further details are provided in Para 1.14 and Table 1.
- 1.2 The final settlement announced by the Minister on 8 February confirmed that all authorities will receive at least the amount indicated in the 2016/17 provisional settlement. There will be transitional assistance to authorities with the biggest Revenue Support Grant (RSG) reductions in the first two years of the settlement totalling £150m, in order to mitigate the level of budgets reductions. However, this transitional assistance will not apply to Sandwell.
- 1.3 Directorate business plans for the four years 2016/17 – 2019/20 were reported to Cabinet on 3 February 2016. In accordance with the recommendations contained in that report, the business plans were presented to the Budget and Corporate Services Scrutiny Board for their consideration and comment. A meeting was held on 4 February 2016 to review business plan proposals with relevant Cabinet Members and Senior Officers. The comments made by the Budget and Corporate Services Scrutiny Board are provided in Appendix J to this report.
- 1.4 The report recommends that Cabinet consider the findings of the Budget and Corporate Services Scrutiny Board before finalising service expenditure levels.

- 1.5 The final budgets for central items are provided in Appendix A2.
- 1.6 There is an increase of 4.70% in the Police precept, and an increase of 1.99% in the Fire precept.

Council Tax

- 1.7 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.
- 1.8 The Secretary of State for Communities and Local Government has now recognised pressures in the Adult Social Care sector and has made an offer to adult social care authorities of being able to increase its relevant basic amount of council tax for the financial year beginning in 2016 by an additional 2% without holding a referendum, to assist in meeting expenditure on adult social care functions. Subject to the annual approval of the House of Commons, the Secretary of State intends to offer the option of setting this additional increase each year up to and including 2019-20. In relation to the financial year beginning in 2016 the Secretary of State has determined (and the House of Commons has approved) a referendum threshold of 4% (comprising 2% for expenditure on adult social care and 2% for other expenditure), for adult social care authorities. These authorities may therefore increase their relevant basic amount of council tax up to this percentage in 2016 without holding a referendum.
- 1.9 It is therefore proposed to increase Council Tax by 3.99% as follows:

	%
Sandwell MBC	1.99
Adult Social Care Precept	2.00
Total	3.99

- 1.10 This is within the referendum threshold.

1.11 The net expenditure level outlined in Appendix A1 shows the amount to be raised by Council Tax is £85.480m, which represents an increase of 3.99% in relation to the 2016/17 level of Council Tax which at Band D sets a Council Tax of £1,222.64.

1.12 The addition of precepts from the West Midlands Fire & Rescue Authority and the West Midlands Police & Crime Commissioner will result in a Band D Council Tax of £1,390.22. Full details of the Council Tax at each property band are provided in Appendix B.

Retained Business Rates

1.13 The 2012 Local Government Finance Act introduced changes to funding sources for Local Authorities. Under the previous system all Business Rates had been returned to Central Government and redistributed back to Authorities as part of the formula grant allocation. From April 2013 50% of Business Rates can be retained locally (49% to the council and 1% allocated to the Fire and Rescue Authority). In order to protect authorities who would receive less under the new system, a business rates top up is provided to authorities to bring their funding up to a baseline level.

1.14 The Settlement Funding Assessment shown in Table 1 identifies the level of funding that will be received over the next four years:

	16-17 £m	17-18 £m	18-19 £m	19-20 £m
Revenue Support Grant	67.420	53.280	43.520	33.660
NDR Baseline	48.130	49.070	50.530	52.130
Business Rates Top-up	45.000	45.890	47.240	48.750
Total	160.550	148.240	141.290	134.540

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.

1.15 Cabinet on 9 December 2015 considered officers' estimates of the NDR Baseline for 2016/17. The latest position as set out in Table 2 below shows an estimated NDR Baseline for SMBC of £51.700m, £3.600m (£51.700m - £48.100m) above the national funding assumptions.

Table 2: Estimated Business Rates 2016/17	
	£m
Business Rates 2016/17	105.600
Central Government share (50%)	52.800
WM Fire & Rescue Authority share (1%)	1.100
Retained by Sandwell MBC (49%)	51.700

- 1.16 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.

Application for mandatory relief for NHS trusts

- 1.17 Sandwell along with a large number of authorities have received an application for mandatory business relief from a company acting on behalf of NHS trusts together with legal opinions. The implications of this are substantial with a potential backdated claim to 2010. If the reduction is backdated to 2010 this would represent the loss of business rates to Sandwell which has been estimated at £1.7m, and the annual reduction in Business Rates would be £0.392m. The LGA have been asked to seek Leading Counsel's opinion on behalf of LGA member authorities, on the question of whether the NHS Trusts, on behalf of whom the company are making claims for rate relief under Section 43 Local Government Finance Act 1988, are charities for purposes of entitlement to the relief claimed.
- 1.18 The estimated business rates for 2016/17 as per Table 2 above and future year projections do not make provision for such a loss. However funds have been earmarked out of balances in 2016/17 to mitigate the risk of a backdated claim of £1.7m (See Table 8).

Dedicated Schools Grant

- 1.19 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)

- 1.20 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.
- 1.21 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 will need to be reflected in the MTFs once more details are announced.

#### New Homes Bonus

- 1.22 Final 2016-17 allocations of New Homes Bonus were announced by DCLG on 9 February 2016; a total of £1.461bn for English local authorities which has been funded primarily through the top slicing of overall funding totals. Sandwell will receive £6.6m in 2016/17.

#### Projected Sandwell Expenditure

- 1.23 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.
- 1.24 The preliminary budget allocations for the next 4 financial years includes the following budget assumptions which are contained in the medium term financial strategy (MTFS) 2016/17 to 2019/20.

Table 3: 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.

#### Housing Revenue Account (HRA)

- 1.25 The HRA was included as a separate business plan presented to Cabinet on 3 February 2016 and received by the Budget and Corporate Services Scrutiny Board on 11 February 2016.
- 1.26 The account operates fully within its own resources meeting expenditure from income obtained from tenants' rents. The 2016/17 rent income is based on decisions taken by Cabinet on 13 January 2016. The Government continues to retain some control over the maximum amount the HRA can borrow and the use of receipts derived from the sale of housing properties.
- 1.27 The HRA is required to maintain a 30 year business plan including provision for investment into its properties. The 10 year investment programme of c£500m was approved by the Cabinet Members for Jobs & Economy and Strategic Resources on 21 November 2013. The investment programme is reviewed annually to ensure affordability within the business plan when final decisions on rent increases are known. The plan which includes an update to the investment strategy was approved by Cabinet on 3 February 2016. The programme remains affordable for 2016/17. The HRA budget plan is shown in Appendix C.

Treasury Management, Minimum Revenue Provision (MRP) and Prudential Borrowing

- 1.28 The prudential regime introduced as part of the Local Government Act 2003 requires the council to establish its own borrowing limits with regard to affordability and its capital investment plans.
- 1.29 The council is also required to approve its Treasury Management and Investment Strategies and its Minimum Revenue Provision (MRP) policy prior to the beginning of the financial year. It is recommended that the council's Treasury Management Strategy, MRP and prudential limits for the council included in Appendix D be approved. The council is required to review its policy for charging Minimum Revenue Provision (MRP) in line with the Prudential Code as required by the Local Government Act 2003. In light of the current economic climate the council has decided to amend its MRP policy for all capital borrowing incurred prior to April 2008. It is felt that it would be more prudent to charge MRP on a straight line basis over a fixed number of years (still to be determined) instead of charging at a fixed percentage rate, as is currently the case. This change in policy will ensure that the debt is repaid within a finite period of time, and this policy will support the medium and long term financial planning process.
- 1.30 The prudential regime requires the council to fully evaluate the revenue implications of its capital investment programme and to include the cost of this investment in its budget strategy process. The prudential limits summarised in Appendix D are consistent with the financial costs of borrowing provided for within the budgeted expenditure in Appendix A1. The levels of borrowing are based on the capital programme outlined in Appendix E.
- 1.31 The Council's Capital Financing Requirement (CFR) includes any other long term liabilities such as PFI schemes and finance leases. Whilst this increases the CFR, and therefore the council's borrowing requirement, these types of scheme include a borrowing facility and so the council is not required to separately borrow for these schemes. The council currently has £97.118m of such schemes within the CFR as at 31 March 2015.

Capital Programme

- 1.32 The capital programme provided at Appendix E incorporates the capital review that was undertaken as at period 6 and reported to Cabinet on 11 November 2015 and any further approvals that have been agreed at this time. The Local Government financial settlement no longer provides for supported borrowing approvals to councils and this decision is incorporated in the table below.

1.33 In summary, the current capital programme commitments and available resources are:

Table 4: Capital Programme	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Approved Commitments	108.015	125.427	67.224	84.133	55.289	440.088
Resources	108.015	125.427	67.224	84.133	55.289	440.088

(1) Available resources assume the use of borrowing under the prudential regime, however, the revenue and capital budgets of the council are integrated and therefore members should be aware that a decision to reduce the level of borrowing (i.e. a cut back in capital programme) will result in revenue savings (approximately £80k per £1m of borrowing) and the converse is also true.

### Capital Strategy

1.34 The level of resources committed by the council for capital investment is significant. In the period 2015/16 – 2019/20 total resources including borrowing approvals, receipts from the sale of assets, government grants, lottery/European funds and private sector contributions are expected to be around £440m. The effective use of these resources is intrinsic to the fulfilment of the strategic vision of both the council and its partners.

1.35 The council has an embedded strategic approach to ensure funds are invested in capital projects that support the longer-term objectives of the Council and its partners and provide value for money service provision. This strategic approach is provided within the updated capital strategy attached at Appendix F.

1.36 The Capital Strategy is updated on an annual basis to reflect the corporate priorities reflected in the council's scorecard as the transformational programme that has been agreed by the council. The Capital strategy also covers:

- Key Objectives
- How capital investment decisions are made
- The framework for allocating resources to capital projects, managing and monitoring the capital programme
- Links to partners, other strategies and plans
- Consultation
- Key performance measures and management
- Cross cutting activity



## Reserves

- 1.37 The Local Government Act 2003 introduced a new statutory requirement for the Chief Financial Officer to comment on the robustness of the budgetary process and adequacy of the council's reserves to meet any unforeseen liabilities. Brief details are provided below with more detailed supporting information in Appendix G. The estimated General Fund reserve balance as at 31 March 2016 is £64.3m. (See Appendix G (A1).
- 1.38 After consideration of the council's Strategic Risks, the forecast level of free balances at the end of 2015/16 are likely to be £11.8m, representing a decrease of £0.5m from the £12.3m of free balances held at the end of 2014/15. This represents 4.7% of net operating budget and is at a level which is deemed to be adequate in the medium term.
- 1.39 The council's forecast earmarked reserves at the end of 2015/16 are likely to be in the region of £34.4m (currently £35.5m) and further details are contained in 7.16. This includes £15m of projected surpluses generated by services as part of the multi-year budget planning process. These funds will be invested directly in services to mitigate the impact of central government funding reductions. It also includes £19.4m of one-off balances earmarked to meet potential one-off expenditure identified as part of the budget risk assessment.
- 1.40 Reserves have also been earmarked to fund £18m of planned capital investment.
- 1.41 The indicative 4-year funding settlement includes further significant reductions in council budgets for the remainder of the Parliament. The council will need to consider likely future downsizing costs that may be incurred in meeting these savings over the medium term.
- 1.42 The movement in earmarked reserves does not impact on the level of Council Tax for 2016/17.

## Expenditure Plans and Medium Term Financial Strategy(MTFS)

- 1.43 The MTFS is updated annually and agreed by Cabinet. The MTFS is attached at Appendix H and the main objectives of the strategy are to set out how the council wishes to structure and manage its finances now and in the future and to ensure this approach facilitates delivery of the council's aims and objectives. It is a key document for members and officers of the council.

1.44 As part of the Council's MTFs, budget planning approach and the further development of the Facing the Future programme, the council sought to gather resident's views on the financial challenges that it faces and identify their priorities for services that should be improved, continues as is, or reduced. The budget consultation exercise referred to as SIMALTO method (Simultaneous Multi Attribute Level Trade Off) asked respondents to make their priorities from a choice of defined alternative levels of each service, allocating a budget of 'points' to their choices.

1.45 In summary, respondents:

- Prioritised, above all else, retaining the current service level on winter gritting and maintaining education standards in primary schools across Sandwell.
- Would accept a slightly reduced level of service for day services for adults with disabilities, and a reduced service for single homeless people or people who are the subject of domestic violence
- Supported increasing or introducing charges for large events (e.g. Sandwell Show), community meals, day care transport, adult social care enhanced assessment beds and pest control
- Rather than close leisure facilities, would be prepared to pay more for more modern facilities
- Would accept reducing the number of libraries in the borough by closing the least used facilities
- Ranked arts events and galleries as their lowest priority

Further details are contained in Appendix H.

1.46 This budget report provides details of the council's expenditure plans for 2016/17 to 2019/20 which form the basis of the council's medium term financial strategy.

1.47 In order to achieve a balanced budget over the four year settlement funding period, the Facing the Future programme continues to identify transformational change projects identified to deliver the necessary savings from 2016/17 through to 2019/20 (£24.852m in total);

1.48 The finance settlement is the fourth under revised local government financing arrangements introduced under the Local Government Finance Act 2012. Local authority funding now comprises of revenue support grant and a local share of business rates, plus a top up to bring funding in line with that which an authority would have received under the previous formula funding regime. The four year Settlement Funding Assessment for 2016/17 to 2019/20 is shown above in Table 1.

1.49 The forecast expenditure and funding for the four years 2016/17 to 2019/20 together with the cumulative funding shortfall to 2019/20 of £24.852m is detailed in Table 5 below.

1.50 Table 5 - Comparison of forecast revenue expenditure compared to the forecast funding over the MTF5.

Table 5 - 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	249.263	248.790	258.704	264.540
Forecast Funding	249.263	243.193	241.270	239.688
Cumulative Surplus / (Shortfall)	0	(5.597)	(17.434)	(24.852)
Annual Shortfall	0	(5.597)	(11.837)	(7.418)

Forecast Funding for Sandwell 2016/17 to 2019/20

1.51 Funding for 2017/18 to 2019/20 was announced as part of the final settlement.

1.52 Table 6 shows the current funding levels forecast for the council over the next 4 years. These are based on the following assumptions:

- The Revenue Support Grant is based on the final settlement announced on 9 February 2016 ;
- 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 final 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.				
	16-17 £m	17-18 £m	18-19 £m	19-20 £m
RSG <sup>(1)</sup>	67.425	53.276	43.523	33.656
Business Rates	51.669	54.250	56.211	58.243
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	1.644	3.420	5.337	7.402
Collection Fund Deficit	(0.313)	0	0	0
<b>Total</b>	<b>249.263</b>	<b>243.192</b>	<b>241.270</b>	<b>239.688</b>
(1) The 2016/17 RSG figure is based on the latest NNDR1 Return. The original estimate based on the provisional settlement was £51.700m				

1.53 The major planned outcomes for the resources provided and linkages to the council's scorecard over the period 2015 to 2018 were contained within the service business plans presented to Cabinet on 3 February 2016. These forecast outcomes will be robustly monitored and formally reported via the council's quarterly monitoring processes.

1.54 The proposed budget strategy for 2016/17 to 2019/20 includes a level of contingency to provide some protection to the council's finances. Contingencies are set aside to meet any significant cost pressures that may arise during the year.

#### Better Care Fund Allocation

1.55 The Better Care Fund (BCF) has been shown as specific Grant Income within individual service areas instead of showing as funding in Table 6 above. The full BCF allocation has been included (with off-setting expenditure) within the Adult Social Care business plan that was reported to Cabinet on 3 February 2016.

#### Local Government Superannuation Scheme

1.56 The triennial review of the West Midlands Pension Fund was completed in 2013 and recommended a significant increase in payments by admitted bodies to recover the calculated deficit over a 22 year period. The council adopted a stepped up arrangement to the increase in these deficit contributions up until 2016/17 in consultation and agreement with the West Midlands Pension Fund.

1.57 The arrangements agreed by Council in March 2014, provide for manageable increases in the council's contributions to the Pension Fund over the next two years but are less than the default deficit payments outlined by the Fund's actuary and therefore have an impact on the deficit payment projections in the years 2017/18 to 2019/20, subject to the outcome of the 2016 triennial valuation.

## Equalities Assessment (EA)

- 1.58 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.
- 1.59 A corporate EA is attached at Appendix I and incorporates issues raised through that process so that Members can consider any equality issues prior to finalising the council's budget.

*Further details are attached for your Information*

## **2 Recommendations**

- (1) That the revised financial position for 2015/2016 be noted;
- (2) That the Council's General Fund budget for 2016/2017 as detailed in Appendix A to the report now submitted, be approved;
- (3) That the provisional budgets for 2017/18, 2018/19 and 2019/20 as outlined in Appendix A3 to the report now submitted, be approved;
- (4) That the 2016/2017 Housing Revenue Account as detailed in Appendix C to the report now submitted, be approved;
- (5) That the Treasury Management & Investment Strategy together with prudential indicators outlined in Appendix D be approved;
- (6) That the Capital Programme 2015/16 to 2019/20 as set out in Appendix E and the Capital Strategy as set out in Appendix F to the report now submitted, be approved;
- (7) That the supporting information on the robustness of the budget process and adequacy of the Council's reserves as detailed in Appendix G to the report now submitted, be approved;
- (8) That the Medium Term Financial Strategy as set out in Appendix H to the report now submitted, be approved;
- (9) That the extension of the Facing the Future Programme to deliver the required savings in 2017/18 be approved;
- (10) That the existing Financial Regulations and Contract Procedure Rules are carried forward into 2016/17 subject to a full review and rewriting being completed in 2016, be approved;
- (11) That it be noted that the Cabinet meeting on the 9th December 2015 approved the amount of 69,913.98 as its Council Tax base for the year 2016/2017 in accordance with Regulation 3 of the Local Authorities (Calculation of Council Tax Base) Regulations 1992 made under Section 33 (5) of the Local Government Finance Act 1992;

(12) That the following amounts be calculated by the Council for the year 2016/2017 in accordance with Sections 31 to 36 of the Local Government Finance Act 1992: -

- |     |  |              |
|-----|--|--------------|
| (a) | Being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) (a) to (f) of the Act;  | £988,023,024 |
| (b) | Being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) (a) to (d) of the Act;  | £902,543,266 |
| (c) | Being the amount by which the aggregate at 12(a) above exceeds the aggregate at 12(b) above, calculated by the Council, in accordance with Section 31A(4) of the Act, as its Council Tax requirement for the year; | £85,479,758  |
| (d) | Being the amount at 12(c) above, all divided by the amount at 11 above, calculated by the Council in accordance with Section 31B(1) of the Act, as the basic amount of its Council Tax for the year;               | £1,222.64    |
| (e) | Valuation Bands  |              |

£

A	815.09
B	950.94
C	1,086.79
D	1,222.64
E	1,494.34
F	1,766.04
G	2,037.74
H	2,445.28

Being the amounts given by multiplying the amount at 12(d) above by the number which, in the proportion set out in Section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation band D, calculated by the Council in accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands;

- (13) That it be noted that for the year 2016/2017 the major precepting authorities have stated the following amounts in precepts issued to the Council, in accordance with Section 40 of the Local Government Finance Act, 1992, for each of the categories of dwellings shown below: -

Valuation Bands	West Midlands Fire and Rescue Authority £	Police & Crime Commissioner for the West Midlands £
A	37.35	74.37
B	43.58	86.76
C	49.80	99.16
D	56.03	111.55
E	68.48	136.34
F	80.93	161.13
G	93.38	185.92
H	112.05	223.10

- (14) That, having calculated the aggregate in each case of the amounts at 12(e) and 13 above, the Council, in accordance with Section 30(2) of the Local Government Finance Act 1992, sets the following amounts as the amounts of Council Tax for the year 2016/2017 for each of the categories of dwellings shown below:-

Valuation Band	£
A	926.81
B	1,081.28
C	1,235.75
D	1,390.22
E	1,699.16
F	2,008.10
G	2,317.04
H	2,780.43



- (15) That the Chief Financial Officer be authorised to take any necessary action to collect revenues and disburse monies from the relevant accounts;
- (16) That the requirements of any relevant legislation, to consider reports as a consequence of the approval of the Council's Finances 2016/2017 report, be dispensed with on the grounds that in the opinion of the Council the items are urgent.

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### 3. **Strategic Resource Implications**

3.1 These are set out in the main body of the report.

### 4. **Legal & Statutory Implications**

4.1 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.

4.2 There is also a legal requirement for the council to approve the Treasury Management and Investment Strategy before the start of the financial year.

4.3 The council is required to consider Equality implications arising from any of its actions including amendments to existing policies and changes to services. In determining actions required to ensure that balanced budgets are prepared (as outlined in Appendix A1), Directors have undertaken an Equality Impact Assessment on all identified service changes and policy amendments. Given this process equality implications arising from the budget proposals in this report have been fully considered and any necessary corrective action planned at a service level.

4.4 In addition the council has undertaken a corporate equality assessment to ensure that its budgetary decisions, when viewed on a council wide basis do not give rise to any equality issues. The corporate equality assessment is provided at Appendix I

## 5. **Implications for the Council's Scorecard Priorities**

5.1 The budget proposals reflect the council's Scorecard priorities and are in accordance with those priorities identified as part of the budget process. Consultation took place with the Business Community – the formal statutory meeting – on 10 February 2016.

## 6. **Risk Implications**

6.1 A robust risk identification and management strategy is a fundamental aspect of the council's Corporate Governance Framework. As part of the budget and business planning processes all Chief Officers have identified the strategic risks threatening the meeting of the council's priorities and objectives and action plans to minimise those risks.

6.2 Financial resources may be required to implement such action plans. All service areas should have ensured that the implications of the Risk Management Plans are incorporated into the budget strategies. These will need to be kept under review during the financial year and any appropriate action taken to ensure that funding is identified in the eventuality of any risks arising.

## 7 **Background Details**

### 2015/16 Provisional Outturn

7.1 The original budget for the council's services for 2015/16 amounted to £257.466m.

7.2 The revenue monitoring undertaken throughout the year and reported to Cabinet on 3 February 2016, identified a forecast surplus of £6.1m at a service level as a consequence of the implementation of savings proposals earlier including service contributions to fund capital projects of £1.4m. In addition there is a projected surplus of £1.6m against the public health grant which will be ringed fenced for use in future years. Surpluses have been requested to be carried forward and full details of how these resources will be utilised are included within the December revenue budget monitoring reports and Directorate business plans.

## Background to the 2016/17 to 2019/20 Budget

### 2016/17 Revenue Budget

- 7.3 The report to Cabinet on 3 February 2016 provided Members with detailed business plans for each service area for approval and was referred to the Budget and Corporate Services Scrutiny Board for consideration.
- 7.4 The business plans provided details of the council's planned gross expenditure over the 4 financial years 2016/17 to 2019/29 together with details of income derived from fees and charges, grants or partner contributions. The service business plans supporting the council's overall budget and providing coherent links to service delivery are available to view on the council's website.
- 7.5 After taking account of the above allocations, together with centrally controlled targets, levies/charges made by other authorities (ITA; Flood Defence Levy; West Midlands Magistrates Courts; etc) the total expenditure will be £249.263m.
- 7.6 A summary of the General Fund expenditure for 2016/17 is shown as Appendix A1. A number of items such as external interest payments, interest/dividend receipts, payments to other bodies and those items which are outside the direct control of Directors, are excluded from service targets and are shown as separate items on the General Fund summary.
- 7.7 A full analysis of Central Items is shown at Appendix A2. The level of total expenditure reflects the target budgets and overall spending plans included within service business plans presented to Cabinet on 3 February 2016. Also attached as Appendix C is a summary of the Housing Revenue Account (HRA), which shows the budget for 2016/17 to 2019/20.

### Local Government Superannuation Scheme

- 7.8 The West Midlands Pension Fund is subject to triennial review to assess its funding levels and to set both employer future service rates and deficit recovery payments for each of its admitted bodies. A triennial review was completed in 2013 which set contributions for 2014/15 to 2016/17.

- 7.9 The economic climate since the previous valuation proved challenging with discount rates used falling significantly short of those anticipated when the valuation was undertaken. This together with the reduction in active membership has had a detrimental impact on the financial position of the Fund for 2014/15 to 2016/17.
- 7.10 The full impact of the Actuary recommended increase in future service contributions is included in the budget projections. The Actuary also put forward an immediate 80% uplift in deficit contributions to be made annually by the council in order to recover the projected pension deficit over the next 22 years. Sandwell, together with other metropolitan authorities in the West Midlands has agreed a stepped arrangement to meet this cost in order to ensure it is affordable over the medium term. The stepped arrangements do however produce a difference in the deficit contribution amounts as outlined in the default position recommended by the Funds actuary, and contributions are subject to the outcome of the next triennial valuation in 2016.
- 7.11 The pension deficit projection will be considered by Council at each financial year out turn. Consideration will be given to the use of in year surpluses and / or available balances to pay the difference between stepped and un-stepped arrangements in order to ensure a sustainable, consistent long term impact on the council finances.

### Balances

- 7.12 Revenue balances are necessary to enable the council to maintain a degree of flexibility in its finances and to meet potential liabilities or deal with unforeseen events. Balances can also be used to fund capital expenditure additional to the level which can be funded from capital receipts.
- 7.13 After consideration of the Council's Strategic Risks, the forecast level of free balances at the end of 2015/16 is currently projected to be at £11.8m (4.7% of net operating budget). This level is deemed to be adequate in the medium term.

### Specific Reserves and Provisions

- 7.14 The council has a number of specific reserves and provisions in addition to general reserves for the purpose of meeting known or anticipated liabilities which are summarised in the tables below. The establishment of these specific reserves reflects the council's ongoing risk assessment of potential liabilities and this in turn reduces the risk of unexpected calls on the council's general balances.

7.15 Specific reserves and provisions have been reviewed during the budget process and found to be at a sufficient level to meet existing known liabilities. They will continue to be thoroughly reviewed as part of the 2015/16 closedown of accounts process.

Table 7: Specific Reserves & Provisions	
Specific Reserves:	£m
Housing Revenue Account	37.583
Schools	31.744
Insurance Fund	8.061
Other General Fund Reserves (See breakdown in Appendix G (A1))	10.507
<b>Specific Reserves as at 31 March 2015</b>	<b>87.895</b>

Specific Provisions:	£m
Insurance Provision	6.893
Collection Fund Provisions	0.844
Redundancy/Retirement Costs	2.791
Other Provisions	0.587
<b>Specific Provisions as at 31 March 2015</b>	<b>11.115</b>

### Earmarked Reserves

7.16 Earmarked Reserves are provided for a particular purpose or risk that the Authority has identified and will need financial support. A breakdown of the existing earmarked reserves as at the end of 2014/15 and the forecast earmarked reserves at the end of 2015/16 are provided in the table below.

Table 8: Earmarked Reserves from Balances	
	£m
Directorate Carry Forwards (As part of the Council's 4 year rolling budget strategy).	16.852
Redundancies	5.128
Equal Pay	3.371
SIPS Redundancy Reserve	1.400
MMI	0.650
Jobs Promise	2.000
Dilapidations	1.000
Impress	1.000
Local Council Tax Reduction Scheme	1.600
Other	2.580

<b>Earmarked Reserves as at 31<sup>st</sup> March 2015</b>	<b>35.581</b>
<b>Estimated Movements 2015/16</b>	
<i>Use of Earmarked Reserves</i>	
- Carry Forwards from 2014/15	-16.852
- Redundancies	-1.700
- Other	-6.740
<b>Contribution to Earmarked Reserves</b>	
- Carry Forwards from 2016/17	15.025
- Redundancies	2.572
- ASC Medium Term Budget Pressures	4.000
- NHS Trusts Charitable Relief Backdated Claims (Business Rates)	1.700
- Other	0.884
<b>Net Movement in 2015/16</b>	<b>-1.111</b>
<b>Forecast Earmarked Reserves as at 31<sup>st</sup> March 2016</b>	<b>34.470</b>

7.17 A number of strategic risk areas of the council have been assessed above, however, a final assessment as to the level of balances against the council's strategic risks will be made at year end as part of the council's statutory final accounts process and reported to Cabinet.

7.18 The forecast level of free balances at the end of 2015/16 (£11.800m) is deemed adequate by the council and the reasons are specified in Appendix G 'Supporting Information on Robustness of the Budget & Adequacy of Reserves'.

#### Precepts and Levies

7.19 The West Midlands Integrated Transport Authority has confirmed the levy for 2016/17 at £14.078m compared with the original levy in 2015/16 of £14.837m, a reduction of £0.759m.

7.20 Figures for the West Midlands Police and Crime Commissioner and West Midlands Fire and Rescue Authority Budgets are detailed below:

Table 9: Precepts & Levies	Precept £m	Council Tax £	Increase %
West Midlands Police & Crime Commissioner	7.799	111.55	4.70
West Midlands Fire & Rescue Authority	3.917	56.03	1.99

### Collection Fund and Council Tax 2016/17

- 7.21 The council meeting on 12 January 2016 agreed that the tax base for 2016/17 would be 69,913.98.
- 7.22 The anticipated deficit on the Collection Fund at the end of 2015/16 is £0.313m.
- 7.23 The amount that the council will raise in Council Tax in 2016/17 is shown in the table below:

Table 10: Council Tax		£m	£m
Total Expenditure			249.263
Less:	Revenue Support Grant	67.425	
	Retained Business Rates	51.669	
	Business Rates Top Up	45.002	
	Use of Balances	0	
	Collection Fund Deficit	(0.313)	163.783
	<b>Council Tax</b>		<b>85.480</b>

- 7.24 The total Council Tax that will be raised in 2016/17 including the Fire and Police precepts would therefore be:

Table 11: Council Tax Split:	£m
Sandwell MBC	85.480
West Midlands Police & Crime Commissioner	7.799
West Midlands Fire & Rescue Authority	3.917
<b>Total</b>	<b>97.196</b>

- 7.25 This would represent a Band D Council Tax for 2016/17 of £1,390.22, The percentage increases in Council Tax for the 3 constituent authorities are:

Table 12: Council Tax Increase	%
Sandwell MBC	3.99
West Midlands Police & Crime Commissioner	4.70
West Midlands Fire & Rescue Authority	1.99
Overall Council Tax Increase	3.96

A full analysis of the proposed Council Tax for 2016/17 for each band is attached as Appendix B.

### Consultation with Non-Domestic Ratepayers

- 7.26 Rating valuations are not now due for review until 2017. The provisional small business multiplier, applicable to those businesses eligible for Small Business Rate Relief, is set at 48.4p. The provisional standard multiplier, which includes the supplement to pay for Small Business Rate Relief, is set at 49.7p.
- 7.27 Businesses are not liable to pay Council Tax but, in accordance with regulations, it is necessary to consult with representatives of industrial, commercial and other non-domestic ratepayers, before the budget and Council Tax can be set for 2016/17.
- 7.28 A meeting was held between representatives of non-domestic ratepayers and the Cabinet on 10 February 2016 to discuss the council's budget strategy. Comments from this meeting will be reported verbally to the Cabinet.

### Capital Expenditure and the Prudential Code

- 7.29 The Local Government Act 2003 replaced the previous borrowing controls determined by Central Government with locally determined prudential indicators. The indicators set by the council must consider affordability as a key issue. The indicators are required to be approved by full Council and are subject to regular review and monitoring arrangements.
- 7.30 The prudential indicators outlined in Appendix D have been calculated after considering the council's current external debt position, its plans for capital investment over the medium term and the ability of the council to meet the cost of financing those plans; the costs of which are included in the revenue budget presented at Appendix A.
- 7.31 The format and number of prudential indicators is as outlined in the CIPFA publication 'The Prudential Code' which represents best practice for Local Authorities.
- 7.32 The council is also required to approve its Treasury Management and Investment Strategies and MRP policy prior to the commencement of the financial year. Given the correlation between this document and the prudential indicators, the Treasury Management and Investment Strategy for the council for 2016/17 to 2019/20 are provided at Appendix D.
- 7.33 The levels of borrowing are based on the capital programme outlined in Appendix E.



### Robustness of budget preparation and adequacy of the council's reserves

- 7.34 The Local Government Act 2003 places a duty on the Chief Financial Officer to comment on the robustness of the budget preparation and adequacy of the council's reserves within the council's finance report.
- 7.35 The budgets presented to Council have been prepared using reasonable and appropriate estimation techniques for both expenditure and income. The budget process is such that all financial pressures faced by the council have been considered and resources allocated as appropriate and where the allocation helps to fulfil the stated priorities of the council. Where resources have not been allocated to identified pressures, either the pressure has been absorbed into the services existing budget, or the risk associated with not meeting the pressure has been evaluated and appropriate action taken. The robustness of the budget preparation undertaken by the council is therefore considered satisfactory.
- 7.36 Brief details on the adequacy of the council's reserves have been described in 7.16 to 7.18 above and Appendix G provides further supporting information on the robustness of the budget process and adequacy of the council's reserves.

### Acknowledgements

- 7.37 I wish to place on record appreciation of the considerable co-operation and assistance received from Members, Senior Managers and their staff in the preparation of the budget and this report.

### **Source Documents**

Minutes of the Council 12 January 2016;  
Minutes of Cabinet 3 February 2016;  
The Local Government Act 2003;  
CIPFA publication 'The Prudential Code'  
The local government final settlement 2016/17 to 2019/20